News Release

Brisbane CBD office vacancy rate to fall as demand from larger tenants grows

Knight Frank releases latest research on the market

8 May 2018, Brisbane – Office vacancy rates in the Brisbane CBD will fall over the next quarter - with A-grade vacancy likely to fall below 10% during 2018 - as the market recovery continues, according to Knight Frank's latest *Brisbane CBD Office Market Overview.*

Knight Frank's Senior Director and Joint Head of Office Leasing Queensland, Mark McCann said Property Council of Australia (PCA) figures showing the vacancy rate had increased to January 2018 were deceptive, with many big deals taking place yet to be reflected.

"The formal PCA figures were disappointing, but they are lagging activity," he said.

"The recent increase to the vacancy rate will be eroded by mid-year as tenant relocations into the Brisbane CBD take effect, and as larger tenants continue to look at leasing space.

"We have seen significant relocations from tenants moving from the fringe market back into the CBD, with almost 40,000sq m taken up by Origin (which have leased 16,250sq m), Allianz (which have leased 8,000sq m) and the State Government (which have leased 13,200sq m in two deals).

"The market has been in tenants' favour which has drawn occupiers such as these into the CBD.

"But as the market has moved further into recovery, effective rents have continued to appreciate."

Knight Frank's *Brisbane CBD Office Market Overview* predicted that total vacancy in the Brisbane CBD would fall from 16.2% at the start of 2018 to below 13.5% by the end of the year.

Prime and secondary effective rents were found to have grown by 3.4% per annum and 3.0% per annum respectively over the year to April 2018, with continued steady growth anticipated.

Mr McCann said it was likely A-grade vacancy would fall below 10% during 2018, with tenant demand being strengthened by increased infrastructure investment, the progression of major projects and population growth.

"While tenant demand in the Brisbane CBD has traditionally come from Public Administration and Professional and Technical Services, the recent activity of The Hub Australia, Christie Corporate and WeWork is indicative that the tenant base is expanding into more non-traditional tenant types," he said. "Brisbane is likely to follow Sydney with a greater focus on attracting technology and media industry tenants."

While the market has seen greater levels of activity at the smaller end of the market, the Knight Frank research found the Brisbane CBD market was focussed on larger tenant activity, providing both a short-term boost to net absorption, as well as triggering additional new supply in the medium term.

Despite additions of 18,303sq m in 2017, net supply was negative during 2017 and will remain so in 2018, but there is a significant pipeline of future development slated for the CBD, according to the report.

"The Brisbane CBD is in the midst of a hiatus in stock delivery, which is assisting the market to retreat from cyclically high vacancy rates," said **Knight Frank Senior Director of Research Queensland Jennelle Wilson.**

"Net supply is expected to remain negative during 2018 with no major completions expected.

"Withdrawals of obsolete stock will continue, with likely withdrawals of 9,200sqm to create the 360-380 Queen Street site, and the likely resumption of Transit Centre West Tower (17,377sqm) and smaller Albert Street buildings to enable Cross River Rail construction. The timing of these withdrawals is not yet confirmed, however it is expected to occur over the course of the next two years."

Mr McCann said on the flipside the number of potential new developments had increased, due to larger tenants' space requirements, but delivery was expected to be staggered from 2021 onwards.

"While there is currently only one major CBD office project under construction, 2018 is expected to see the progression of a number of other projects," he said.

"The Shayher Group's 300 George St remains under construction and will deliver 47,000sqm of office space in the first half of 2019. At this stage no commitments to the space have been announced.

"DEXUS is expected to speculatively begin construction on a boutique circa 7,000sqm development at 20 Creek St in the third quarter of 2018, with completion in late 2019.

"Medium term, the potential development pipeline has been growing with a requirement from Suncorp drawing a number of developments back into the spotlight. Additionally, there is anticipated further demand from the State Government to upgrade accommodation, plus the overall market requirement for new stock to target major tenant expiries from 2020 onwards."

Ms Wilson said, "There is currently 266,750sqm of potential office space in projects either with recent development approval or active development applications. With a number of these projects chasing the same tenants in Suncorp and State Government, the delivery of these projects is expected to remain staggered, with only the Midtown Centre having the ability to be completed prior to 2021."

Knight Frank Senior Director of Institutional Sales Queensland Justin Bond said investor interest in Brisbane CBD office assets had only continued to strengthen over the first quarter of 2018, leading to increased transaction levels and prime yields beginning to move closer to Sydney and Melbourne levels after being at record spreads.

Total investment in the CBD – for assets over $10 million - was $1.51 billion over 2017, the highest in four years, according to the report.

"In terms of total transaction activity, 2017 was the third highest recorded for the Brisbane CBD market, behind only the standout years of 2007 and 2013," said **Mr Bond.**

"Offshore buyers dominated activity, accounting for 70% of the transactions by value, as domestic buyers were largely outbid. The only other investor class to show significant activity were the unlisted funds and syndicates with 19%.

"Limited on-market asset availability, along with ever-increasing investor interest has resulted in further yield compression across both prime and secondary assets."

The largest sale for 2017 was GIC's purchase of 32 Turbot Street for $370 million.

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