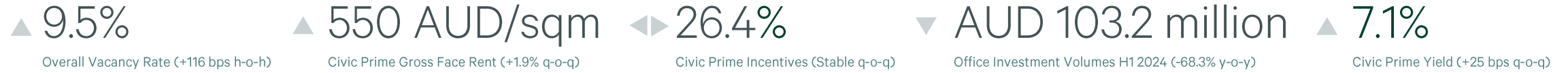


FIGURES | CANBERRA OFFICE | 2Q24

Vacancy rates increase as new supply begins to be delivered to Canberra



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

Key Points

- Leasing demand remained steady across Canberra in H1 2024. Leasing enquiry volumes totaled 108,683 sqm over the period, an increase of 72.5% compared to H1 2023. Overall net absorption totaled 6,109 sqm in H1 2024, with the bulk of activity in higher end properties.
- Canberra saw the first deliveries of its upcoming supply wave in H1 2024. New supply totalled 37,037 sqm over the period.
- Canberra’s overall office vacancy rate ended H1 2024 at 9.5%. This figure represented an increase of 116 bps from year-end 2023. This increase was due largely to new supply delivered over the period.
- Despite increases to vacancy rates, gross rental rates increased in Q2 2024 while incentives remained table. This allowed net effective rents to increase marginally over the quarter.
- Canberra office sales totalled AUD 103.2 million in H1 2024. Cap rates also continued to rise in Q2 2024. Prime Civic and Non-Civic yields ended the half at 7.1% and 7.3%.

FIGURE 1a: Canberra Office | Vacancy Rate Summary

Indicator	Jul 2024	Jan 2024	Jul 2023	H-o-H Change	Y-o-Y Change
Vacancy Rate	9.5%	8.3%	8.2%	+116 bps	+130 bps

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

Indicator	2Q24	1Q24	2Q23	Q-o-Q Change	Y-o-Y Change
GFR	AUD 550	AUD 539	AUD 538	+1.9%	+2.2%
Incentives	26.4%	26.4%	24.9%	Stable	+146 bps
NER	AUD 317	AUD 309	AUD 319	+2.5%	-0.7%
Yield	7.1%	6.9%	6.2%	+25 bps	+97 bps

Source: CBRE Research

Office Demand

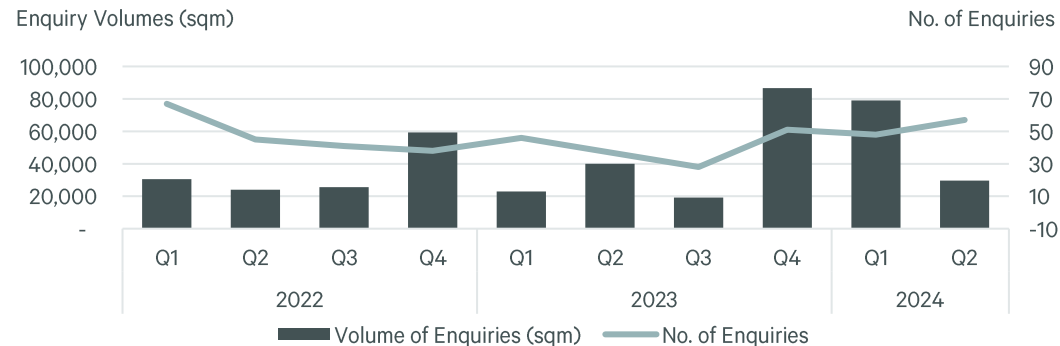
Leasing demand being driven by flight-to-quality in H1 2024

Leasing demand was steady across Canberra in H1 2024. CBRE received 57 leasing enquiries totaling 29,663 sqm over the second quarter. This brought H1 2024 enquiry volumes to 108,683 sqm, an increase of 72.5% compared to H1 2023. The bulk of leasing demand continued to come from public sector occupiers over the first half.

Net absorption totals in Canberra differed significantly based on geography in H1 2024. The Civic submarket recorded Overall and Prime net absorption totals of 15,358 sqm and 17,246 over the period. Conversely, Non-Civic submarkets saw Overall net absorption of -9,249 sqm. When looking at the Canberran submarkets with more than 100,000 sqm of stock, the greatest demand was seen in the Civic and Airport regions in H1 2024.

Driven by the ongoing flight-to-quality trend, A Grade properties saw the strongest levels of leasing activity over the first six months of 2024. These properties recorded positive net absorption of 7,114 sqm over the period. It's expected that this trend will continue as new supply is delivered over the next three years and occupiers migrate into newer accommodations.

FIGURE 2: Canberra Office | Leasing Enquiry Data



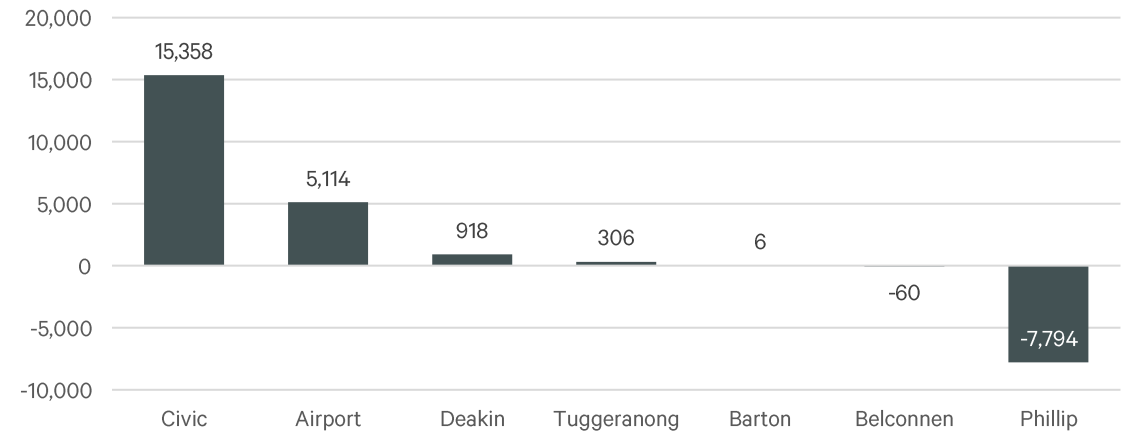
Source: PCA, CBRE Research

FIGURE 3: Canberra Office | 6-Month Net Absorption, by Submarket & Building Grade



Source: PCA, CBRE Research

FIGURE 4: Canberra Office | 6-Month Net Absorption, for Submarkets with +100,000 sqm of stock



Source: PCA, CBRE Research

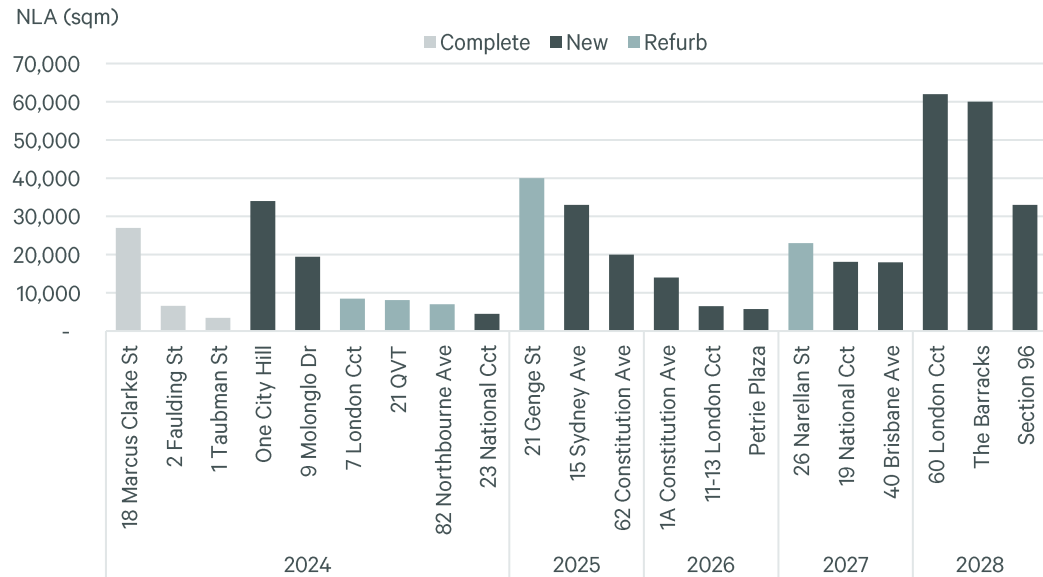
Supply

Elevated levels of new supply expected over the next four years

Canberra is entering a supply wave which will see the market’s office inventory increase significantly over a four-year period. The first few projects of this wave were delivered over the first half of 2024, when new supply totalled 37,037 sqm. The first half total included the delivery of 18 Marcus Clarke Street (27,000 sqm), 2 Faulding Street (6,600 sqm), and 1 Taubman Street (3,437 sqm). New supply is expected to total an additional 82,000 sqm over the second half of the year, bringing the full year total to nearly 120,000 sqm. This would be just under three times larger than the trailing 10-year average and the largest year of construction over that time. Based on current forecasts, the market could see the delivery of an average of 90,000 sqm of new office space per annum from 2024 to 2028. While this figure is significant, a large portion of this pipeline is likely to be delayed or mooted as developers look to secure pre-leasing and grapple with elevated construction costs.

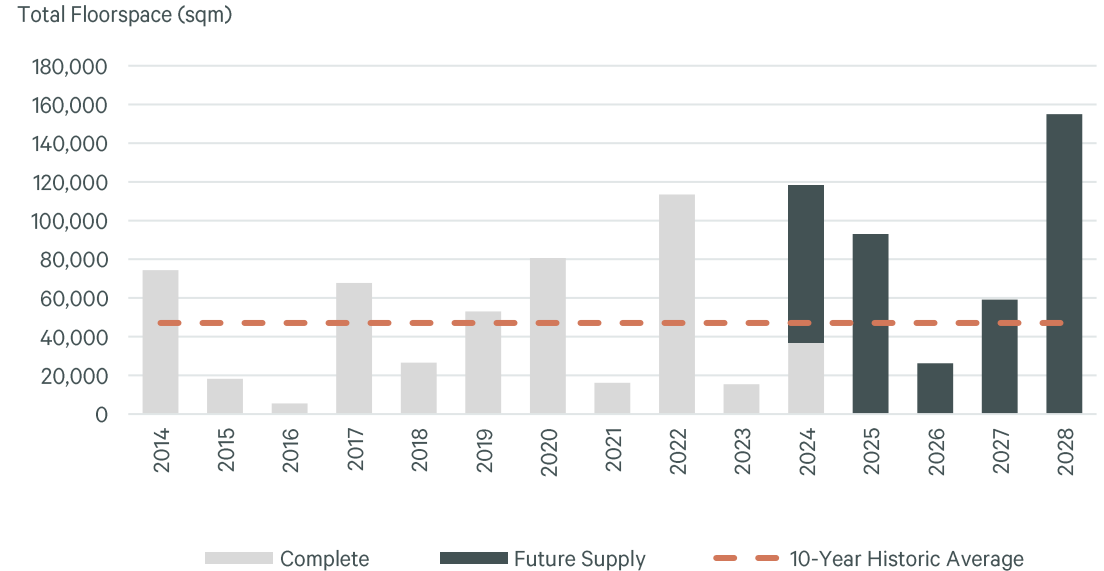
While the elevated levels of new supply are expected to lead to a softening of vacancy rates, Canberra entered this supply wave with the tightest office market of any capital city in Australia. The market is therefore well positioned to absorb new stock unlike some other markets across Australia.

FIGURE 5: Canberra Office | Upcoming Development Projects



Source: CBRE Research, PCA

FIGURE 6: Canberra Office | Historical & Forecast New Supply



Source: CBRE Research, PCA

Vacancy

Vacancy rates increase slightly over first half of 2024

Canberra’s overall office vacancy rate ended H1 2024 at 9.5%. This figure represented an increase of 116 bps from year-end 2023. Vacancy rates in Canberra have managed to stay persistently compressed since the onset of the pandemic and the market still boasted some of the tightest office vacancy rates of any Australia capital city as of June 2024.

Prime vacancy rates ended the period at 8.8% after increasing by 148 bps over the first half of the year. Secondary vacancy rates also increased slightly in H1 2024, ending the period at 10.4%. Much of the increase in vacancy rates this period was due to the delivery of new supply over the first half.

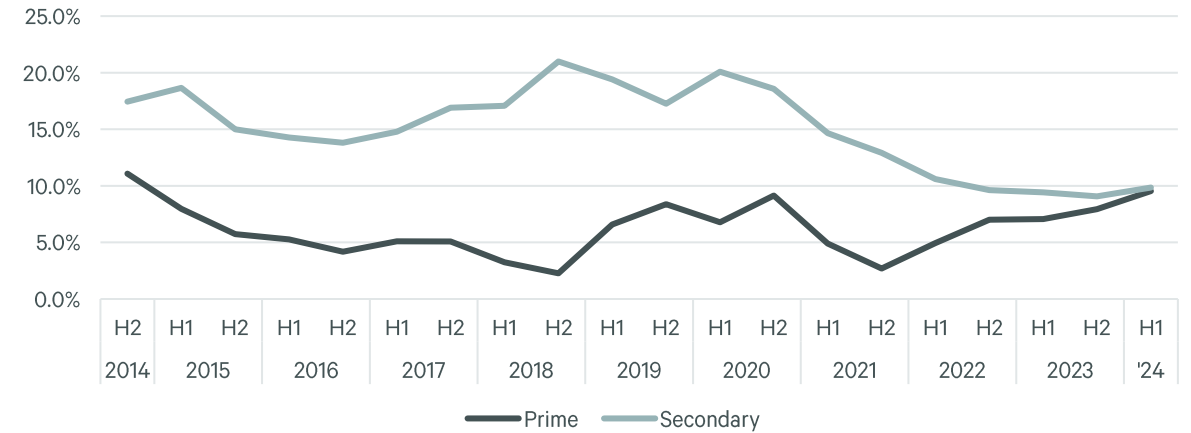
While vacancy rates have remained tight for the time being, it’s expected that the market should see continued vacancy rate expansion over the near term due to the elevated levels of supply forecast for completion. There also remains some concern that occupier demand may soften due to a contraction from public sector and affiliated occupiers, although it remains to be seen how this situation evolves.

FIGURE 7: Canberra Office | Leasing Market Summary

Market/Grade	Inventory Jul 24	Vacant Space Jul 24	Vacancy Rate Jul 24 (6month Diff)	Net Absorption 6 months
Prime	1,421,594 sqm	125,687 sqm	8.8% (+148 bps)	+7,114 sqm
Secondary	975,412 sqm	101,374 sqm	10.4% (+71 bps)	-1,005 sqm
Total	2,397,006 sqm	227,061 sqm	9.5% (+116 bps)	+6,109 sqm

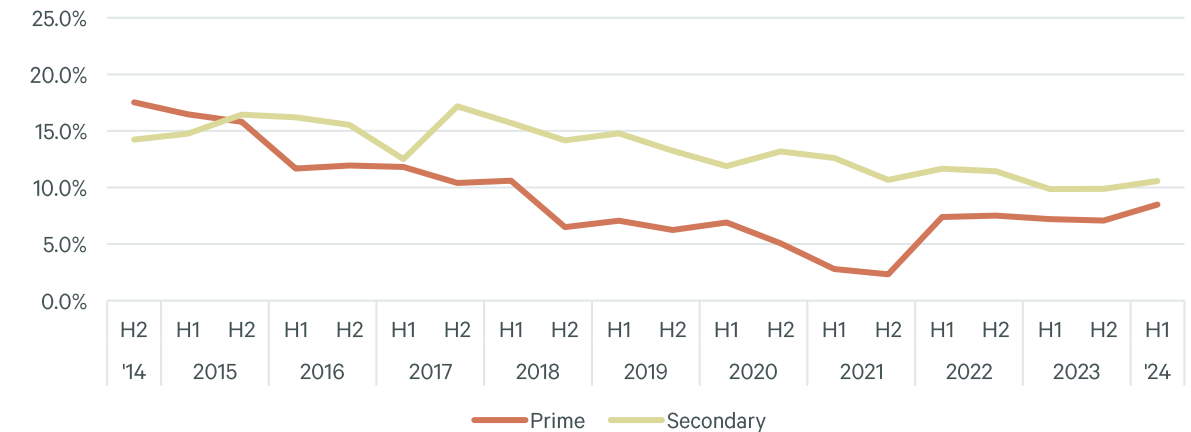
Source: PCA, CBRE Research

FIGURE 8: Canberra Civic Office | Vacancy Rate by Grade



Source: PCA, CBRE Research

FIGURE 9: Canberra Non-Civic Office | Vacancy Rate by Grade



Source: PCA, CBRE Research

Canberra Supply-Demand Comparison

FIGURE 10: Canberra Civic Office | Market Fundamentals

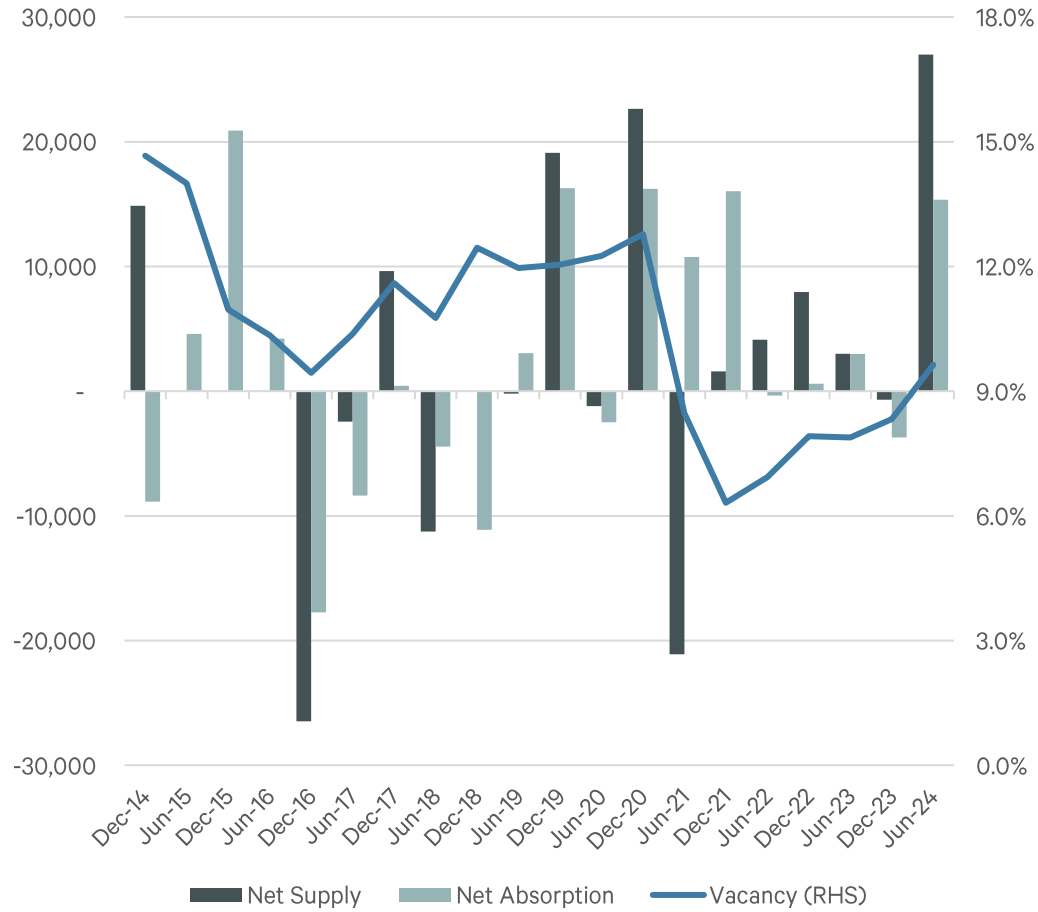


FIGURE 11: Canberra Non-Civic Office | Market Fundamentals



Source: CBRE Research, PCA

Rental Performance

Rental rates increase while incentives hold stable over Q2 2024

Despite increases to vacancy rates, rental rates increased across Canberra over Q2 2024. Civic Prime and Secondary gross rental rates ended Q2 2024 at 550 AUD/sqm and 438 AUD/sqm. These figures represented quarter-over-quarter growth of 1.9% and 2.9%. Likewise, Non-Civic Prime and Secondary gross rental rates ended Q2 2024 at 501 AUD/sqm and 411 AUD/sqm. These figures represented quarter-over-quarter growth of 1.3% and 0.8%.

Incentives held stable in Canberra over the second quarter. 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 Q2 2024, they have still increased substantially since the onset of COVID.

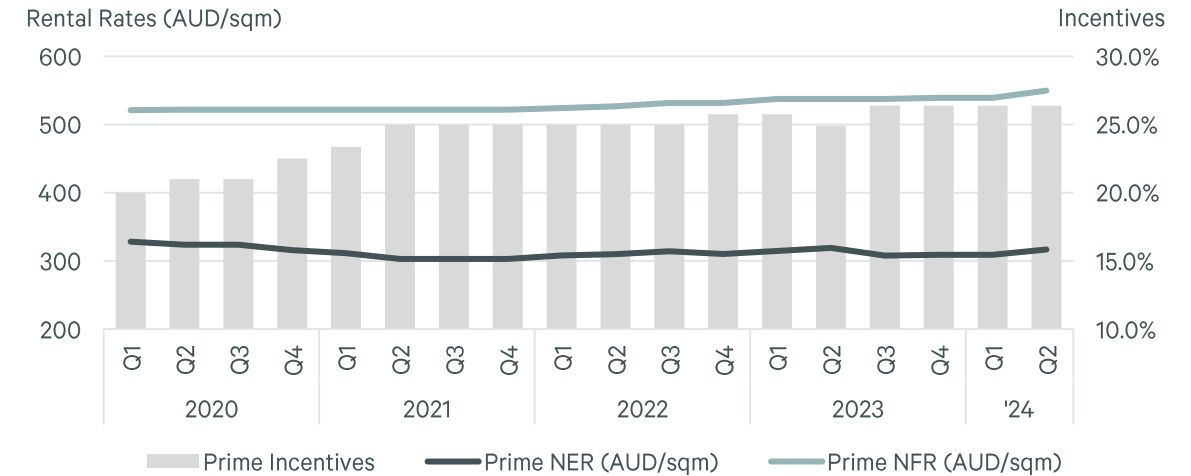
Given the increases to gross rental rates and lack of movement in incentives, net effective rents increased in Canberra over the second period. That said, the combination of rising vacancy rates and elevated levels of new supply should moderate any significant net effective rent growth over the latter half of 2024.

FIGURE 12: Canberra Office | Rental Indicators, by Submarket & Grade

Submarket	Grade	GFR (AUD/sqm)			NER (AUD/sqm)			Incentives (%)		
		2Q24	QoQ Change	YoY Change	2Q24	QoQ Change	YoY Change	2Q24	QoQ Change	YoY Change
Civic	Prime	550	1.9%	2.2%	317	2.5%	-0.7%	26.4%	Stable	146 bps
	Secondary	438	2.9%	3.0%	198	4.7%	Stable	29.2%	Stable	163 bps
Non-Civic	Prime	501	1.3%	1.5%	289	1.6%	0.7%	25.4%	Stable	75 bps
	Secondary	411	0.8%	2.6%	213	1.2%	3.0%	26.2%	Stable	52 bps

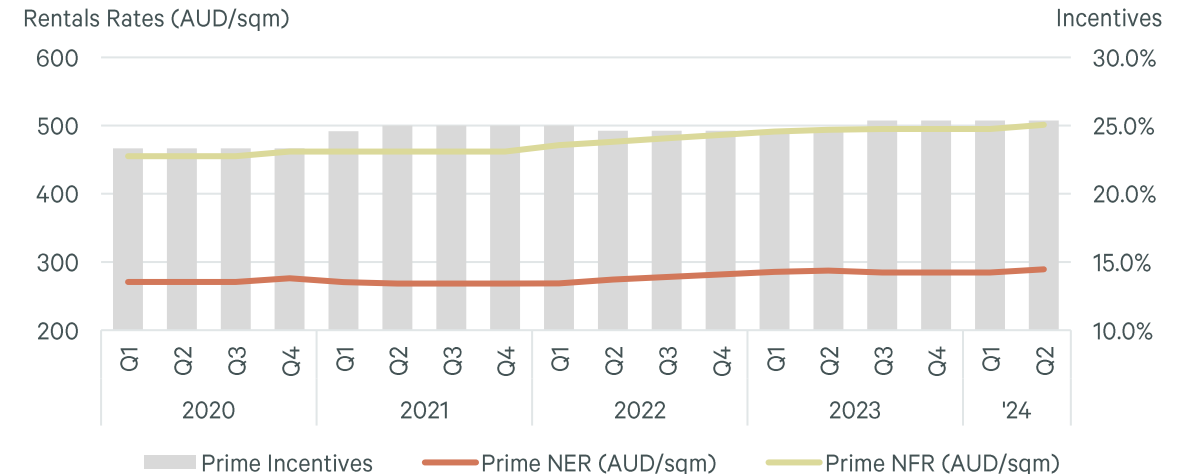
Source: CBRE Research

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



Source: CBRE Research

FIGURE 14: Canberra Non-Civic Office | Prime Gross Face Rents, Net Effective Rents, and Incentives



Source: CBRE Research

Investment Market

Investment activity remains limited as yields continue to expand

Office investment activity has remained muted in Canberra over the first half of 2024. The only transactions which settled in the second quarter were the sale of the 10 Moore Street for AUD 28.2 million and Optus Centre (12 Moore Street) for AUD 50.0 million. These transactions brought investment volumes to AUD 103.2 million in H1 2024.

Cap rates continued to expand across both the Civic and Non-Civic submarkets over Q2 2024. Civic Prime and Secondary indicative yields ended the period at 7.1% and 9.2%. Non-Civic Prime and Secondary indicative yields ended the period at 7.3% and 9.3%. Indicative yields have now expanded by an average of 180 bps since the recent cap rate upcycle began in Q3 2022.

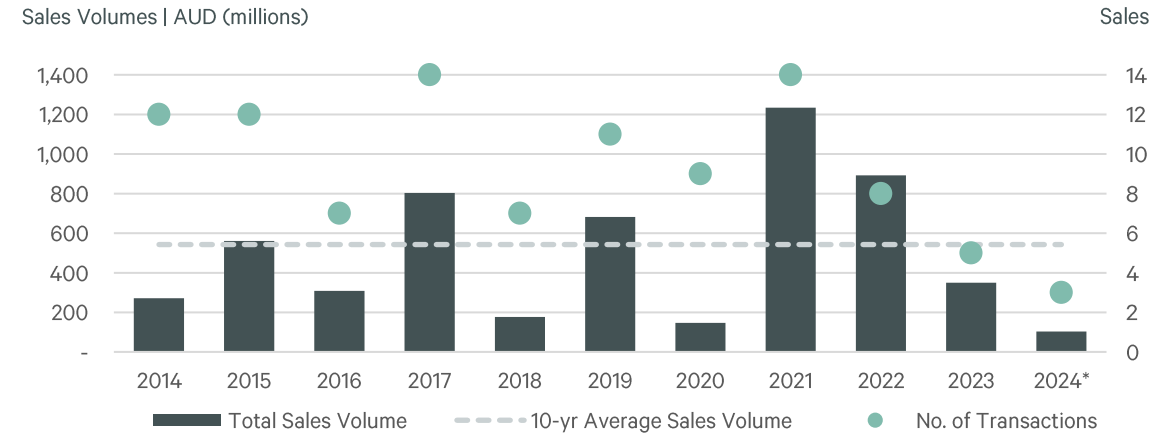
While some disconnect remains between buyer and seller pricing expectations, indicative yields appear to be nearing their peak. Yields in Canberra are now nearing enticing levels for potential buyers, and it's expected that cap rate expansion should slow over the second half of the year. Despite pricing approaching tradeable territory, investment volumes will likely remain muted for the remainder of 2024 as the pipeline of properties on the market remains limited.

FIGURE 15: Canberra Office | Investment Transactions 2024

Property	Price (Millions)	Cap Rate (Initial / Equivalent)	NLA	AUD/sqm
TGA Complex	25.0	NA	18,500 sqm	1,349
10 Moore Street	28.2	9.3% / 8.0%	6,700 sqm	3,955
Optus Centre	50.0	9.2% / 8.5%	12,008 sqm	4,164

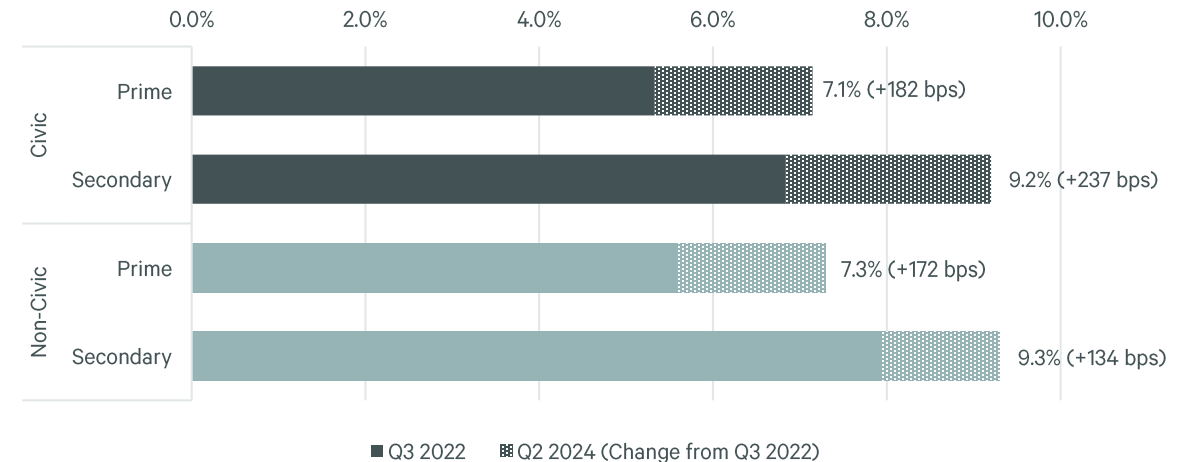
Source: MSC-RCA, CBRE Research

FIGURE 16: Canberra Office | Sales Activity



*2024 figures inclusive of deals settled in Q1 & Q2 only.
Source: MSC-RCA, CBRE Research

FIGURE 17: Canberra Office | Indicative Yields, by Submarket and Building Grade



Source: CBRE Research

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