

# Canberra Office Market



September 2024

Steady rental growth supported by positive occupier demand

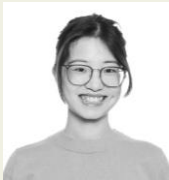
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# Key Insights

Positive occupier demand from both public and private sector, keeping vacancy rate lowest amongst capital cities



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 **9.5%**

Rise in overall vacancy y/y

Lowest vacancy rate amongst all capital cities along with Brisbane CBD

 **0.5%**


A Grade vacancy in Barton

Barton precinct remains tightly held with only 0.5% vacancy

 **30k**


Sqm of additions

Supply additions over the first half of 2024

 **66bps**

Yield softening y/y

A grade yields in Civic and Parliamentary precinct soften 66bps to average 7.1%

 **2.4%**

Annual rental growth

Prime net face rents average \$457/sqm in the civic precinct, an increase of 2.4% y/y

 **\$56m**

2024YTD sales volumes

Subdued investment activity thus far in 2024

## Canberra Office Market Indicators – July 2024

Grade	Total Stock sqm	Vacancy Rate %	Annual Net Absorption sqm	Annual Net Additions sqm	Average Gross Face Rent \$/sqm	Average Incentive %	Core Market Yield %*
<b>A Grade</b>							
Civic (City)	478,849	9.5	13,300	27,000	567	27.0%	6.75-7.25
Parliamentary	283,389	1.7	-871	0	560	26.0%	7.00-7.50
Town Centers	258,547	9.8	-9,323	0	455	30.4%	8.50-9.00
Other	400,809	12.4	1,220	-27,000			
<b>Secondary</b>							
Civic (City)	240,800	9.8	-1,649	-680	469	30.1%	8.50-9.00
Parliamentary	164,444	3.6	192	0	474	30.0%	8.25-8.75
Town Centers	181,985	20.3	-8,810	-2,923	374	30.5%	9.75-10.25
Other	388,183	9.0	-2,071	27,234			
<b>Total Market</b>	<b>2,397,006</b>	<b>9.5</b>	<b>-8,012</b>	<b>23,631</b>			

Source: Knight Frank Research/PCA \* assuming WALE 5 years  
Parliamentary comprises Barton, Parkes and Forrest office precincts; Town Centres comprise Phillip, Tuggeranong and Belconnen office precincts; Other includes remaining PCA sub localities

# Positive occupier demand

## LOWEST VACANCY AMONGST CAPITAL CITIES

Vacancy in Canberra edged up from 8.3% to 9.5% over the first half of 2024, the rise has been supply driven rather than a lack of demand. Overall vacancy is still below its 10 year average of 11% and the lowest of the major capital cities along with the Brisbane CBD. Prime space in Barton is near non-existent, whilst in the Civic precinct prime vacancy is 9.5%. In the secondary market, vacancy remains below average levels at 10.4%. The positive demand in the A Grade market has been due to the sustained level of demand from government tenants, the uptick in private sector demand for smaller suites has also gained some momentum.

## HEALTHY DEVELOPMENT PIPELINE

The first half of 2024 saw 37,030 sqm added to the market, taking the total office stock base to its highest level on record of 2,397,006sqm. The major refurbishment at 18 Marcus Clarke St, Civic (27,000sqm), which was withdrawn in 2022 is now complete and has 100% occupancy. Additionally, two boutique developments have recently completed at 1 Taubman St (3,437sqm) and 2 Faulding St (6,600sqm) in Symonston.

Over the next two years, new development stock of c115,000sqm is forecast for delivery. Developments include; 9-11 Molonglo Drive (19,333sqm), 15 Sydney Avenue (37,000sqm), 23 National Circuit (4,500sqm), 62 Constitution Avenue (20,000sqm) and Morris Property Group's One City Hill (34,086sqm). Additionally, Cromwell Corporation's development at 19 National Circuit (18,128sqm) is anticipated to be delivered by the end of 2027.

The steady development pipeline will provide occupiers the opportunity to have options for A grade space in precincts that have historically had limited availability.

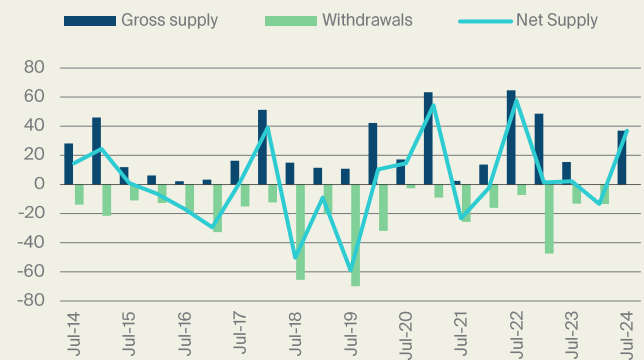
## POSITIVE FACE RENTAL GROWTH WHILST INCENTIVES REMAIN ELEVATED

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 2.4% to measure \$457/sqm (\$564/sqm gross) over the last 12 months to July 2024. Similarly, in the secondary market annual net face growth of 2.3% was recorded, averaging \$363/sqm (\$471/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 2.1% to \$307/sqm. Incentives are anticipated to remain at current levels for the medium term.

## Canberra office supply and withdrawals

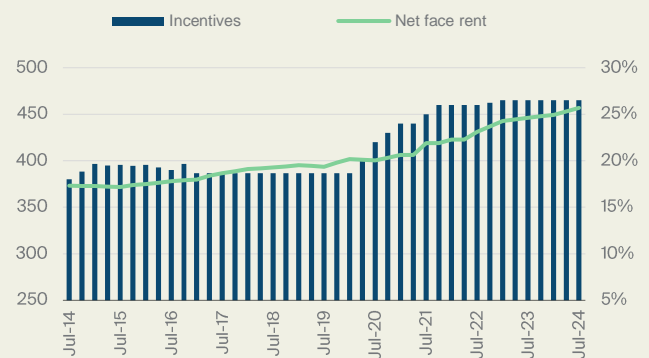
Per six month period ('000 sqm)



Source: Knight Frank Research, PCA

## Prime office net face rents and incentives

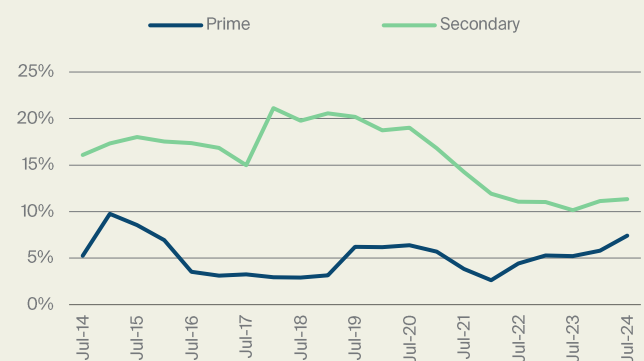
Parliamentary & civic average, \$/sqm, %



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

# Capital values reset

## LIMITED TRANSACTIONAL ACTIVITY

Investment activity has been subdued in H1 2024 with two transactions totalling \$56.3 million. Centuria offloaded 10 Moore St, Civic to a Sydney based fund manager - Strada for \$28.2 million on a core market yield of 8.2%. The sale reflects a 19% capital loss for Centuria, who acquired the building from Quintessential in 2019 for \$35 million. In addition, KDN Group purchased 243 Northbourne Ave, Lyneham from Cromwell Property for \$28.1 million, reflecting a core market yield of 9.8%.

With the macro environment becoming more encouraging, investors are returning to acquisition mode across the Eastern Seaboard, with this likely to see an increase in transactional activity over the backend of 2024 in Canberra.

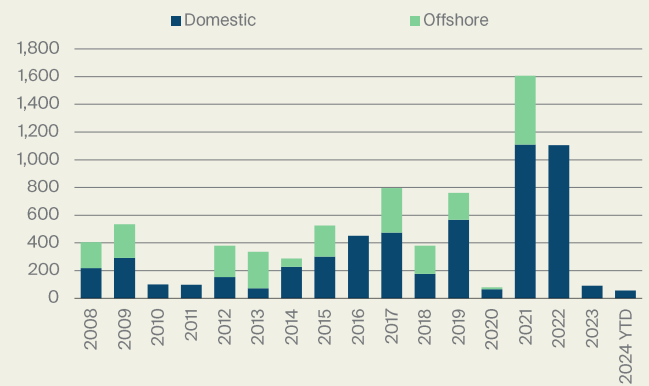
## SOFTENING YIELDS HAVE IMPACTED CAPITAL VALUES

The average prime office yield in the Civic and Parliamentary precincts has expanded by 66 bps to 7.13% in the past 12 months to July 2024, while the secondary average yield softened 99 bps to 8.50%. Since mid-2022, the yield softening trend has declined capital values for prime assets in Civic and Parliamentary precincts by 20%.

A similar trend has been observed in Town Centres, where blended yields expanding by 74 bps to 8.7% for prime and 128 bps to 9.9% for secondary over the year. The current prime yield spread between Civic & Parliamentary and Town Centres stands at 157 bps. Looking ahead, yields have likely reached their peak given the outlook for interest rate cuts in the medium term and a clearer economic outlook.

## Canberra office sales \$10m+

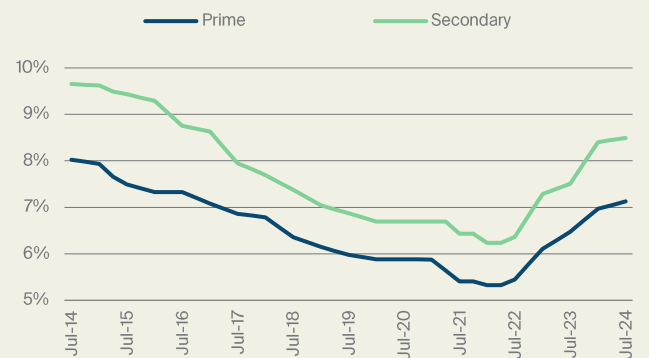
By purchaser (\$m), domestic v offshore



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
10 Moore St, Civic	28.2	8.2	6,593	4,278	2.2	Strada Group	Centuria Property Funds	May-24
243 Northbourne Ave, Lyneham	28.1	9.8	8,220	3,418	2.4	KDN Group	Cromwell Property Group	Feb-24
12 Moore St, Civic	50.0	8.7	11,929	4,192	3.7	Marprop Pty Ltd	Dexus	Dec-23

Source: Knight Frank Research

## Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Face Rent \$/sqm	Term yrs	Start Date
Ora Advisory~	17 Moore Street	City	174	480	3	Jan-25
Renascent Australia!~	17 Moore Street	City	146	480	3	Nov-24
Adecco Australia#	64 Northbourne Ave	City	1,275	495	2	Jul-24
Sovereign Cloud Aust.	60 Marcus Clarke	City	436	495	3	Sep-24
Apollo private wealth~	18 Napier Close	Deakin	72	450	3	Jul-24
Embassy of Micronesia~	18 Napier Close	Deakin	112	482	4	Aug-24
Dahlia Homes	20 Bradley Street	Phillip	154	308	3	Jul-24

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

## Canberra major office supply

Property	Area (sqm)	Developer	Major tenants	Stage	Timing
18 Marcus Clarke Street, City #	27,000	ISPT	Spec	Complete	H1 2024
2 Faulding Street, Symonston	6,600	Evri Group	Spec	Complete	H1 2024
1 Taubman Street, Symonston	3,437	Nikias Diamond	Spec	Complete	H2 2024
7 London Circuit, City #	10,591	ISPT	Spec	Under Construction	H2 2024
9-11 Molonglo Drive, Airport	19,925	Capital Airport Group		Under Construction	H1 2025
23 National Circuit, Barton	4,610	Doma Group	Doma Group	Under Construction	H2 2024
19 National Circuit, City	18,128	Cromwell Corporation		Under Construction	H1 2026
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	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

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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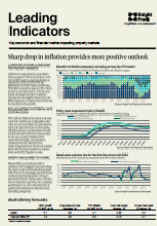


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