- *Larger tenants are making long term decisions as confidence returns*
- *The supply cycle 2024-2027 is growing with pre-commitments in place*
- *Yields have stabilised in the past quarter, investor interest remains high*

Knight Frank

knightfrank.com/research

Brisbane CBD Office

Market Report, May 2022

PRECOMMITMENTS IN FOCUS

Confidence in the future has reinvigorated the pre-commitment market, shaping CBD supply for the next five years. Investment demand remains robust.

15.4%
VACANCY

35k
sqm of private sector pre-commitments announced in 2022 ytd

$1.71b
SALES DURING 2021

“Prime vacancy increased to 16.3% with new supply not matched by net absorption in 2021. Stronger tenant activity in 2022 will engender confidence and enhance the flight to quality.”

The Key Insights

Significant supply additions of 60,898sqm and only modest net absorption in H2 2021 took total vacancy to 15.4% (Jan 2022). Prime vacancy increased to 16.3% while secondary continued to benefit from SME tenant activity, falling to 14.2%.

Prime gross effective rents have fallen by 1.7% yoy, despite showing +0.6% uplift in Q1 2022 due to higher face rents and stabilised incentives. Secondary effective rents are higher by 3.3% yoy as the market has improved from its recent lows, but effective rents remain 4.6% below early 2020 levels.

Greater confidence has encouraged tenants to make longer term decisions including major lease pre-commitments. In Q1 Deloitte, MinterEllison, HopgoodGanim and BDO have formalised pre-commitments covering c35,000sqm, triggering two new developments for 2025 & 2027.

Investment turnover rebounded to $1.7 billion in the CBD for 2021, with a further $570m settled in Q1 2022. Several prime and secondary assets have been marketed during Q1.

Prime and secondary yields have stabilised over the past quarter but remain 23bps and 33bps lower respectively over the year.

City CBD Office Market Indicators—1 April 2022

GRADE	TOTAL STOCK SQM^	VACANCY RATE %^	ANNUAL NET ABSORPTION SQM^	ANNUAL NET ADDITIONS SQM^	AVERAGE GROSS FACE RENT $/SQM	AVERAGE INCENTIVE %	EFFECTIVE RENTAL GROWTH % YOY (gross)	CORE MARKET YIELD %*
Prime	1,341,104	16.3%	-10,617	60,898	796	41.0	-1.7	4.75–5.85
Secondary	982,884	14.2%	12,502	9,937	630	41.5	3.3	5.90–7.00
Total	**2,323,988**	**15.4%**	**1,885**	**50,961**				

Source: Knight Frank Research/PCA ^ as at I January 2022 PCA Data *assuming WALE 5.0 years

ECONOMIC GROWTH REMAINS STRONG

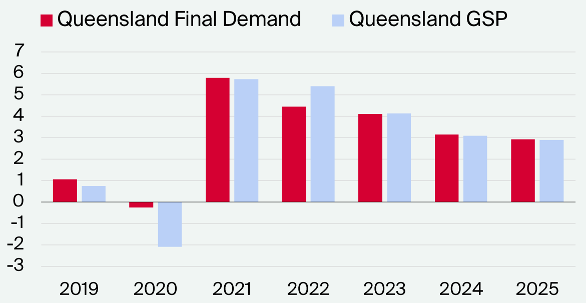
Economic rebound remains strong, fuelled by strong consumer spending

The economic rebound from the lockdowns and pandemic uncertainty has continued to surprise on the upside. The Q4 2021 Australian GDP figure was +3.4% as the economy bounced back from the Q3 lockdowns in NSW and Victoria. This took the annual GDP figure to 4.2% growth. The RBA has signalled that the extraordinarily accommodative monetary policy settings are now unwinding with an increase of 25bps to a target cash rate of 0.35% at their May meeting. Prior to the higher than expected 5.1% yoy CPI result, the first move in the cash rate target was not expected until June.

Queensland is forecast to show 2021 GDP growth of 5.7% (against Australia's 4.2%) as the rebound has continued to outstrip initial forecasts. For 2022 the forecast shows a slight moderation of 5.4% for Queensland (against 3.8% for Australia).

Economic Growth - the bounce back

% p.a growth



Source: Knight Frank Research, Oxford Economics (April 2022)

Transformational infrastructure investment will boost amenity

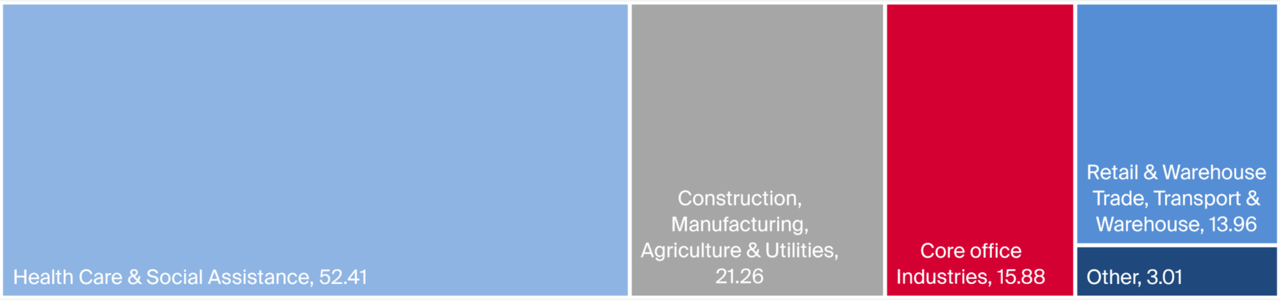
The tunnelling over a total of 5.9km for the Cross River Rail project was completed late 2021 with excavation for both the new Roma Street and Albert Street stations completed in April. This marks a significant milestone for the $5.4billion project which will allow for greater commuter rail capacity and add a new station in the central CBD. To be operational in 2025 the Cross River Rail was also a central tenet of Brisbane's successful bid for the 2032 Olympics, and why 57% of Olympic venues will be within 5km of the Brisbane CBD, creating further public realm investment in the inner city. The recently announced City Deal, an agreement across local, state and federal governments to facilitate regionally important infrastructure across bipartisan lines, has also ensured funding for the Brisbane Metro project—a network of dedicated high capacity busses within a defined busway system, also improving accessibility for the CBD.

Employment growth is strong but not yet uniform across the sectors

Aligned with economic growth there has been a rebound in employment. The Greater Brisbane area accounted for 73% (106,500) of the jobs created in Queensland since February 2020. The city has performed better than the regional areas exposed to tourism and travel spending. As shown below this recovery has not been uniform with detailed data to February 2022 indicating almost half of jobs created in Greater Brisbane have been within the health and social assistance sectors. Core office industries made up 15% of jobs growth in the past two years with professional, science and technical the strongest.

Greater Brisbane Employment Growth

'000 increase in employment Feb 2020 v Feb 2022



Source: Knight Frank Research, ABS quarterly data

TENANTS FOCUS ON FUTURE NEEDS

Leasing activity is back to pre-covid levels and a renewed focus on the future has re-ignited the pre-commitment market

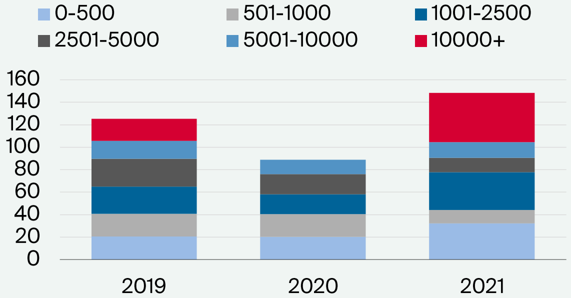
While smaller tenants did continue to dominate leasing activity in 2021 the overall take-up level rebounded back above 2019 levels as hesitancy to act was less of an impact. A little over 21% of the area leased, tracked by Knight Frank, was within sub-500sqm tenancies (or 75% of transactions by number). A further 8% of take-up was 500—1,000sqm and continued activity in the medium to larger size tenants saw 23% in the 1,000—2,500sqm size bracket as that sector of the market rebounded.

Take-up by tenant type showed a fairly traditional pattern for the Brisbane market with 21% of take-up (by area) for Professional Services firms well ahead of Financial & Insurance (13%) with TMT (Technology, Media & Telecom) and Real Estate & Construction both at 7%. The pre-commitment by Services Australia over the whole of 205 North Quay boosted the take-up by Government entities to 33% of the total for the year.

The Services Australia pre-commitment was the first of what is expected to be a flurry of pre-commitments through this year and next. Since the start of 2022 Dexus has announced two major pre-commitments to the North Tower of Waterfront Brisbane with Deloitte taking eight skyrise floors (12,865sqm) and Minter Ellison signed up to four midrise floors (6,476sqm). More recently the JV between Investa and Charter Hall also announced two pre-commitments for 360 Queen St, covering 34% of the building and triggering immediate construction start.

Brisbane CBD take-up by deal size

'000sqm



Source: Knight Frank Research

Further significant tenant requirements remain active in the market

Major tenant briefs still active in the market include BCC for c36,000sqm in 2026, BHP 15-20,000sqm in 2026, Hatch 6,500 -8,000sqm in 2023, ANZ 4,000sqm in 2024, Allens 4,500sqm in 2024 and Boeing 12,500sqm in 2024. These tenants, plus the recent confirmation of developments receiving necessary pre-commitment levels to start construction should see this pre-lease activity further accelerate throughout 2022.

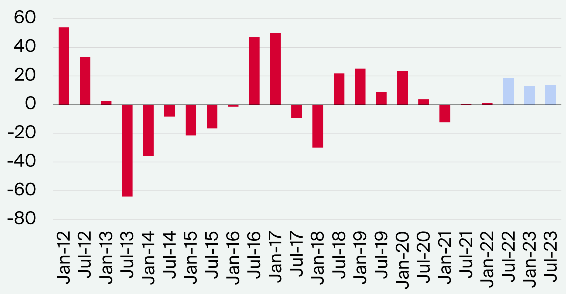
Net absorption to swing positive in 2022

Net absorption is forecast to accelerate in H1 2022 from steady SME activity, growth sectors such as project management/ engineering and the one off boost from Suncorp's expansion into their final tenancy at Heritage Lanes. While net absorption was positive over CY2021, at 1,885sqm, it provided little direction to the market and also somewhat undersold the level of tenant activity, particularly in the latter half of 2021.

With forecast net absorption of 18,700sqm in H1 2022 this has the potential to be the highest six monthly figure in two years as pre-pandemic momentum returns to the market. Thereafter net absorption is expected to remain positive, but at more modest levels of 13,000—17,000sqm per six month period for the next three years. Infrastructure and construction activity supports professional and technical employment, plus growth in public sector employment is expected while population growth remains strong. Nevertheless, forecast net absorption remains well below peak levels and just below long term averages as a conservative mindset is appropriate given the changing work practices being explored by tenants.

Brisbane CBD Net Absorption

'000 square metres



Source: Knight Frank Research/PCA

FUTURE SUPPLY TIED TO MAJOR TENANT MOVES

After Heritage Lanes, 80 Ann St there will be no new supply until 2024

The H2 2021 supply of 60,898sqm includes Midtown Centre (45,398sqm of A grade space) completed in July 2021 and approx. 15,500sqm of Premium space with the partial completion of Heritage Lanes, 80 Ann St, in October 2021. The Midtown Centre remains 47% leased with major tenant, Rio Tinto, occupying in August 2021.

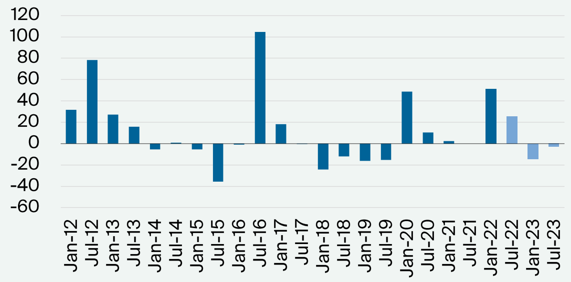
Heritage Lanes reached practical completion of the remaining space of c44,743sqm in March 22. Suncorp took occupation over 7 low rise floors in late 2021 to meet their expiry over 23,000sqm at Brisbane Square in October 2021. Suncorp had also vacated 7,500sqm of sub-lease space at 123 Albert St at the completion of the Rio Tinto lease in that building. Occupying only 15,500sqm on a temporary basis, Suncorp downsized in the temporary move, however will occupy 38,500sqm in their final tenancy.

In the early stages of construction are the next round of supply with 205 North Quay currently excavating basement levels and fully committed by the Federal Government. Excavation has also recently commenced at 360 Queen St with a site works building package awarded. With the project recently securing 34% pre-commitment construction of the tower will flow on directly from the site works with completion in H1 2025.

The longer term supply pipeline is also clarifying with major pre-commitments now in place for Waterfront Brisbane with the north tower to complete in 2027. The BCC requirement may also trigger a new building of c40,000-50,000sqm for 2026 and our forecasts are prepared under this assumption.

Brisbane CBD - Net Additions

'000sqm net supply



Source: Knight Frank Research, PCA

Vacancy to improve during H2 2022, but remain above 12% through the medium term

Total vacancy in the Brisbane CBD is expected to increase slightly from 15.4% in January 22 to 15.5% mid-year with net supply largely balanced by an expected lift in net absorption.

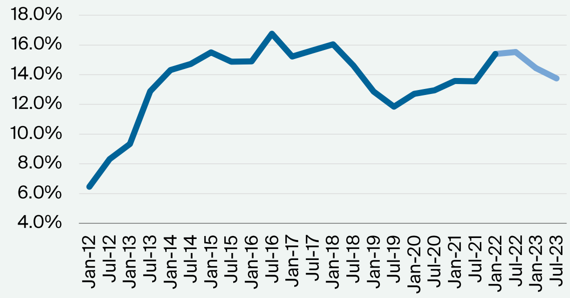
The increasing tenant enquiry and greater confidence recently shown by tenants in the market is likely to contribute to steady net absorption through H2 2022 and throughout 2023. Combined with little to no supply through to late 2024 this will see vacancy contract to below 13%. Once new supply begins again with steady completions currently expected the vacancy will remain in the 11-13% band through to 2027.

Demand for new accommodation able to meet the technological, building services and amenity needs sought by tenants to attract and retain an office first workforce will support the expected future construction starts. This will facilitate further upgrading of the overall CBD stock with accelerated obsolescence and redevelopment or major renewal for older assets necessary to retain relevance in the market.

In January 2021 the prime vacancy (11.5%) was significantly lower than the secondary at 16.3%. A year later the recent prime additions have seen this reverse with prime vacancy currently 16.3% and secondary 14.2%. As new supply is bedded down and upgrading tenants take up the backfill space this is expected to unwind with prime vacancy to show faster recovery than the recently strong secondary market in the medium term.

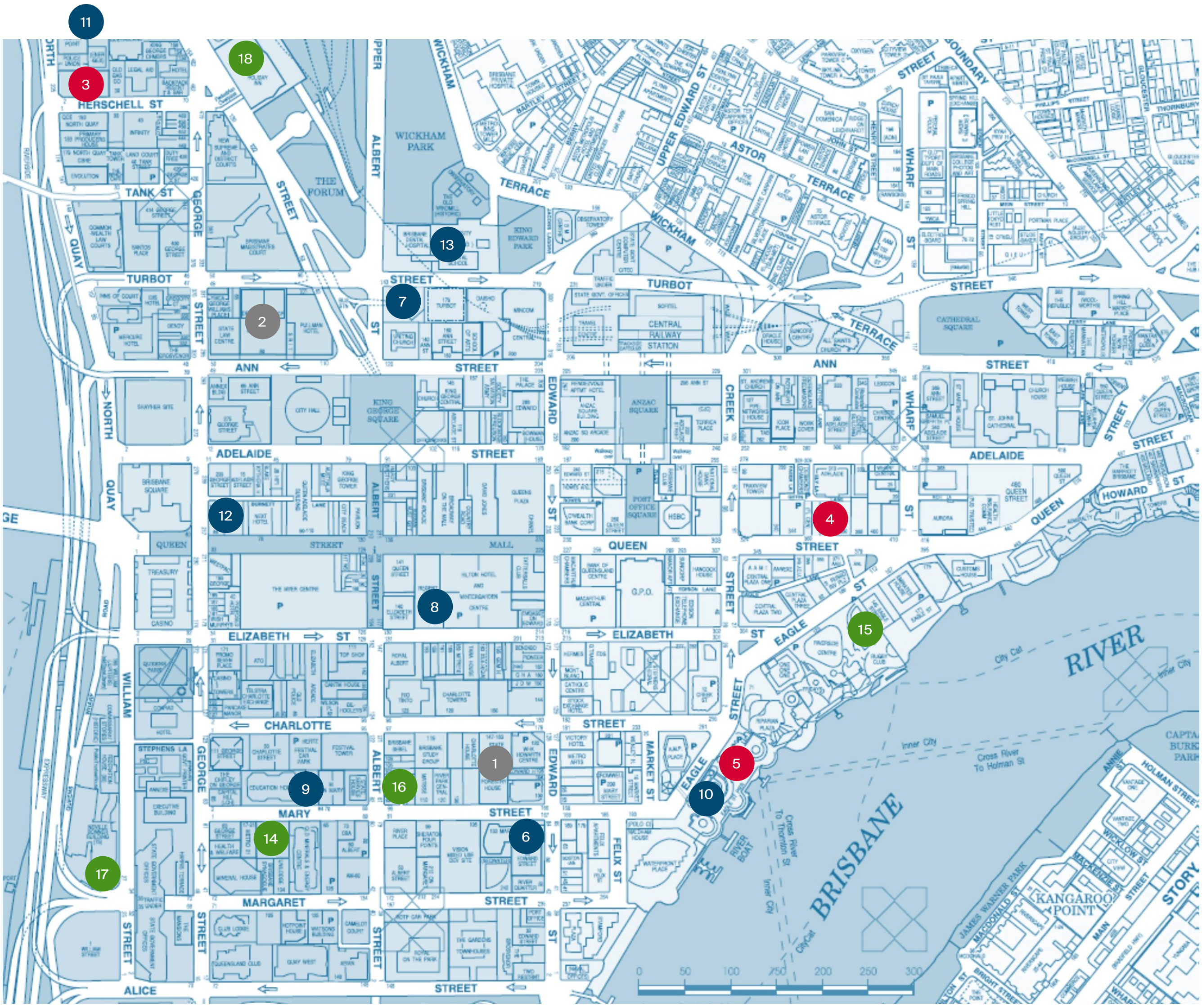
Brisbane CBD Vacancy

total vacancy rate



Source: Knight Frank Research/PCA

MAJOR OFFICE SUPPLY



RECENTLY COMPLETED

1. MIDTOWN CENTRE 155 CHARLOTTE ST & 150 MARY ST–45,000 SQM [RIO TINTO]
   DMC PROJECTS/ASHE MORGAN– 47%
2. 80 ANN ST–60,243 SQM [SUNCORP, APA, KPMG]
   MIRVAC/M&G– 98% COMMITTED.

UNDER CONSTRUCTION/ MAJOR PRE-COMMITMENT

3. 205 NORTH QUAY–43,700 SQM [SERVICES AUSTRALIA]
   CBUS/NIELSON PROP. 100% COMMITTED H2 2024
4. 360 QUEEN ST–38,000 SQM [BDO,HOPGOODGANIM]
5. WATERFRONT PRECINCT NORTH TOWER– 70,000SQM [DELOITTE, MINTERELLISON] DEXUS - 28% COMMITTED. 2027

DEVELOPMENT APPROVED

6. 133 MARY ST ANNEX–12,226 SQM
   ARA. TIMING TBC
7. 343 ALBERT ST–50,160 SQM
   CHC 5%/GIC95% TIMING STC
8. 150 ELIZABETH ST–C42,000SQM
   ISPT– TIMING STC. MAY REFRESH DA
9. 62 MARY ST- 38,000SQM
   QIC–TIMING STC
10. WATERFRONT PRECINCT SOUTH TOWER– 60,000 GFA SQM
    TIMING STC
11. 309 NORTH QUAY–C55,000 SQM
    CHARTER HALL. APPROVED (BOTH SCHEMES)
12. 60 QUEEN ST–26,592 SQM
    CHARTER HALL. APPROVED
13. 200 TURBOT ST–66,079 SQM GFA
    MIRVAC. APPROVED

DEVELOPMENT APPLICATION/MOOTED/ EARLY FEASIBILITY

14. 25 MARY ST–45,587SQM
    BELLEVUE TCE PROPERTIES. DEV APPLICATION
15. 141 EAGLE ST–27,000 SQM
    GPT. MOOTED
16. ALBERT STREET CROSS RIVER RAIL STATION AIRSPACE–MOOTED
17. 2 ALICE ST C20,000SQM
18. ROMA STREET CROSS RIVER RAIL STATION AIRSPACE–MOOTED

NB Dates are Knight Frank Research estimates
Major tenant commitment in [brackets] net to NLA

FACE RENTS ROBUST

Prime face rents higher despite vacancy increase

Prime face rents have increased in Q1 2022 despite the recent increase in A grade vacancy (19.7%). Over the past year the gross face rent for prime assets has increased by 2.1% to $796/sqm as confidence and tenant activity returned to the market. Asking face rents are increasingly pushed into the high $800 to mid-$900s/sqm for premium space and $700-$800s/sqm for A grade. Owners, particularly those with recent or planned upgrades, have lifted their asking rents while those with buildings exposed to vacancy have been more cautious. To an extent this disparity is also seen in incentives offered. While remaining high, incentives appear to have peaked.

A grade vacancy and rents remain exposed to the potential downsizing of corporate tenants. Many tenants were pursuing a leaner real estate strategy prior to the pandemic and others are still undertaking the background planning to determine footprint needs. Any fall out in occupancy size is expected to only gradually flow through to the market. To date tenants appear to be taking a similar quantum of space while making significant changes to the configuration of their office space.

Effective prime rents are expected to be at or just past their nadir for this cycle, although in practice will be only modestly higher to the end of 2022. Face rents have proven to be unexpectedly robust, with incentives remaining the main inducement for tenants to act. Prime incentives appear to have stabilised at 41.0%, resulting in a fall to effective rents of 1.7% yoy. The combination of new supply, backfill space and contiguous vacancies in quality buildings will maintain pressure on incentives in exposed assets.

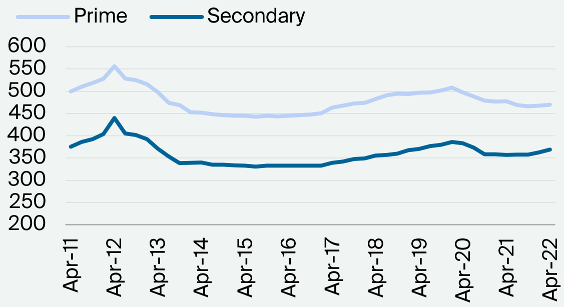
Secondary effective rents recovering from the 2021 lows

Buoyed by strong net absorption in the B grade market, secondary face rents have increased by 2.4% over the past year after growth in the final quarter of 2021 was consolidated in Q1 2022. Secondary face rents are currently $630/sqm, recovering past pre-pandemic levels in late 2021.

Incentives appear to have peaked with the average of 41.50% falling by 50 bps in Q1 2022. Secondary effective rents have increased by 3.3% over the year to April 2022, but remain 4.6% below January 2020. The low-point for effective rents in early 2021 prompted increased tenant activity, supported by the robust SME sector. Effective rents will show gradual growth even though there may be more direct competition from low-A grade buildings on both a price and amenity basis.

Brisbane CBD Rents

$/sqm gross effective prime v secondary



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	FACE RENT $/SQM	INCENTIVE	TERM YRS	START DATE
Sonic Healthplus	410 Ann St	Uptown	1,247	635	30-35	6	Dec 22
Mott McDonald	175 Eagle St	Financial	1,157	800	40+	6	Sep 22
Ord Minnet	71 Eagle St	Financial	1,243	895	40+	10	Sep 22
PRA Group	275 George St	North Qtr	1,310	796	40+	5	Jun 22
Public Trustee	410 Ann St	Uptown	4,010	615	40+	6	Apr 22
BPEQ	288 Edward St	Uptown	1,100	650	40+	5	Feb 22
Christie System Services	127 Creek St	Uptown	1,580	660	u/d	2.5	Jan 22

INVESTMENT APPETITE STRONG

Investment turnover for 2021 was $1.7 billion, a sharp rebound from 2020

Sales activity in the Brisbane CBD increased markedly in 2021 with a total of $1.71 billion transacted (sales $10m+), more than double the $607 million recorded in 2020. The year also finished with significant assets under contract and these sales have completed in early 2022, continuing the uplift in investment activity. More than $570 million in transactions has settled in the first quarter of 2022, pointing to a strong year ahead.

This increase in transaction activity occurred even as travel restrictions for both interstate and offshore investors remained in force to almost the end of 2022. In part this favoured domestic buyers and assisted them to be the dominant purchasers during 2021 with 73% of transactions by value. With minimal travel over the past two years more offshore investment is flowing to wholesale funds or through partial investment in the investment vehicle, which does understate the total international investment flow in the Brisbane CBD.

Offered to the market during early 2022 have been the prime investments of 205 North Quay (50%) and 53 Albert St, both of which feature long leases to government entities. At this stage it is understood that both assets remain available to the market. Secondary assets of 179 North Quay, 333 Adelaide St, 116 Adelaide St, 283 Elizabeth St and 500 Queen St have been offered to the market.

Broad range of buyers have been active encompassing core to value-add

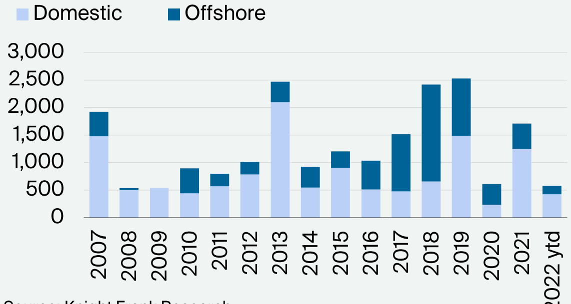
The largest sale for the Brisbane CBD in two years has recently completed with the sale of the 12 Creek St complex for a gross price of $420 million. The complex consists of an A grade 33-level building constructed in 1984 and a 13-level annex building constructed in 2020. Sold by Dexus Property Group and Dexus Wholesale Property Fund the asset was purchased by local investment manager Marquette Properties with Lend Lease's Real Estate Partners No 4 also investing in the asset. The price reflected a core market yield of 5.75%.

100 Creek St settled late in 2021 Q4 after being sold in an off-market campaign by ISPT. The 20,223sqm A grade asset has a WALE of 2.9 years and sold for $184.7 million to the Cromwell Direct Property Fund. The sale reflected a core market yield of 5.52% and a passing yield of 5.26%. ISPT had recently refurbished the building and lobby/retail laneway to a high standard.

The other major sale was the value-add investment at 179 Turbot St. The A grade asset was sold approximately 60% vacant with a core market yield of 6.62%. This was Mercer Australia Property Fund's first foray into the Brisbane market and reflects the Brisbane CBD's ability to continue to attract investors new to the market due to the strong fundamentals and underlying growth story.

Brisbane CBD Office Sales $10m+

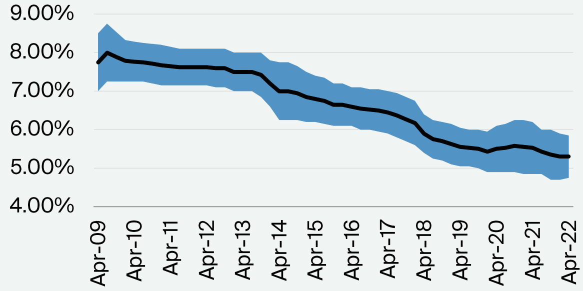
$m by purchaser location



Source: Knight Frank Research

Brisbane CBD Prime Yield Range

Core market yield range & median (3-5 year WALE)



Source: Knight Frank Research

Yields stable as the changing interest rate environment begins to impact sentiment

Strong competition between buyers for large-scale prime assets saw the prime median yield firm further to the end of 2021. In the first quarter of 2022 it is considered that yields have remained stable, with no major CBD assets negotiated and completed during this period, despite a number of assets on the market. Prime core market yields span a range of 4.75% - 5.85% with the median stable despite continued narrowing of the yield band. The recent increases to bond yields, now considered entrenched rather than transitory, has seen the bps margin to prime yields to fall below 300bps for the first time since 2011 and is expected to place a floor below yields going forward.

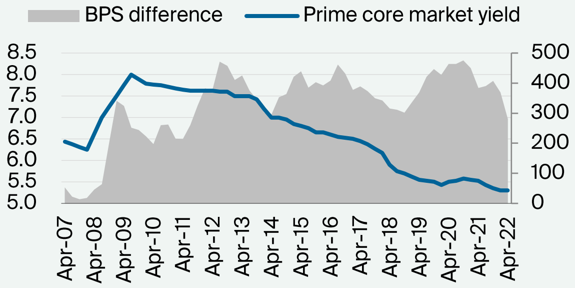
Greater direct and JV purchases by offshore buyers is expected through 2022. European buyers which work with high equity levels are less impacted by the changing interest rate environment, however hedging costs have increased as inflation has manifested at different speeds globally resulting in greater currency speculation and volatility.

Median core market secondary yields are also stable at 6.45% across a range of 5.9%-7.0% with value add still highly sought by investors seeking a higher return with a higher risk appetite. The steady tenant activity from SME companies in the secondary market has increased confidence that repositioned B grade assets can gain good leasing traction and provide solid returns for funds invested for refurbishment.

"Offshore buyers have increased their enquiry levels in recent months as business travel returns. High equity investors are favoured as the interest rate environment changes."

Brisbane CBD Prime yields

% median core market yield (LHS), bps premium to 10 yr bond yields (RHS)



Source: Knight Frank Research, RBA

Recent significant sales

PROPERTY	PRICE $M	CORE MARKET YIELD %	NLA SQM	$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
12 Creek St complex	420.0*	5.75	38,615	10,123	3.3	Marquette Properties	Dexus Property Gp/DWPF	Feb 22
179 Turbot St	150.9	6.62	24,904	6,059	1.4	Mercer Australia Property Fund	Kumpulan Wang Persaraan	Feb 22
100 Creek St	184.70	5.52	20,223	9,133	2.9	Cromwell—Direct Property Fund	ISPT	Dec 21
444 Queen St	54.30	n/a	14,155	3,836	n/a	PGIM	Abacus 66%/ Qld Trustee 33%	Nov 21
299 Adelaide St	82.50	5.50	9,010	9,156	4.7	Kuehne Real Estate	Pawleena Pty Ltd	Oct 21
307 Queen St	214.48	5.75	19,617	10,933	3.5	Fortius Funds Mgt/ PGIM	LaSalle Investment Mgt	Aug 21

*gross price c$390.9 net

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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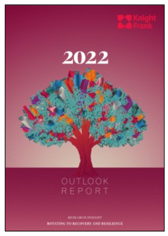

Outlook Report 2022

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