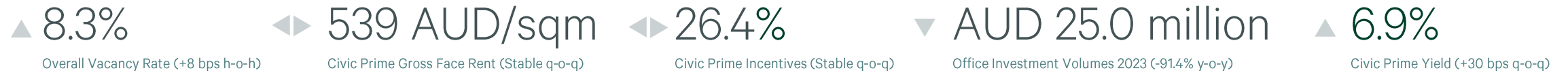


FIGURES | CANBERRA OFFICE | 1Q24

Rental rates and incentives hold stable in Canberra over Q1 2024



Note: Arrows indicate change from previous quarter / half / year.

Key Points

- Overall net absorption in Canberra totaled 17,251 sqm in H1 2023 and -14,121 sqm in H2 2023. This brought the annual total to a slightly negative -3,130 sqm. The 2023 total was equivalent to only 0.1% of the market’s office inventory.
- No new office developments were delivered in Q1 2024. New supply is forecast to total 106,119 sqm in 2024, which would be the second largest annual total in the last 10 years.
- Canberra’s overall office vacancy rate ended 2023 at 8.3%. This figure represented a slight increase of 8 bps from H1 2023.
- Gross rental rates and incentives both remained unchanged over Q1 2024.
- Canberra office sales totalled AUD 25.0 million in Q1 2024. Indicative yields continued to rise over the period. Prime Civic and Non-Civic yields ended Q1 2024 at 6.9% and 7.0%.

FIGURE 1a: Canberra Office | Vacancy Rate Summary

Indicator	Jan 2024	Jul 2023	Jan 2023	H-o-H Change	Y-o-Y Change
Vacancy Rate	8.3%	8.2%	8.9%	+8 bps	-57 bps

FIGURE 1b: Canberra Civic Office | Summary of Prime Market Indicators

Indicator	1Q24	4Q23	1Q23	Q-o-Q Change	Y-o-Y Change
NFR	AUD 539	AUD 539	AUD 538	Stable	+0.3%
Incentives	26.4%	26.4%	25.8%	Stable	+63 bps
NER	AUD 309	AUD 309	AUD 315	Stable	-1.7%
Yield	6.9%	6.6%	5.9%	+30 bps	+102 bps

Source: CBRE Research

Office Demand

Leasing demand remains stable in Canberra

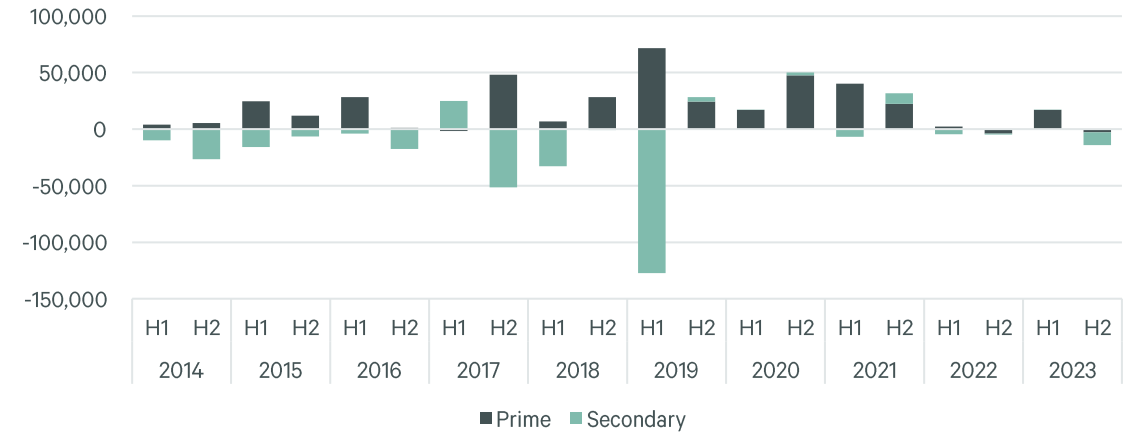
Leasing activity in Canberra remained stable over 2023. Overall net absorption totaled 17,251 sqm in H1 2023 and -14,121 sqm in H2 2023. The second half figure brought the annual total to a slightly negative -3,130 sqm. The 2023 total was equivalent to only 0.1% of the market’s office inventory.

Unlike in other Australian markets where a flight-to-quality has driven a bifurcation in demand between the Prime and Secondary property segments as well as CBD and suburban geographies, Canberra has continued to see more balanced leasing activity across market cross-sections. Net absorption was essentially flat in the Civic submarket over 2023, while Non-Civic submarkets recorded positive absorption of 3,846 sqm over the year. The Civic and Non-Civic geographies have also seen inversed demand for Prime and Secondary space over the past 12-months. Over this time, the Civic submarket recorded negative Prime absorption, but positive Secondary absorption. The opposite was true in the Non-Civic geography.

The relatively neutral leasing activity being observed across Canberra has been driven by the balanced nature of the market’s office landscape and a shift from occupiers towards renewals over relocations. Given limited options for relocation and an air of caution across the economic landscape, many occupiers opted to stay put in 2023. This allowed groups to limit disruptions to their workforce, utilize incentives to re-fit their space, and to limit additional costs for their business or government department.

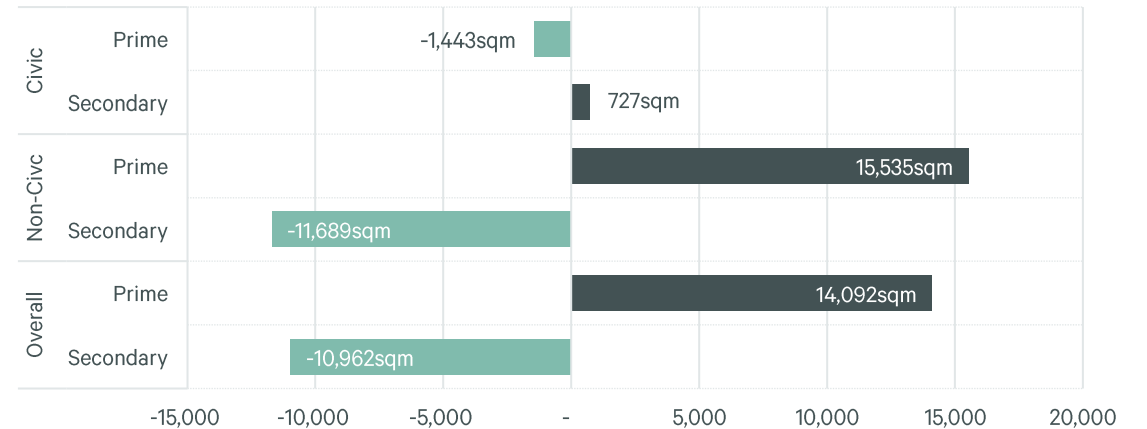
While there was concern entering 2023 that leasing demand from public sector and affiliated occupiers would decrease in a post-COVID landscape, this never eventuated in 2023.

FIGURE 2: Canberra Office | 6-Month Net Absorption, by Building Grade



Source: PCA, CBRE Research

FIGURE 3: Canberra Office | 12-Month Net Absorption, by Submarket & Building Grade



Source: PCA, CBRE Research

Supply

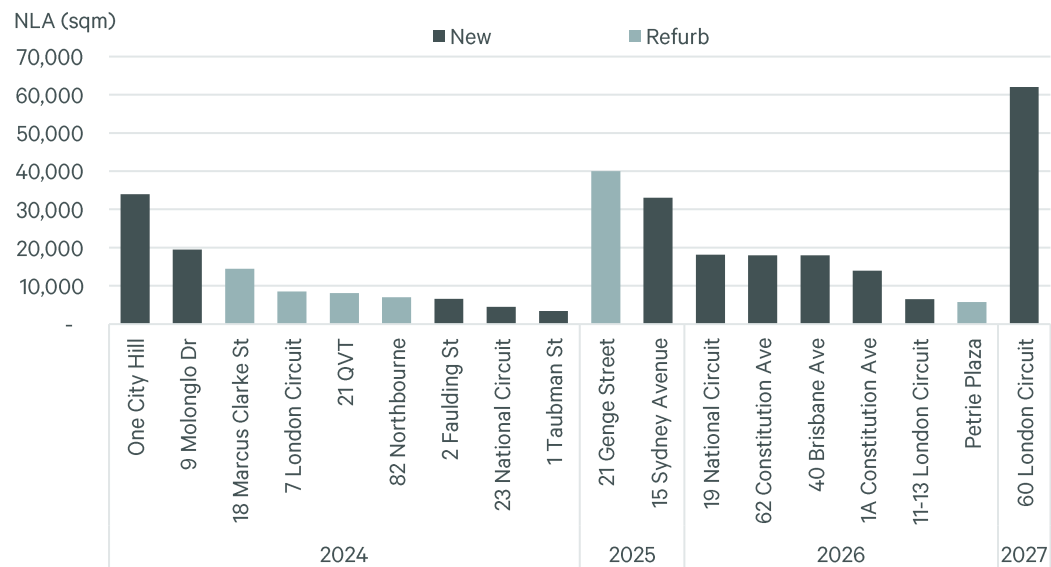
Elevated levels of new supply expected over the next 3 years

Canberra is entering a supply wave which will see the market’s office inventory increase significantly over a three-year period. After new supply totalled 113,467 sqm in 2022, the market saw only 15,394 sqm of new supply delivered over 2023. While CBRE projections had showed that 103,814 sqm of office supply would be delivered over H2 2023, much of this supply was delayed and will be delivered in 2024.

No new developments were delivered in Q1 2024, however, new supply is forecast to total 106,119 sqm over the full year. This which would represent the second largest annual total in the last 10 years. Significant projects to be delivered over the coming year include; One City Hill (34,000 sqm), 9 Molonglo Drive (19,500 sqm), 18 Marcus Clark Street (14,500 sqm), and 7 London Circuit (8,500 sqm). While these elevated levels of new supply are expected to lead to a softening of vacancy rates, the market entered this supply wave with the tightest office market of any capital city in Australia.

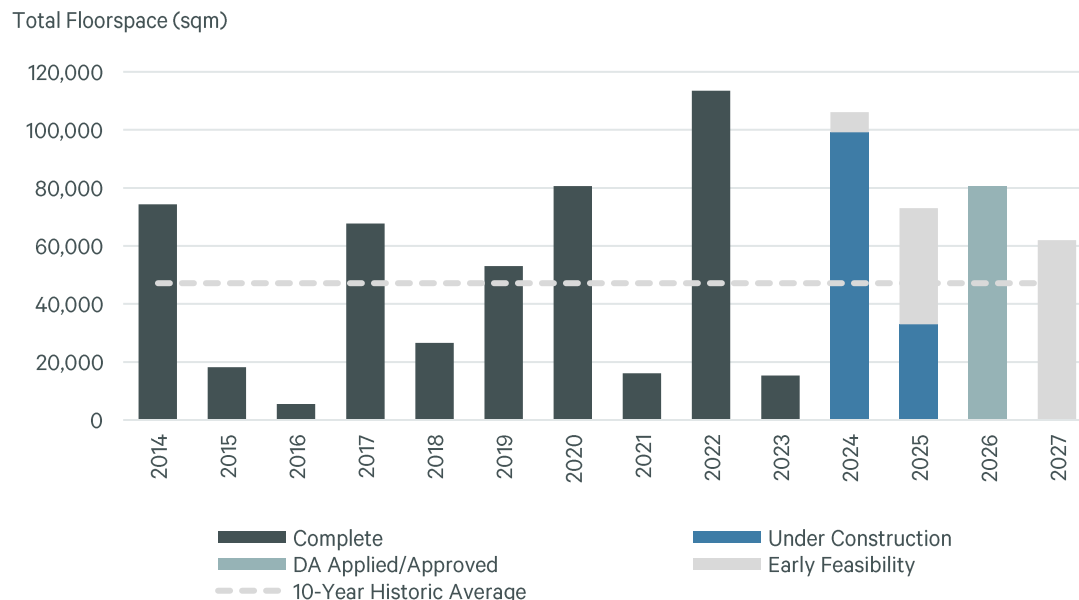
While the supply pipeline remains robust following 2024, new deliveries are expected to slow slightly. New supply is expected to total 73,021 sqm in 2025 and 80,368 sqm in 2026. Additionally, given elevated construction costs, drawn out project timelines, and challenging pre-leasing conditions it’s likely that several projects in the post-2024 supply pipeline will be delayed.

FIGURE 4: Canberra Office | Upcoming Development Projects



Source: CBRE Research

FIGURE 5: Canberra Office | Historical & Forecast New Supply



Source: PCA, CBRE Research

Vacancy

Vacancy rates remain compressed in 2023

Canberra’s overall office vacancy rate ended 2023 at 8.3%. This figure represented a slight increase of 8 bps from H1 2023. Vacancy rates in Canberra have managed to stay persistently compressed since the onset of the pandemic and the market still boasted the tightest office vacancy rates in Australia as of year-end 2023.

Prime vacancy rates ended the period at 7.2% after increasing by 20 bps over the second half of the year. Secondary vacancy rates compressed slightly in H2 2023, ending the period at 9.7%. Prime and Secondary vacancy rates in both the Civic and Non-Civic submarkets now all sit at or below 10.0%.

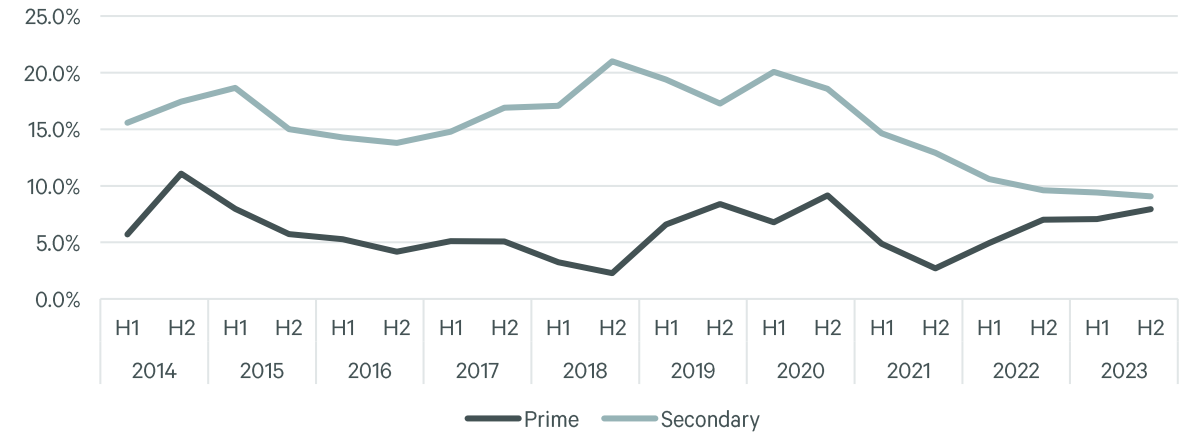
While vacancy rates have remained tight for the time being, it’s expected that the market should see some vacancy rate expansion over the near term due to the elevated levels of supply currently forecasted for completion over the next three years. There also remains some concern that occupier demand may soften going forward due to a contraction from public sector and affiliated occupiers.

FIGURE 6: Canberra Office | Leasing Market Summary

Market/Grade	Inventory Jan 24	Vacant Space Jan 24	Vacancy Rate Jan 24 (6month Diff)	Net Absorption 6 months
Prime	1,391,157 sqm	102,364 sqm	7.2% (+20 bps)	-2,788 sqm
Secondary	968,812 sqm	93,769 sqm	9.7% (-8 bps)	-11,333 sqm
Total	2,359,969 sqm	196,133 sqm	8.3% (+8 bps)	-14,121 sqm

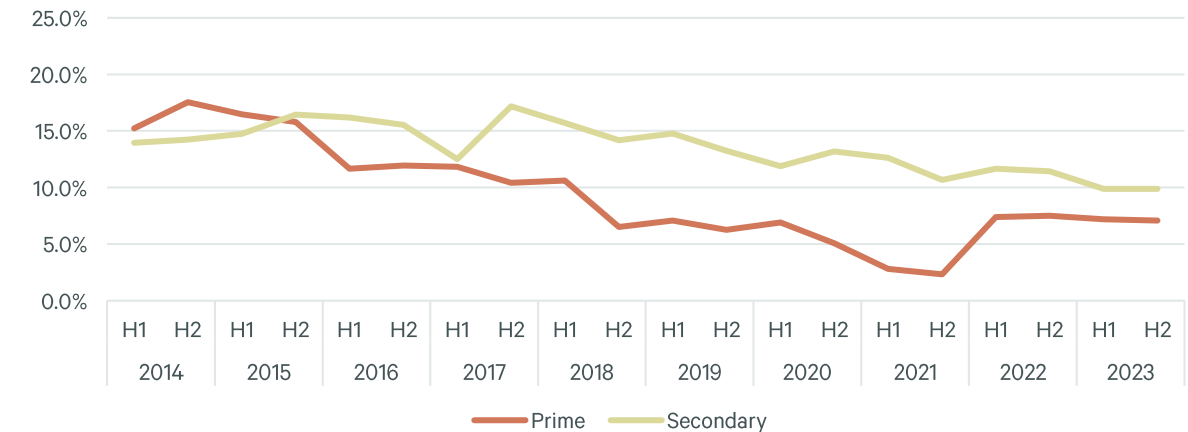
Source: PCA, CBRE Research

FIGURE 7: Canberra Civic Office | Vacancy Rate by Grade



Source: PCA, CBRE Research

FIGURE 8: Canberra Non-Civic Office | Vacancy Rate by Grade



Source: PCA, CBRE Research

Canberra Supply-Demand Comparison

FIGURE 9: Canberra Civic Office | Market Fundamentals

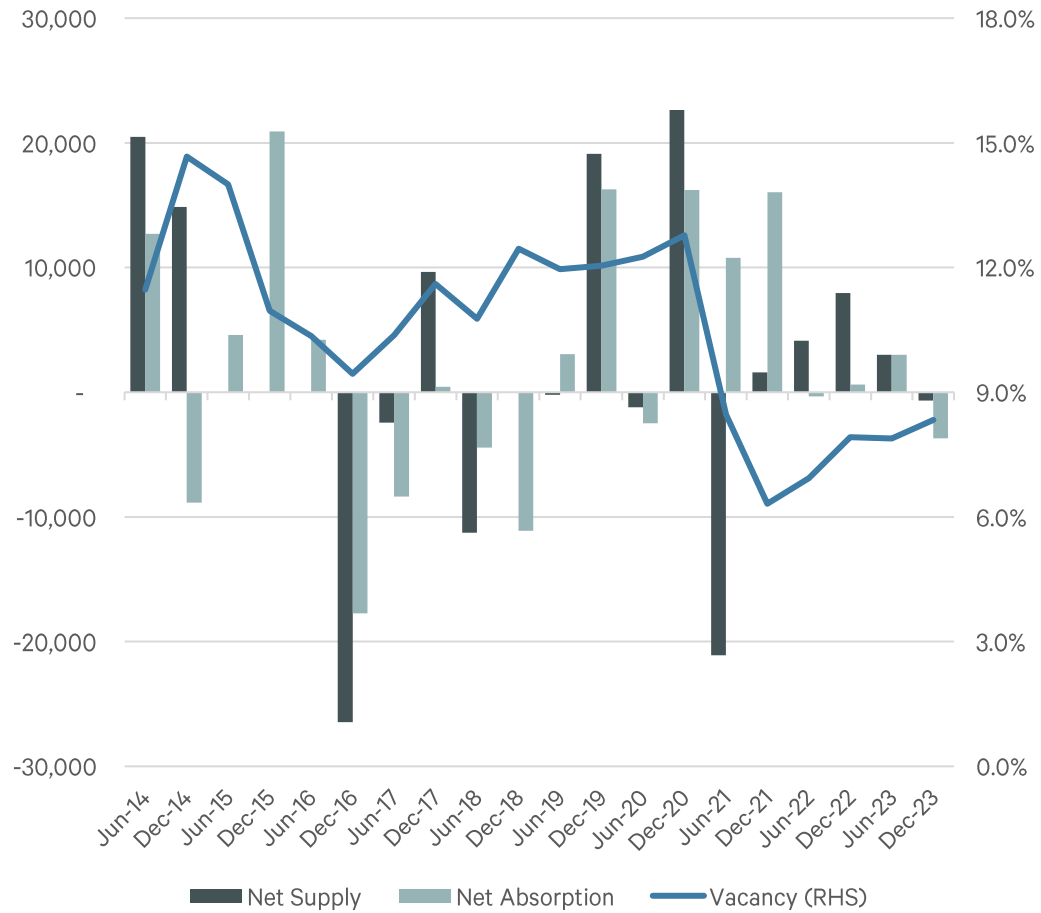


FIGURE 10: Canberra Non-Civic Office | Market Fundamentals



Source: CBRE Research, PCA

Rental Performance

Rental rates and incentives hold stable over Q1 2024

Balanced leasing activity resulted in gross rental rates holding stable across Canberra over Q1 2024. Civic Prime and Secondary gross face rents ended Q1 2024 at 539 AUD/sqm and 425 AUD/sqm. These figures represented year-over-year growth of 0.3% and 1.8%. Likewise, Non-Civic Prime and Secondary rental rates ended Q1 2024 at 495 AUD/sqm and 403 AUD/sqm. These figures represented year-over-year growth of 0.8% and 1.9%.

Incentives also held stable in Canberra over Q1 2024. Civic Prime and Secondary incentives ended the period at 26.4% and 29.2%. Non-Civic Prime and Secondary incentives also held stable, ending the first quarter at 25.4% and 26.2%. While incentives remained unchanged in Q1 2024, they have still increased substantially since the onset of COVID.

Given a lack of movement in gross rental rates and incentives, net effective rents also remained unchanged over the period.

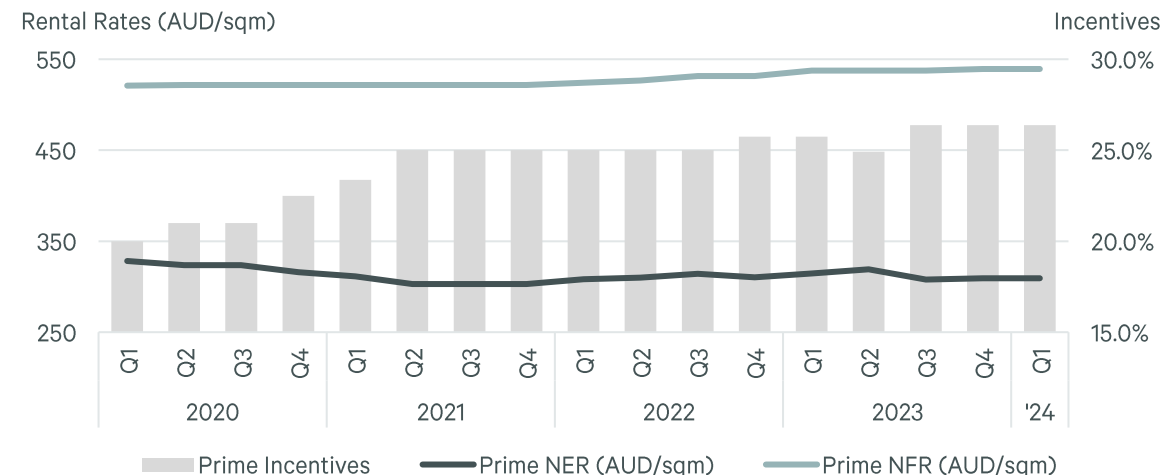
Given the expectation that vacancy rates will increase over the next year given elevated levels of new supply, it's likely that effective rent growth will remain moderate in 2024.

FIGURE 11: Canberra Office | Rental Indicators, by Submarket & Grade

Submarket	Grade	GFR (AUD/sqm)			NER (AUD/sqm)			Incentives (%)		
		4Q23	QoQ Change	YoY Change	4Q23	QoQ Change	YoY Change	4Q23	QoQ Change	YoY Change
Civic	Prime	539	Stable	+0.3%	309	Stable	-1.7%	26.4%	Stable	62 bps
	Secondary	425	Stable	+1.8%	189	Stable	-2.0%	29.2%	Stable	163 bps
Non-Civic	Prime	495	Stable	+0.8%	285	Stable	-0.3%	25.4%	Stable	75 bps
	Secondary	407	+1.1%	+1.9%	210	+1.8%	+1.6%	26.2%	13 bps	75 bps

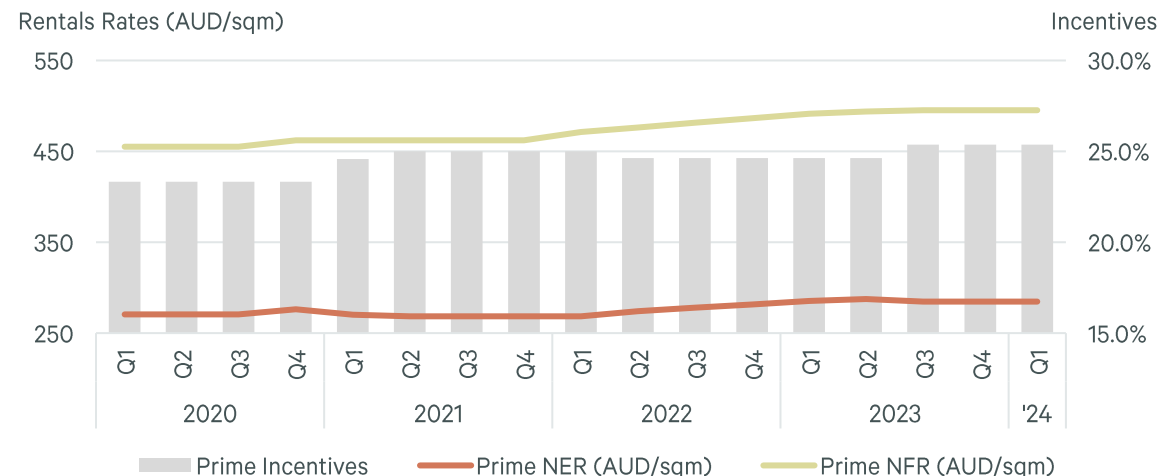
Source: CBRE Research

FIGURE 12: Canberra Civic Office | Prime Gross Face Rents, Net Effective Rents, and Incentives



Source: CBRE Research

FIGURE 13: Canberra Non-Civic Office | Prime Gross Face Rents, Net Effective Rents, and Incentives



Source: CBRE Research

Investment Market

Investment activity remains on pause

Office investment activity remained muted over the first quarter of 2024. The only transaction which settled over the period was the sale of the TGA Complex for AUD 25.0 million. This marked a decline in volumes of -91% compared to the same period in 2023.

Cap rates have continued to expand across both the Civic and Non-Civic submarkets over Q1 2024. Civic Prime and Secondary indicative yields ended the period at 6.9% and 9.1%. Non-Civic Prime and Secondary indicative yields ended the period at 7.0% and 9.1%. Indicative yields have now expanded by an average of 160 bps since the recent cap rate upcycle began in Q3 2022.

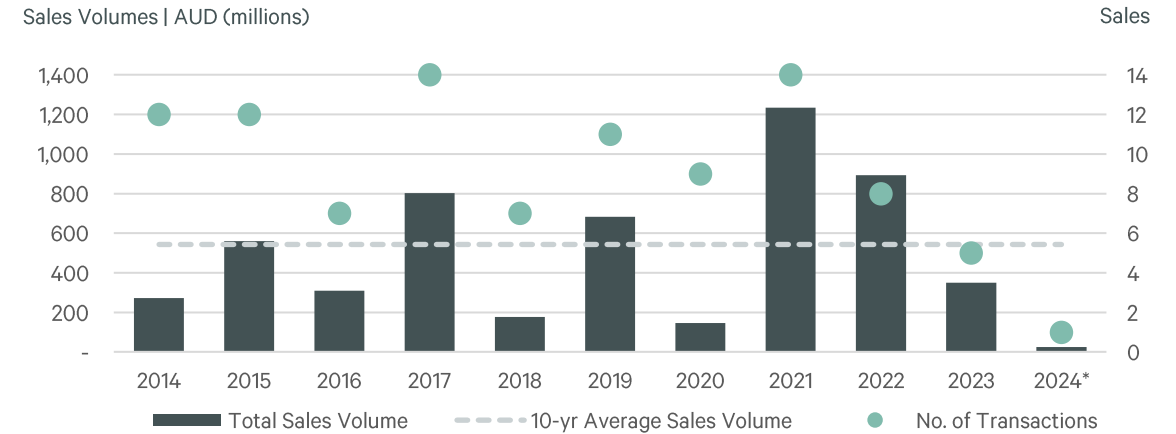
While there remains some disconnect between buyer and seller pricing expectations, indicative yields appear to be nearing their peak. It's now expected that yield expansion should be more moderate in 2024 compared to what was seen in 2023. While yields are nearing levels which may be enticing for potential buyers, market conditions are such that trades will likely remain muted for the remainder of 2024.

FIGURE 14: Canberra Office | Notable Transactions 2023 & 2024

Property	Price (Millions)	Cap Rate (Initial / Equivalent)	NLA	AUD/sqm
TGA Complex	25.0	NA	18,500 sqm	1,349
21 Genge St	290.0	7.4% / 5.5%	43,200 sqm	6,704
54 Marcus Clarke St	23.0	8.8% / 7.7%	5,200 sqm	4,435
2-6 Shea St	17.4	9.1% / 8.0%	4,100 sqm	4,242
11 London Cct	12.6	4.1% / 6.7%	3,250 sqm	3,863

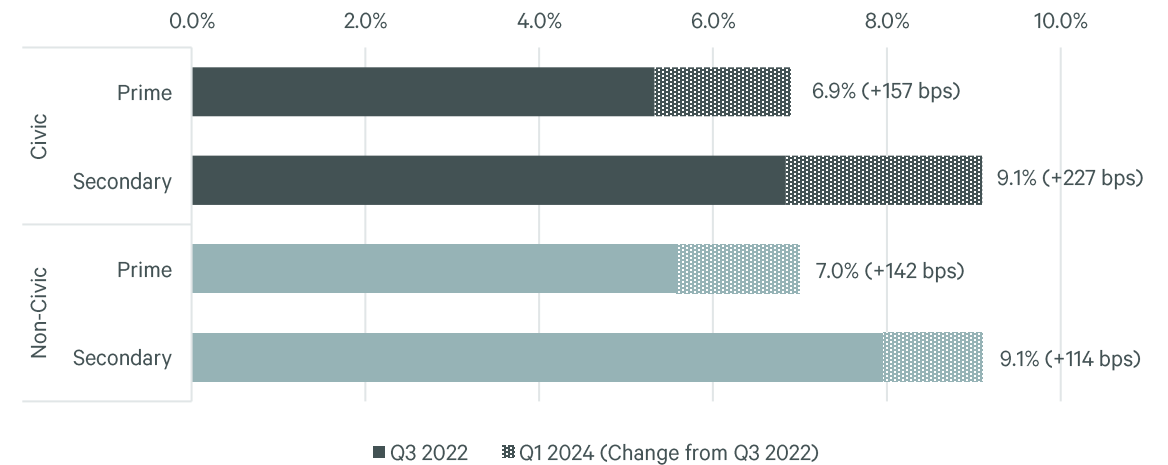
Source: MSCH-RCA, CBRE Research

FIGURE 15: Canberra Office | Sales Activity



*2024 figures inclusive of deals settled in Q1 only.
Source: MSCH-RCA, CBRE Research

FIGURE 16: Canberra Office | Indicative Yields, by Submarket and Building Grade



Source: CBRE Research

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