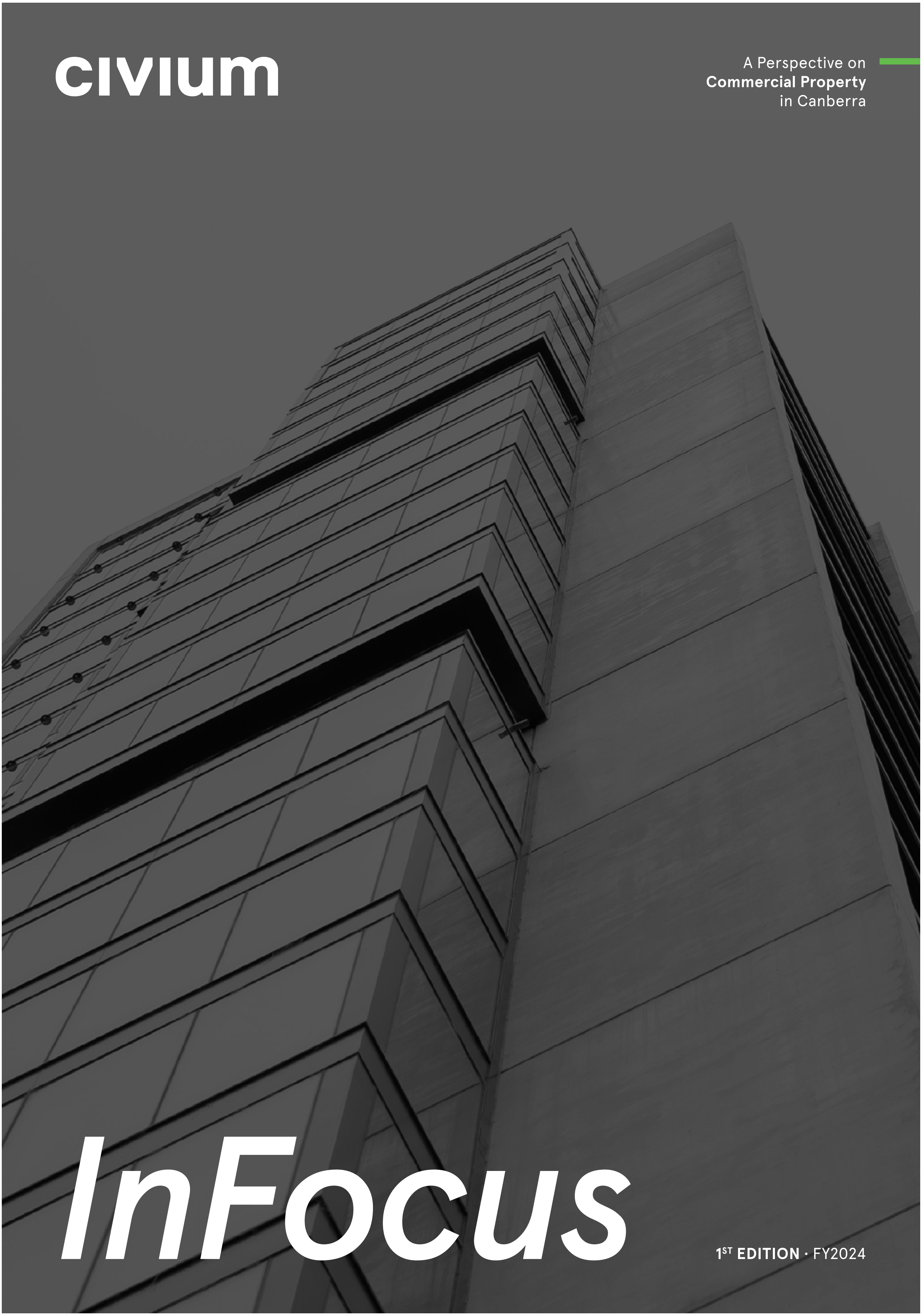
civium

A Perspective on
Commercial Property
in Canberra



InFocus

1ST EDITION · FY2024

1ST EDITION

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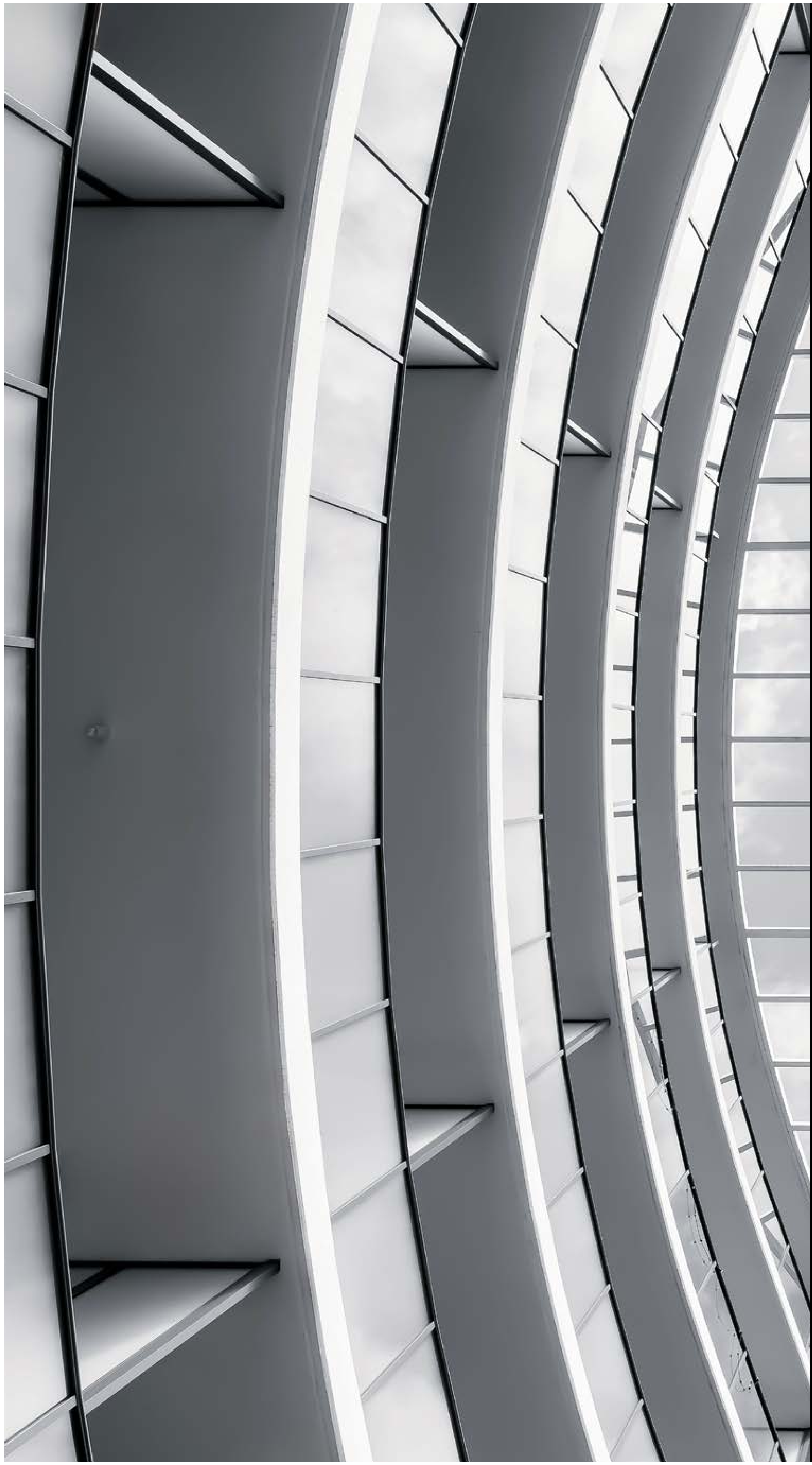


FORWARD

Welcome

Welcome to Civium's first edition of *Commercial Property: In Focus*. In this report, we outline our experiences in the commercial property market over the past financial year, sharing valuable data and insights from our agents. We also provide our perspectives on market trends and expectations for the coming financial year 2024-25.

Andrew Smith
Managing Director

Overall, the commercial property sector experienced a slower market in FY24. Early in the fiscal year, uncertainty around future interest rate movements caused investors to hesitate in purchasing due to concerns about borrowing and loan serviceability. With the steadying of rate movements since November, we are beginning to see a return to normalised purchasing conditions.

EMERGING TRENDS

A major trend in the post-COVID period has been a shift towards industrial property among both owner-occupiers and investors. The main driver for this shift has been the continuing expansion of industries such as construction, manufacturing, and distribution. We have also seen significant changes in land values in these markets and an increase in rental rates. This has resulted in property owners gaining greater certainty around tenant tenures and rental returns.

With the steadying of rate movements since November, we are beginning to see a return to normalised purchasing conditions.

The medical industry continues to hold strong, with demand for property in this sector bouncing back in the post-COVID period. The number of sites sold or leased to the medical sector has rapidly increased.

Limited land supply in Canberra is strongly influencing the property market, driving up rents and land values. As supply decreases, the industrial sector will have fewer new site opportunities, leading to increased competition for existing industrial sites.

In contrast, the office and hospitality sectors have slowed. The office market has been impacted by the adoption of working-from-home or flexible work arrangements. Businesses are reluctant to commit to new office space without accurately gauging occupation levels. This has caused stagnation in the office market. The hospitality sector has also slowed due to cost-of-living pressures, resulting in decreased discretionary spending from customers and clients.

LOOKING AHEAD

Overall, Canberra's commercial sales market has slowed but remains stable. Although the market slowed considerably in FY23, transactions have picked up over the last two quarters of FY24. Investors now understand that to repurpose their capital, they must commit to selling their properties, leading to an increase in properties coming onto the market in the next financial year. Buyers with capital are still seeking commercial property but are waiting for rates to decrease before committing.

With likely interest rate stabilisation and the potential for a drop in FY25, we expect an uplift in activity next financial year.

At a glance

YIELD CHANGES IN 2024

An excellent example of the change in sale yields due to the interest rate rises of 2023/2024 is childcare sales, these are usually very consistent in their yields and provide strong comparable evidence for changes to the overall market:

Prior to 2023, our childcare sales reflected an average yield of 5.3% (sales in Deakin and Queanbeyan)

In December 2023 we sold a Nicholls childcare centre for $6.6m, which reflected a 6% net yield.

The 0.7% change in yield showed the movement due to higher interest rates.

INDUSTRIAL SUPPLY AND DEMAND

There has been a significant change in Industrial warehouse rental rates, reflecting the low supply, increasing land value and higher construction costs. The evidence below shows the increases for what we consider generally similar buildings:

- **2018 – $95 per m2**
  28 Sheppard Street Hume – high quality warehouse
  Approx. 3,229m2 @ $95 per m2 p.a. plus GST.
- **2019 – $130 per m2**
  30 Coal Court Beard – brand-new warehouse
  Approx. 660m2 @ $130 per m2 p.a. plus GST.
- **2020 – $150 per m2**
  75 Newcastle St Fyshwick – older building in excellent location
  Approx. 1,350m2 @ $150 per m2 p.a. plus GST.
- **2021 – $175 per m2**
  16 Spongolite Street Beard – modern warehouse
  Approx. 2,200m2 @ $155 per m2 p.a. plus GST.
- **2022 – $180 per m2**
  34 Sheppard Street Hume – well located high clearance warehouse with hardstand
  Approx. 1,200m2 @ $180 per m2 p.a. plus GST.
- **2023 – $210 per m2**
  30 Val Reid Crescent Hume, brand-new building
  Approx. 3,400m2 @ $210 per m2 p.a. plus GST.
- **2024 – $230 per m2**
  13 Paspaley Crescent Hume, brand-new building
  Approx. 2,222m2 @ $230 per m2 p.a. plus GST.

SECTOR FOCUS

Office

The small office sector in Canberra has shown a varied performance in 2024. While the broader office market grapples with high vacancy rates due to increased supply and lingering remote work trends post-pandemic, specific trends within the small office segment present a more nuanced perspective.

Despite an overall vacancy rate of **8.3%**, driven by a surge in new supply, demand remains robust, particularly for prime and A-grade office spaces. The delayed entry of A-grade stock into the market has overshadowed interest in B, C, and D grade buildings, enticing tenants with attractive incentives.

There's a notable trend towards smaller, flexible office spaces as businesses seek agility in lease terms and adaptability in workspace configurations. This shift reflects uncertainties surrounding long-term office needs and the rise of hybrid work models.

Competitive pressures have elevated rental incentives to historic highs. Data from the Property Council of Australia highlights prime and secondary incentives in Civic at **26.4%** and **29.2%**, respectively. Non-Civic areas also see increased incentives, reaching **25.4%** and **26.1%** for prime and secondary spaces, respectively.

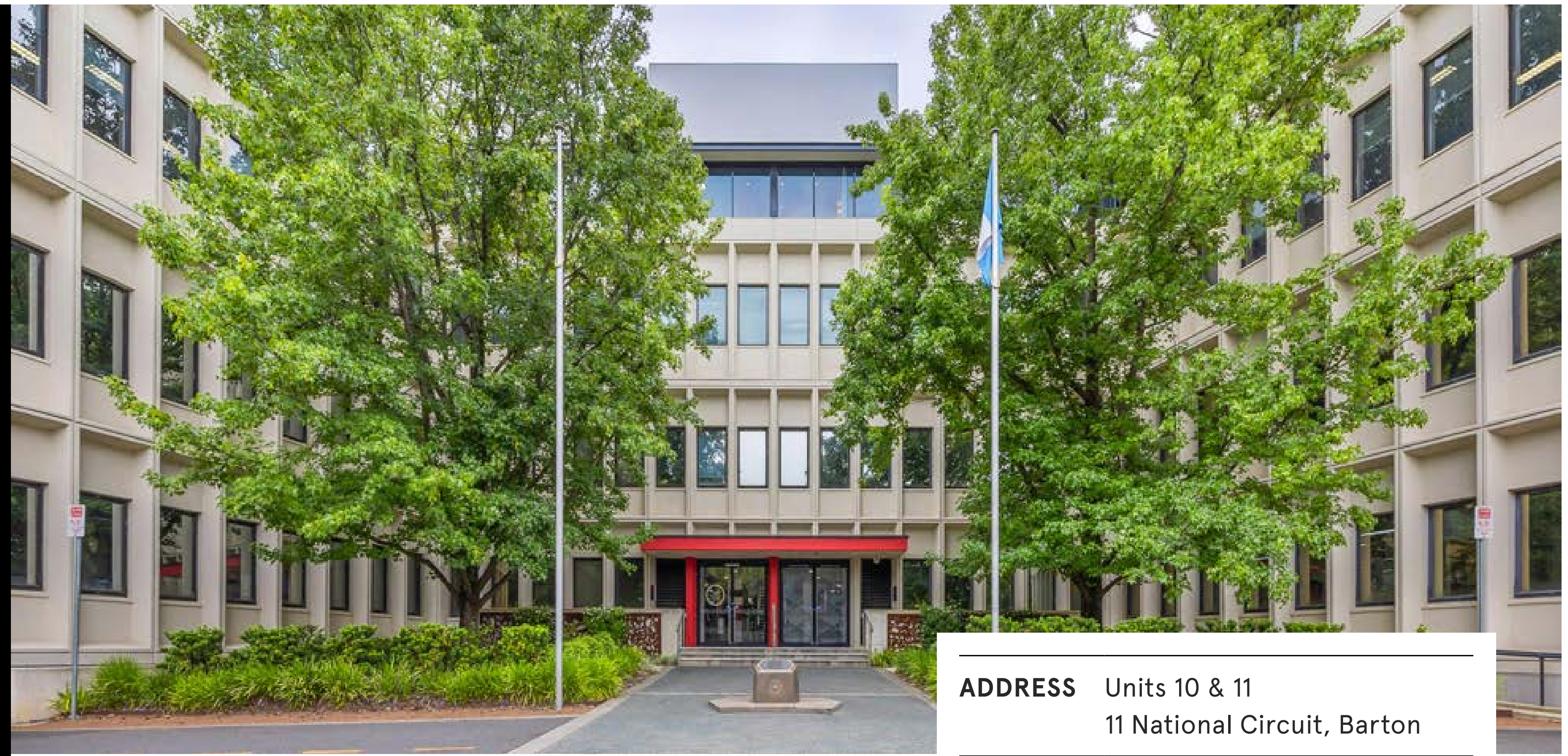
Civic, Barton, and Braddon remain pivotal in the current office rental landscape, buoyed by central locations and proximity to key government agencies like the Department of Health and Veterans Affairs.

Key Insights

VACANCY RATES	Vacancies are currently at **8.3%**, the lowest among Australia's capital cities
IN-DEMAND AREAS	Civic Braddon Barton
STOCK DYNAMICS	There's a high influx of A-Grade stock entering the market, reducing demand for B, C, & D grade buildings
YIELDS	Yields remain around **7.0%** but have softened from 2022

Despite challenges this fiscal year, Canberra maintains the most stable office market among Australian capitals, with its **8.3%** vacancy rate in Q1 2024 significantly lower than the national average of **13.5%**. The enduring presence of the Australian Public Service likely contributes to this resilience.

For external groups reassessing options in larger cities, Canberra's upcoming A-grade stock presents compelling opportunities. The Property Council of Australia forecasts approximately **71,000m²** of new office space entering the market in 2025.



CASE STUDY

Successful Off-Market Sale in Barton

ADDRESS	Units 10 & 11 11 National Circuit, Barton
ZONING	DES - Designated
GRADE	B-Grade
SIZE (NLA)	479m²
SALE	Off-market $2.61m ($5,449 per m²)

Dania Khalil
Director - Commercial Sales & Leasing

SITUATION

Civium was initially approached by the tenant occupying both units, who sought to sublease one of their spaces to reduce occupancy. Concurrently, the property owner expressed interest in selling both units if a suitable buyer could be found.

APPROACH

The units were marketed off-market, avoiding public listing portals like Real Commercial or Commercial Real Estate. Leveraging Civium's extensive market experience and robust database, we conducted an Email Marketing Campaign, which generated multiple enquiries. Interested parties were provided with an Information Memorandum detailing the units.

OUTCOME

The sales campaign lasted six months, which was expected given the off-market approach and the owner's lack of urgency to sell. The units were eventually sold to an IT business looking to set up in the smaller Unit 10. The buyer was attracted by the combination of location, price, and investment opportunity.

Barton remains highly desirable with a low vacancy rate and good returns. The existing tenant's rental returns made financing easier for the buyer compared to purchasing a vacant space. The primary risk involved the current tenant's willingness to vacate Unit 10. Effective communication between the buyer and the tenant was crucial in negotiating terms. The new owner agreed with the tenant, who vacated Unit 10 while retaining their lease on Unit 11, ensuring a smooth transaction.

SECTOR FOCUS

Retail

Despite sharp increases in the cost of living, consumer spending in Canberra's retail sector remained resilient, driven by sustained growth in online shopping. From July 2023, retail turnover slowed from 13.3% to 4.2%, particularly affecting cafes and food businesses.

Significant developments in the ACT include the completion of Dickson Village/Coles Development, Capital Food Markets in Belconnen, and the expansion of Gungahlin Marketplace, collectively adding **13,500m^2** of retail space. While shopping centres and suburban shops face economic headwinds, landlords who have adjusted rents and incentives continue to attract prospective tenants.

The suburban retail sector has seen yields drop to **6.75%**, with limited transactional activity. Properties in high foot-traffic areas or those that have adjusted rents appropriately continue to perform well. Small suburban shopping centres remain in demand when rents are competitively priced.

First-time business owners encounter challenges securing suitable retail spaces due to stringent bank lending practices and high fit-out costs. In contrast, established retail groups expanding their operations have found ample opportunities in Canberra's retail market.

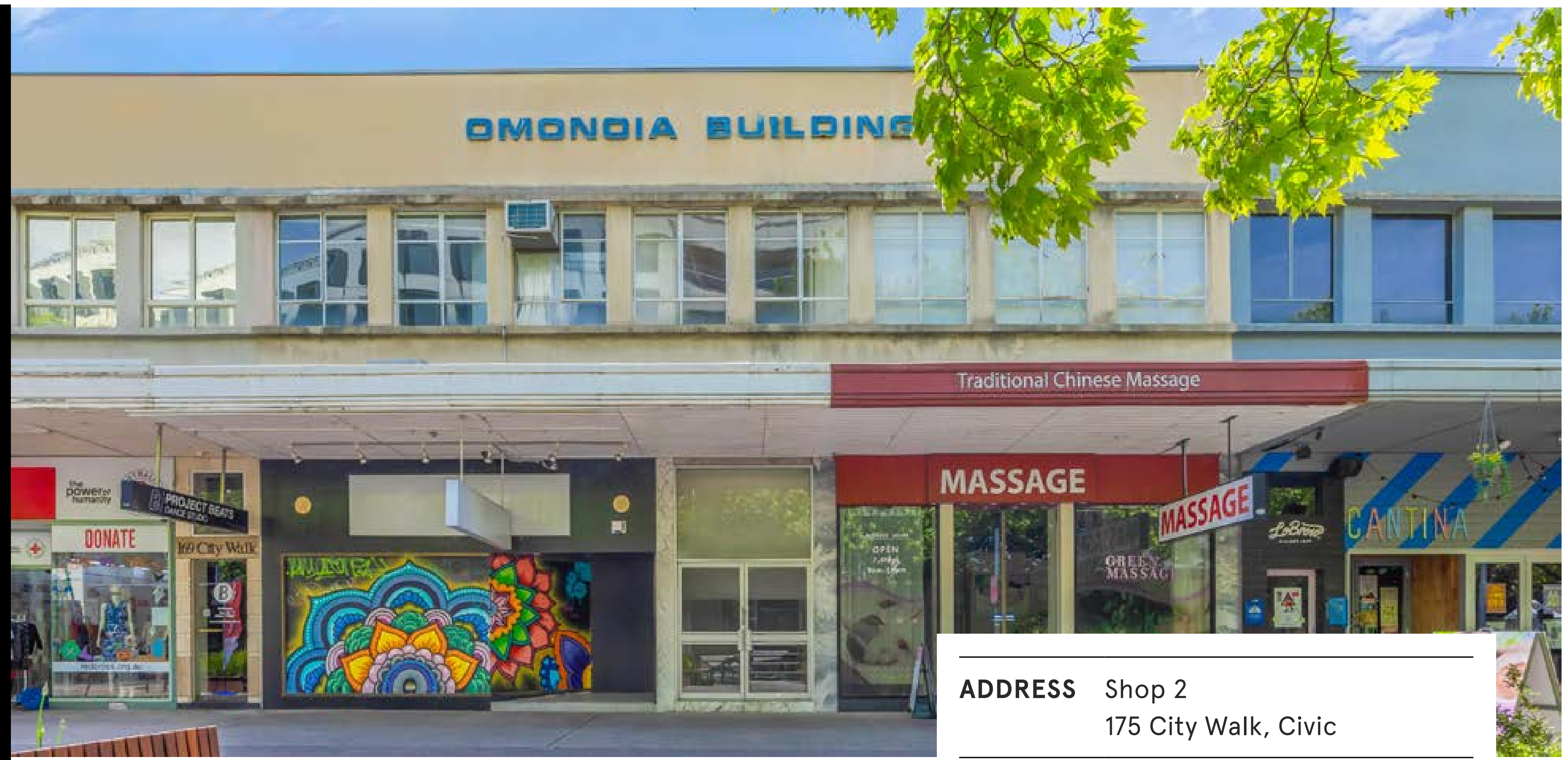
Satellite centres such as Dickson, Jamison, and Gungahlin have shown robust performance, although smaller suburban centres have faced challenges with lower foot traffic.

Key Insights

NEW DEVELOPMENTS	New developments have added **13,000m^2** to the market
FINANCING	First-time business owners face hurdles in acquiring funds to open
YIELDS	Retail yield averages have declined to **6.75%**

To mitigate challenges in lending and regulatory delays (e.g., liquor licences, health and safety approvals), landlords are recommended to offer elevated incentives such as capital contributions and extended rent-free periods, totaling approximately **20-25%**.

In the current economic climate, landlords are encouraged to reassess rental strategies and offer competitive incentives to foster long-term partnerships with tenants, thereby ensuring mutual success and business sustainability.



ADDRESS	Shop 2 175 City Walk, Civic
ZONING	CZ1 – Core Zone
SIZE (NLA)	206m^2
LEASE	Off-market $180k ($872 per m^2) 5 years

CASE STUDY

Successful Off-Market Lease on City Walk

Lachlan O'Sullivan
Commercial Sales & Leasing Executive

SITUATION

The ground floor unit at 175 City Walk had been vacant for several years, as the landlord was not particularly motivated to lease it. After multiple discussions with the landlord, Civium recommended to lease the property off-market.

APPROACH

The property was not listed on public web portals. Instead, Civium launched an Email Marketing Campaign to our established database of contacts. We also actively engaged our network of potential tenants through virtual and face-toface meetings. This approach generated a significant number of enquiries, given the lack of similar ground-floor retail spaces along City Walk at that time.

OUTCOME

Within three months, we successfully leased the property to a local business specialising in Asian beauty products from Korea and Japan. The landlord offered incentives, including minor lessor works and a rent-free period. These incentives were crucial in securing the lease, as the property had previously been a restuarant and thus not suitable for retail business. The landlord's willingness to assist with the removal of these unnecessary items made the space more attractive to the new retail tenant.

The tenant found the property appealing due to its size and regualr foot traffic, allowing them to expand their services beyond retail. The lease marked the highest rate for properties over 200m^2 along City Walk, highlighting the strong demand for ground-floor retail space in the area, particularly for retail and food businesses. The landlord was delighted with the substantial volume of enquiries and the successful lease agreement.

SECTOR FOCUS

Health and Medical

The health and medical property market in Canberra has shown stability throughout the fiscal year. Deakin continues to be a focal point, experiencing high demand with limited available stock for lease or sale. Meanwhile, areas like Woden and Tuggeranong have seen a notable increase in demand.

There's been a noticeable trend among medical and health professionals opting to purchase rather than rent their office spaces. This shift is driven by rising rental costs, prompting professionals to invest in long-term ownership.

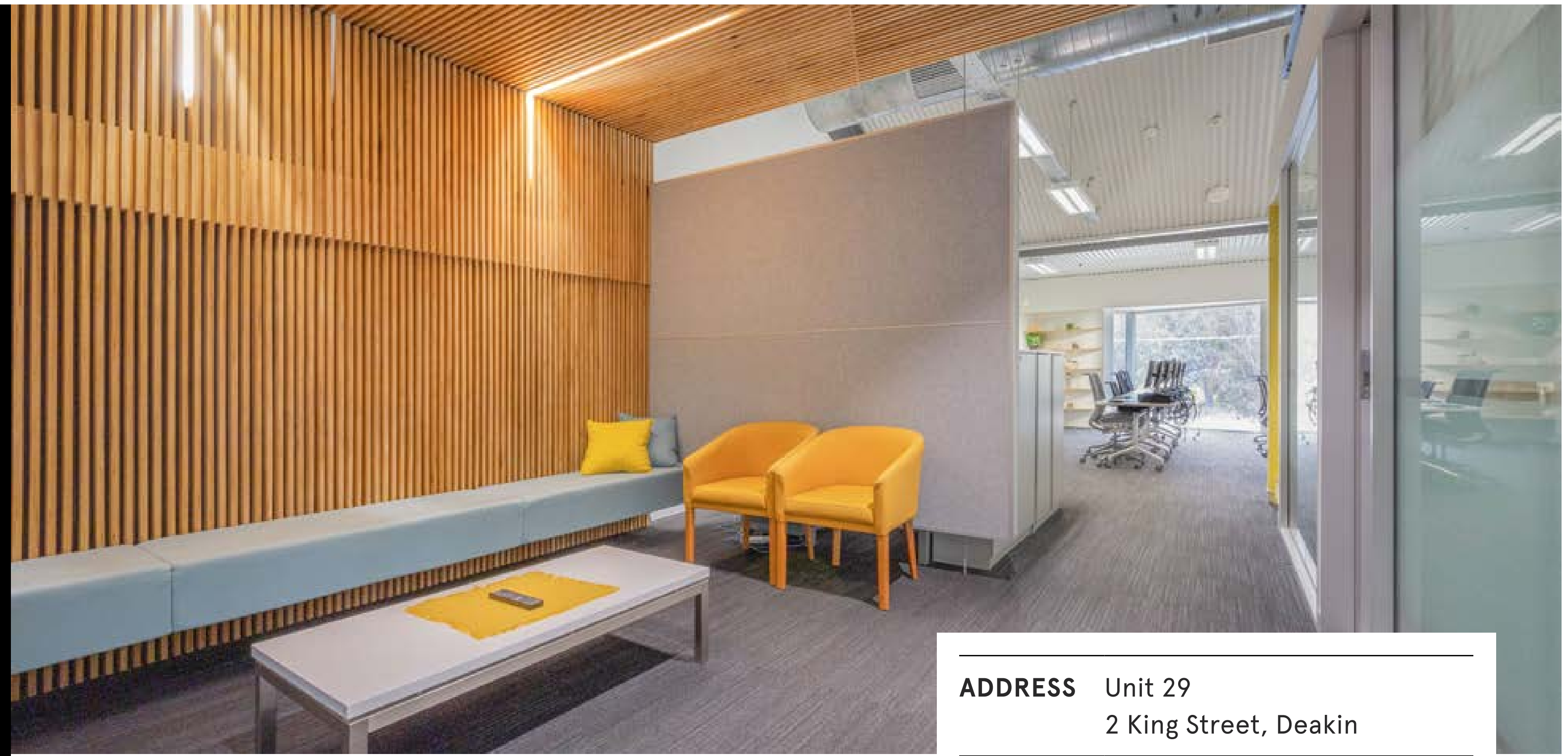
Properties in key Deakin locations such as Thesiger Court, Napier Close, King Street, and Phipps Close remain highly desirable, receiving substantial interest from both buyers and renters. Prospective purchasers, particularly healthcare professionals, conduct thorough due diligence to find properties that meet their specific needs.

Despite increased demand for purchasing, the supply of available properties for sale has been limited this fiscal year. Many owners are holding onto their assets, confident in the sustained demand for healthcare services. Consequently, there's been a decrease in enquiries for leasing, as organisations opt to renew leases rather than relocate.

Key Insights

INTEREST	Increased interest from prospective owner-occupiers
VACANCY RATES	Vacancies have slightly increased due to interest in property purchases
IN-DEMAND AREAS	Deakin remains highly sought after for health and medical purposes, with growing interest in Woden and Tuggeranong

Looking ahead, we anticipate a surge in tenant enquiries during Q1 and Q2 of the upcoming fiscal year, driven by tax and capital gains considerations.



ADDRESS	Unit 29 2 King Street, Deakin
ZONING	CZ2 - Business Zone
GRADE	A-Grade
SIZE (NLA)	306m²
SALE	Expressions of Interest $2.4m ($7,843 per m²)

CASE STUDY

Quick Sale of Fully Furnished Medical Unit

David Grimmond
Director – Commercial Sales & Leasing

SITUATION

Unit 29 was a prime A-Grade property, fully furnished with new carpet, high ceilings, central air-conditioning, and a large reception desk. It included an office, three consultation rooms, two procedure rooms with beds and medical lighting, and a well-presented staff room with a kitchenette, toilet, and shower.

The owner, needing a quick sale due to an interstate move, approached Civium seeking a 'walk-in walk-out' deal, leaving most of the property's furnishings and medical fit-out for the new owners. The unit's immaculate presentation made it an attractive opportunity for medical groups looking for a ready-to-use space.

APPROACH

Civium launched an Expressions of Interest campaign to attract potential buyers. Despite communication delays due to the owner's relocation, we suggested weekly online status meetings to ensure smooth updates and decision-making.

OUTCOME

The marketing efforts generated 30 enquiries and eight group inspections. Within 40 days, a successful offer came from a Canberra-based medical group. The sale concluded with a 30-day settlement period, achieving a final price of $2.4 million.

This case illustrates the robust demand for high-quality, A-Grade commercial properties, particularly in the medical sector. The property's comprehensive medical fit-out and strategic location in Deakin contributed to a swift and successful transaction despite logistical challenges.

SECTOR FOCUS

Industrial and Land

The industrial property market across the ACT and surrounding regions faces significant challenges stemming from limited land supply. Over the past four years, prices of industrial land have skyrocketed, rising from approximately \$130 per m^2 to \$700 per m^2. This surge in prices is driven by a severe shortage of available industrial-zoned land suitable for development, exacerbated by increasing demand from manufacturing and construction sectors.

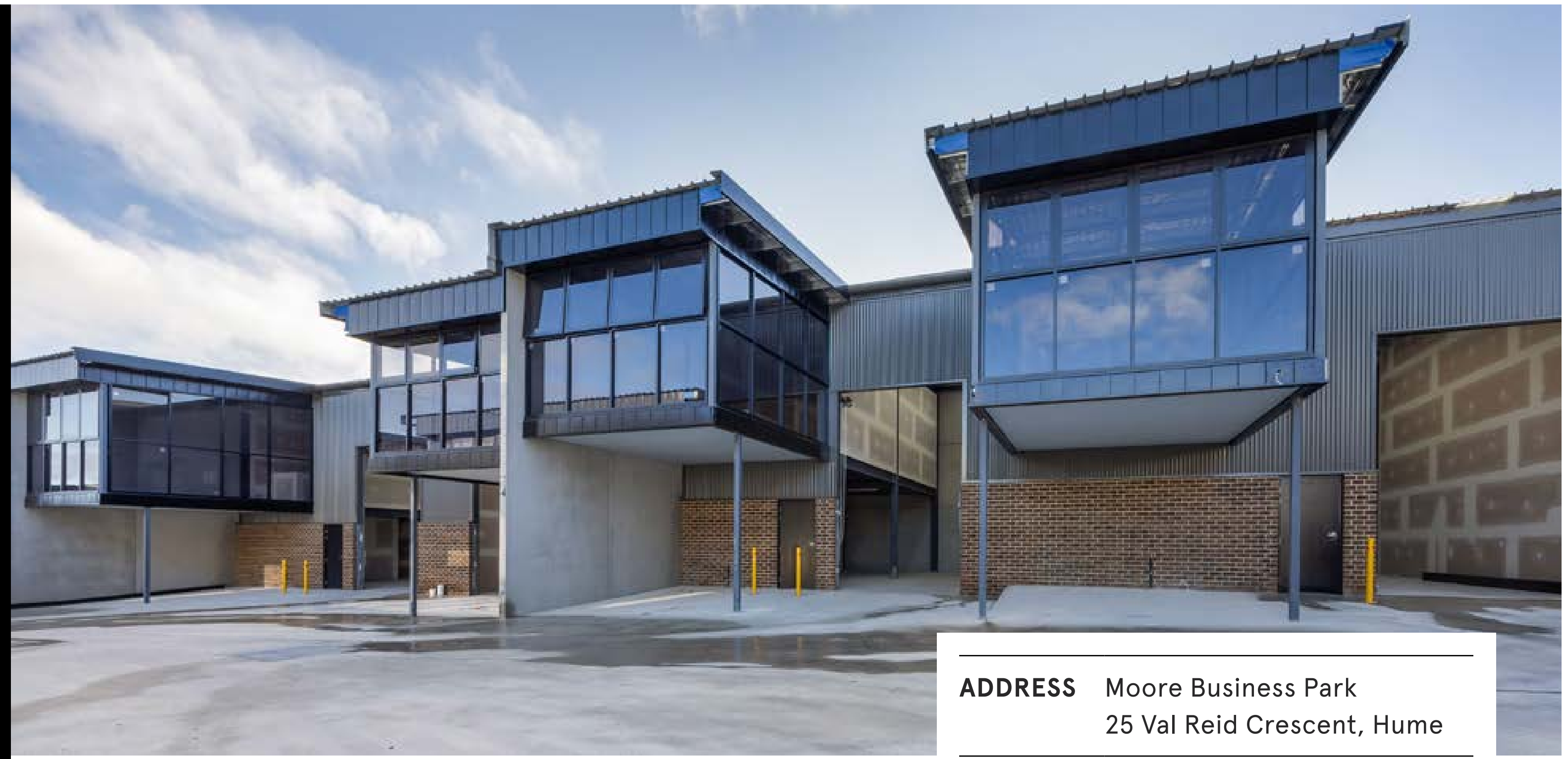
Industrial vacancy rates within Canberra's main precincts—Hume, Fyshwick, and Mitchell—remain exceptionally low, further tightening market conditions. Non-traditional users, including retail, are increasingly competing for available industrial spaces due to the broad allowable uses within ACT's industrial-zoned precincts.

The ACT industrial market predominantly caters to owner-occupiers, resulting in strong demand and consistent enquiry levels for smaller strata-titled industrial properties. Despite economic uncertainties and fluctuating interest rates, enquiry levels have remained robust, particularly for properties like 25 Val Reid Crescent and 22 Couranga Crescent in Hume, which receive between 3 to 6 enquiries per week.

Key Insights

LAND SUPPLY	Limited across South Eastern Australia
LAND VALUE	Increased by approximately 300% in the last three years
VACANCY RATES	Hume, Fyshwick, and Mitchell continue to experience very low vacancy rates

Recent months have shown an uptick in enquiry levels and market activity, suggesting a positive trend likely to continue as interest rates stabilise.



ADDRESS	Moore Business Park 25 Val Reid Crescent, Hume
ZONING	IZ1 - Industrial Zone
SIZE (NLA)	48 units ranging in size from $171m^2$ - $396m^2$
SALE	Total value of \$38m

CASE STUDY

Industrial Campaign for New Hume Development

Andrew Smith
Managing Director

Lenny Haddrill
Commercial Sales & Leasing Executive

SITUATION

Civium was engaged by the developer to sell 48 Industrial units off-the-plan over an 18 month pre-sale and construction period.

APPROACH

We worked with the developer to establish a staged marketing campaign, that matched project milestones and allow prices adjustments at critical pre-sale points. The marketing was conducted in waves where spends and penetration was increased to generate increased and new enquiry. The marketing approach focused on owner occupiers as this was the most under supplied buyer type.

OUTCOME

With completion of the of the project due in August 2024, the project is 83% sold with only 8 units remaining. This is a fantastic outcome for a Industrial project of this size and reflects the product offering, marketing and sale execution.

Our Team

Civium has proudly led Canberra’s commercial property market for over 20 years, earning trust through our diverse portfolio and longstanding client relationships.

From boutique investors to institutional funds, our expertise ensures tailored solutions that meet each client’s unique needs. More vendors entrust Civium with property sales than any other independent agency in Canberra.

Beyond transactions, a partnership with Civium extends to comprehensive support. Our Commercial Property Management Team collaborates closely with our Sales & Leasing Team to ensure optimal tenant selection, providing investors with secure rental returns and tenures.

SALES & LEASING

Doug O’Mara
Chairman

Commercial Development
& Land Opportunities
ACT & surrounding regions

Andrew Smith
Managing Director

Commercial Development
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ACT & surrounding regions

David Grimmond
Director – Commercial
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Office, Health & Medical
ACT & surrounding regions

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