- *Tenant market and expansion is still dominated by smaller tenants*
- *Investment market activity has rebounded strongly from 2020*
- *Yields remain on a firming trend fueled by strong purchaser competition*

Knight Frank

knightfrank.com/research

Brisbane CBD Office

Market Report, September 2021

BRISBANE CBD THROWING OFF COVID-19 UNCERTAINTIES

Transaction levels are lifting in both the investment market and tenant market. The strong rebound and resilience of the economy is giving the confidence to act

13.5%
VACANCY

88%
of all leasing deals done in 2021 ytd are under 1,000sqm

$1.47b
SALES DURING 2021 YTD

"Over the six months to January 2022 the vacancy is expected to increase to 15.5% with positive net absorption of 3,080sqm well outweighed by the net additions of approximately 67,500sqm."

The Key Insights

With no changes to supply during H1 2021 and modest net absorption of 1,411sqm, vacancy fell slightly to 13.5%. Significant supply additions in H2 2021 will take total vacancy to 15.5%, despite slightly improved net absorption.

Prime and secondary gross effective rents have fallen by 4.0% and 4.3% respectively over the past 12 months. While face rents have been resilient, even growing in the prime market, incentives have continued to increase. The nadir for both prime and secondary effective rents for this cycle is in mid-late 2021.

Larger tenants have remained slow to act, still assessing their long term needs. However it is expected that the recent decisions taken to relocate by CUA, KPMG and APA may lift confidence across the market and engender greater activity.

Investment turnover has reached almost $1.5 billion in the CBD during 2021 to date, already more than double the levels of the constrained CY2020. Current on and off-market campaigns will see the total grow significantly before the end of the year.

Prime yields have contracted by 10bps since the start of the year as competition between purchasers has strengthened.

City CBD Office Market Indicators—July 2021

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)	AVERAGE CORE MARKET YIELD %*
Prime	1,280,206	11.8%	-9,185	1,447	788	40.5	-4.0	4.85–6.00
Secondary	992,821	15.7%	-1,830	960	616	42.0	-4.3	6.00–7.35
Total	**2,273,027**	**13.5**	**-11,015**	**2,407**				

Source: Knight Frank Research/PCA ^ as at I January 2021 PCA Data *assuming WALE 5.0 years

UPSIDE FROM RESILIENT ECONOMIC BASE

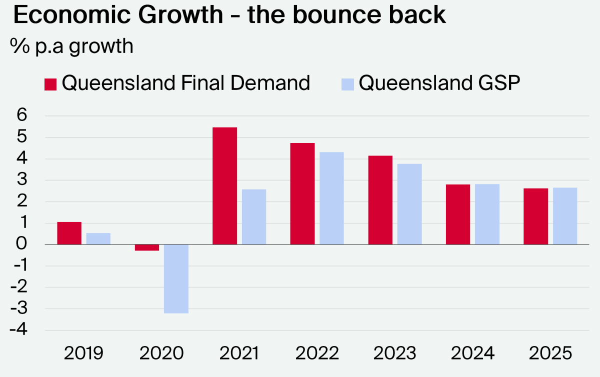
Economic rebound has been strong, driven by Government stimulus

Following Australia's first technical recession in 20 years as a result of the nationwide lockdowns of early 2020, the rebound has continued to surprise on the upside. Although likely interrupted by the lengthy lockdowns in NSW and Victoria the underlying expectation remains of a strong end to 2021.

While forecasts as recently as October 2020 reflected the expectation for Australia's GDP to take until Q1 2022 to regain lost ground the actual recovery has been a year faster than forecast, eclipsing the previous high during Q1 2021. Following growth of 1.8% during Q1 2021 the Q2 result showed some impact of recent lockdowns at 0.7%, however still reflecting a strong bounce with an annual figure of 9.6%.

The Q3 2021 Australian GDP figure is forecast to be negative (approx. 2% consensus) as the extended lockdowns in NSW and Victoria make their impact. The RBA have maintained that while these ongoing lockdowns will dent the pace of recovery, they will not derail it citing the previous momentum in the economy and the degree to which this demand will be pent up, rather than unexpressed once lockdowns ease. The RBA maintains that monetary policy will remain very accommodative until at least 2024.

Queensland is forecast to show 2021 GDP growth of 2.6% (against Australia's 2.9%) as the annual growth rates return to more normal levels. Pleasingly the State Final Demand, which represents expenditure on goods and services within the economy, excluding imports & exports, is forecast to be 5.5% for 2021, a reflection of investments being made by businesses and consumers.



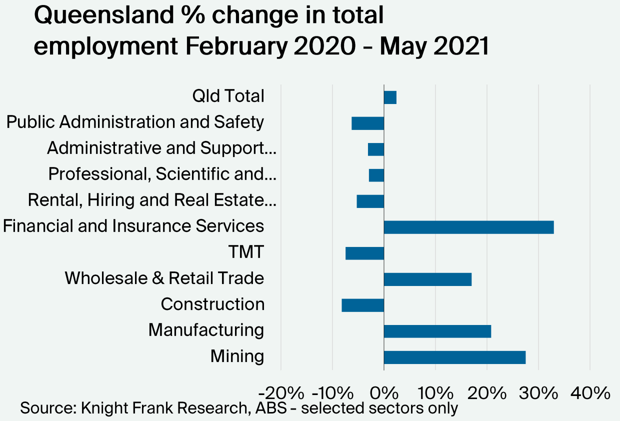
Source: Knight Frank Research, Oxford Economics (Sept 2021)

2032 Olympics is a long term benefit for amenity investment and major construction projects

As the excitement of the announcement for Brisbane to host the 2032 Olympic games morphs into concrete plans to deliver facilities and inner city amenity the long term benefits are becoming clearer. The sustainable focus of the games to use existing or temporary facilities will see 57% of all venues within 5km of the Brisbane CBD, a massive concentration of investment and benefit into the inner city. As construction ramps up over the coming 10 years there will also be a corresponding lift in demand for office space to service the contractors and associated consultants. However the major benefit to the CBD will be the enhanced amenity that investment in public spaces will provide, the increase in global recognition as a potential office location and the acceleration of the rejuvenation of the Roma Street precinct.

Recovery in employment has been strong, but not even across the economy

Supported by both consumer and business spending, employment has also been quick to rebound. In Queensland, the number of people employed exceeded February 2020 levels during December 2020, after falling by 8.4% during March – May 2020. In 2021, employed persons have increased further with an additional 51,000 jobs added in the first eight months of the year. The unemployment rate has also shown sustained falls in recent months with the current rate of 5.3% for Queensland after recently recording a 12-year low of 5.1%. As shown below this recovery has not been uniform with detailed data to May 2021 showing distinct differences in the levels of job creation since Feb 2020.



Source: Knight Frank Research, ABS - selected sectors only

TENANT ACTIVITY IS BUILDING

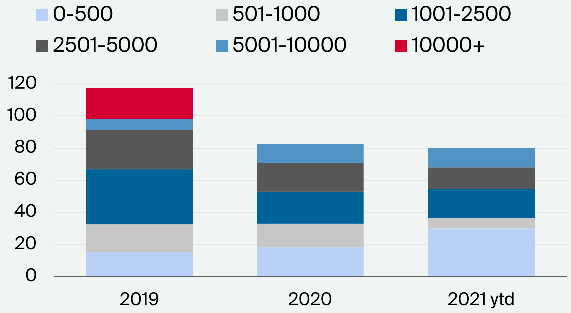
Leasing activity is improved but remains dominated by smaller tenants

Smaller tenants have continued to dominate leasing activity in 2021 with 83% of completed deals tracked by Knight Frank being sub-500sqm. This equates to more than 140 deals, excluding renewals. A further 5% of deals by number were 500—1,000sqm and pleasingly 11% of deals by number were greater by 1,000sqm as that segment of the market has increased relocation activity.

Take-up by tenant type showed a fairly traditional pattern for the Brisbane market with 31% of take-up (by area) for Professional Services firms well ahead of Financial & Insurance (12%) and TMT (Technology, Media & Telecom) at 7%. The real estate and construction sector was second most active with 18% of leasing take-up with both ongoing commitments from flex office providers and also growing activity in second tier building and consulting firms.

Brisbane CBD take-up by deal size

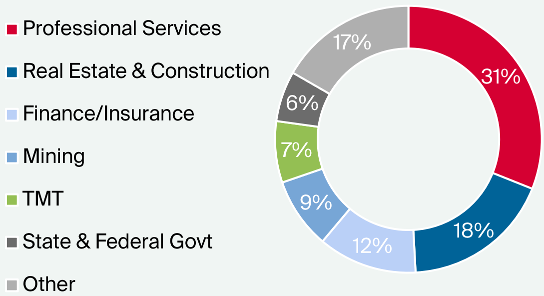
'000 sqm



Source: Knight Frank Research

2020 & 2021 ytd Brisbane CBD Leasing

take-up by industry type



Source: Knight Frank Research

Leasing activity is well on track to exceed the constrained levels of 2020. Following a dearth of decisions for larger tenants in recent months a number of announcements for future occupations have been made. These include CUA taking 5,600sqm at 300 George St, KPMG committing to c6,600sqm and APA Group taking 4,400sqm at Heritage Lanes. The CUA and KPMG deals were both a contraction of circa 12-18% while APA is stable. Tenant activity will be boosted further before the end of the year with the expected announcement of the Federal Govt Services Australia requirement of c40,000sqm.

Net absorption will remain modest in H2 2021 but accelerate into 2022 and beyond

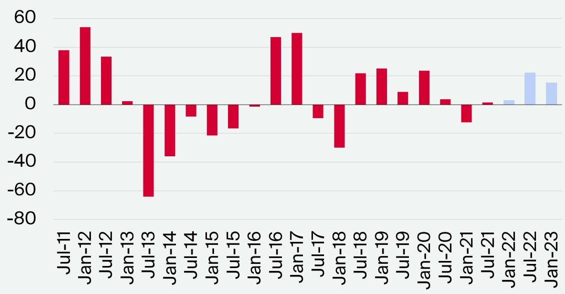
Net absorption was just positive in H1 2021 at 1,411sqm as activity from smaller tenants was the major influence on the market growth, easily outweighed by only a few larger changes from corporate tenants. Secondary net absorption at 5,716sqm was well above prime which was negative at –4,305sqm.

H2 2021 is expected to show only slightly positive net absorption as further improvement in the market will be disguised by net absorption fall outs from major tenant relocations. The relocation of Rio Tinto into Mid-Town is a c10,000sqm decrease on previously occupied space in 123 Albert St. Also, as Suncorp juggles lease expiries and their move to Heritage Lanes their total area occupied will temporarily decrease.

This will unwind in H2 2022 with the overall Suncorp move reflecting a like for like move in terms of total space meaning any negative impact in 2021 will add to net absorption in early 2022. Potential corporate downsizing aside, the overall growth story for Brisbane is expected to maintain net absorption at an

Brisbane CBD Net Absorption

'000 square metres



Source: Knight Frank Research/PCA

FUTURE SUPPLY TIED TO MAJOR TENANT MOVES

Midtown Centre completed in July 2021; Heritage Lanes PC expected February 2022

The most recent supply is the Midtown Centre, reaching completion in early July 21. The building is 47% leased with major tenant, Rio Tinto, occupying in early August. This has left backfill space of some 30,000sqm in 123 Albert St with a lobby and rolling floor refurbishment to commence there in the short term.

The only project under construction is Heritage Lanes at 80 Ann St, with the building ahead of schedule and targeting partial occupation by key anchor tenant, Suncorp, from October 2021. The official completion of the development will be in February 2022. Suncorp will take a lease over 38,600sqm in total. Recent commitments of KPMG (levels 9-11) and APA (levels 12+13) have taken the project to 96% pre-committed.

The next construction start is expected to be triggered by the Federal Government's Services Australia requirement for H2 2024 of c40,000sqm for the consolidation of their Brisbane operations. Formal announcement is expected prior to the end of 2021 with construction to commence shortly thereafter to meet the timeframe.

In the shorter term, full building refurbishments will provide refreshed accommodation during 2023 from centrally located assets such as 444 Queen St and 70 Eagle St. Whilst not a full building refurbishment the Rio backfill space at 123 Albert St will see the building undergo a major lobby upgrade and other works.

In the longer term the potential pipeline of new developments has continued to grow with more than 500,000sqm in commercial developments either with development approval or at development application stage awaiting required levels of commitment to proceed. The Brisbane City Council brief for c35,000sqm in 2026 has also advanced more proposed sites to concrete development plans.

Vacancy to increase as stock comes on line in 2021

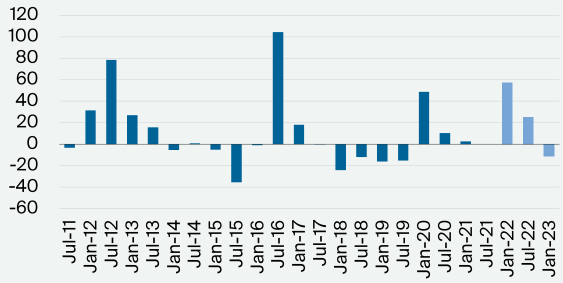
The recent completion of Midtown centre and slightly unexpected early occupation of approximately 15,500sqm at Heritage Lanes will see net supply higher in H2 2021 with a resulting increase in vacancy as at January 2023. Vacancy is expected to increase to 15.5% with positive net absorption of 3,080sqm well outweighed by the net additions of approximately 67,500sqm. Vacancy will remain stable through mid-2022 at 15.4% as the remainder of Heritage Lanes is brought on line amongst a climate of stronger net absorption.

Withdrawals of stock for refurbishment and no further new supply coming on line will assist the market during 2023, bringing the vacancy back to 13.5%.

Unlike the CBD markets of Melbourne and Sydney, the Brisbane market has been relatively free of major sub-lease impact. The vacant sub-lease space as measured by the PCA has doubled over the past year, but only reflects 1.2% or 28,122sqm. Across the CBD market Knight Frank is tracking some 55,000sqm of sub-lease space available for lease but not necessarily vacant. While increased sub-lease vacancy remains a risk from corporate users it is not expected to warp the market in any way.

Brisbane CBD – Net Additions

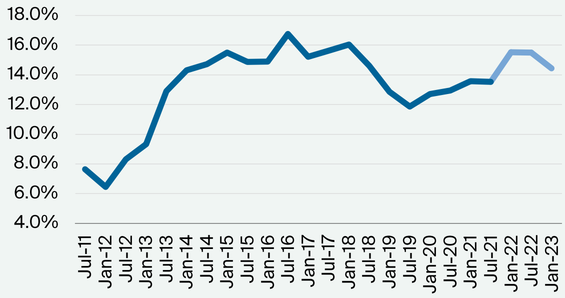
'000sqm net supply



Source: Knight Frank Research, PCA

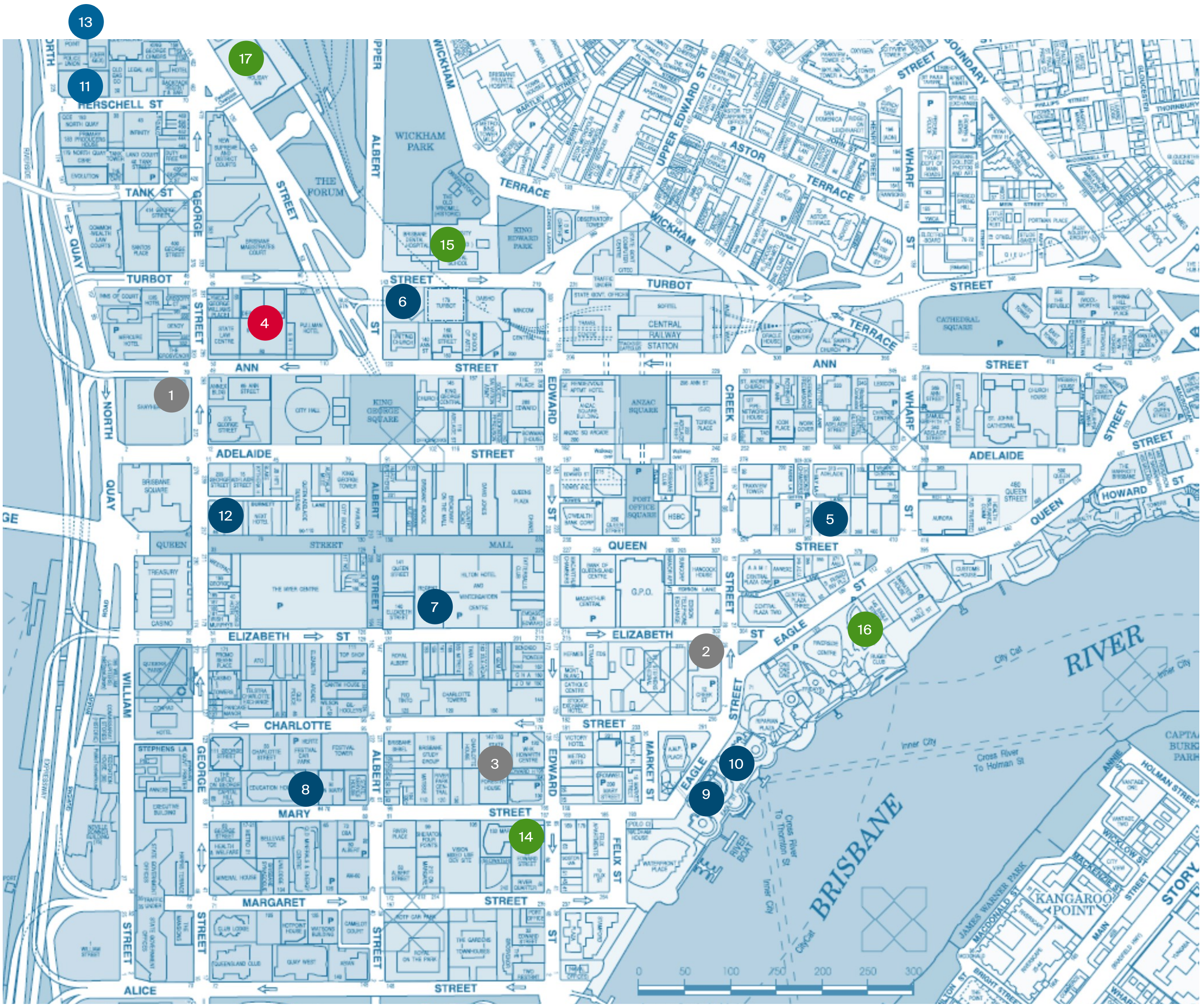
Brisbane CBD Vacancy

total vacancy rate



Source: Knight Frank Research/PCA

MAJOR OFFICE SUPPLY



RECENTLY COMPLETED

1. 300 GEORGE ST—47,700 SQM [URBIS/ TRANSURBAN/AMAZON/CUA]
   SHAYHER GP – 43% LEASED. H2 2019
2. 12 CREEK ST ANNEX—7,103 SQM [HUDSON RECRUITMENT, BVN]
   DEXUS PROP GP– 79% LEASED. H1 2020
3. MIDTOWN CENTRE 155 CHARLOTTE ST & 150 MARY ST—45,000 SQM [RIO TINTO]
   DMC PROJECTS/ASHE MORGAN– 47% LEASED. COMPLETED JULY 2021

UNDER CONSTRUCTION/ MAJOR PRE-COMMITMENT

4. 80 ANN ST—60,243 SQM [SUNCORP, APA, KPMG]
   MIRVAC/M&G– 96% COMMITTED. H2 2021/ H1 2022

DEVELOPMENT APPROVED

5. 360 QUEEN ST—38,000 SQM
   CHARTER HALL POF/ICPF– SITE WORKS TIMING STC
6. 343 ALBERT ST—50,160 SQM
   CHC 5%/GIC95% TIMING STC
7. 150 ELIZABETH ST—C42,000SQM
   ISPT– TIMING STC. MAY REFRESH DA
8. 62 MARY ST- 38,000SQM
   QIC—TIMING STC
9. WATERFRONT PRECINCT NORTH TOWER—75,331 GFA SQM
   DEXUS APPROVAL APPEALED
10. WATERFRONT PRECINCT SOUTH TOWER—60,000 GFA SQM
    DEXUS APPROVAL APPEALED
11. 205 NORTH QUAY—61,983 GFA SQM
    CBUS/NIELSON PROP. APPROVAL APPEALED
12. 309 NORTH QUAY—C55,000 SQM
    CHARTER HALL. APPROVED (BOTH SCHEMES)
13. 60 QUEEN ST—26,592 SQM
    CHARTER HALL. APPROVED

DEVELOPMENT APPLICATION/MOOTED/ EARLY FEASIBILITY

14. 133 MARY ST ANNEX—12,226 SQM
    ARA. DEV APPLICATION
15. 200 TURBOT ST—66,079 SQM GFA
    MIRVAC. DEV APPLICATION
16. 141 EAGLE ST—27,000 SQM
    GPT. MOOTED
17. 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 AND INCENTIVES ARE HIGHER

Prime face rents are higher but incentives have also increased across 2021

Prime face rents have increased from Q2 2021 after plateauing late 2020 and into early 2021. Over the past year the gross face rent for prime assets has increased by 1.7% to $788/sqm as landlords have had little push-back on growing face rents. This has assisted to limit the reductions to effective rent which have occurred as incentive levels have increased.

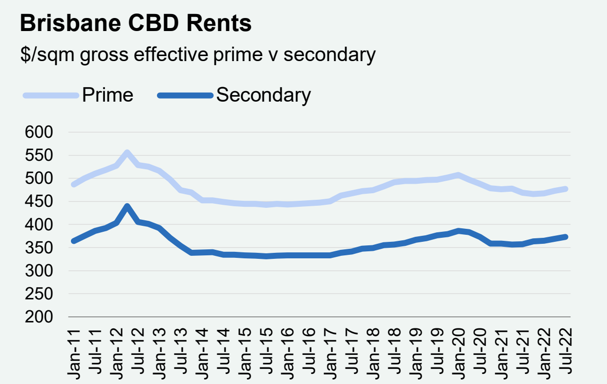
Average prime incentives are currently 41.50%, up from 37.00% a year ago and 38.25% since the start of the year. The prevalence of soft incentives has also continued to grow such as extended lease start date, removed or reduced make goods and lessor's works. Average prime incentives are expected to peak at 41% during Q3 & Q4 2021 and remain above 40% through the majority of 2022. The combination of new supply, backfill space and contiguous vacancies in quality buildings will maintain pressure on incentives even as leasing activity increases, as expected.

Prime effective rents have fallen by 4.0% in the year to July 21 and are now 8.3% below the levels of January 2020, reflecting the COVID-19 impact. Effective rents are forecast to reach their low-point in Q3 2021 before recovering. Face rents are expected to continue to show steady growth of 1.0—2.1% p.a over the next three years as incentives gradually unwind. The overall impact on effective rents will see growth of 3.5%-5.0% per annum from 2023+.

Secondary effective rents are also reaching the low point for this cycle

The secondary market has seen face rents static/slightly softer during 2021 to average $616/sqm as at July 2021. On an annual basis secondary face rents are –1.0% below the levels of a year earlier. Incentives appear to have now peaked at an average of 42%, up by 200bps over in the past 12 months.

Secondary effective rents have fallen by 4.3% over the year to July 21 and by 7.5% since the pandemic began in January 2020. Incentives will gradually decline, however remain above 40% for another 12 months. Already highly affordable prior to the market interruption of COVID-19, effective rents are expected to grow by 3.5-4.3% p,a over the next three years.



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	FACE RENT $/SQM	INCENTIVE	TERM YRS	START DATE
KPMG	80 Ann St	North Qtr	6,600	u/d	u/d	10	tbc
APA	80 Ann St	North Qtr	4,416	750	40+	7	Nov 22
HBF	145 Ann St	Uptown	1,104	755	30-35	3	Sep 21
Aust College of Rural & Remote Medicine	324 Queen St	Financial	1,547	650	40+	10	Aug 21
Heritage Bank	175 Eagle St	Financial	1,157	750	40+	5	Aug 21
Spencer College	344 Queen St	Financial	1,240	575	40+	8	Jun 21
Glencore	145 Ann St	Uptown	1,172	750	35-40	2	Mar 21

INVESTMENT ACTIVITY REBOUNDING

Investment turnover for 2021ytd is just under $1.5 billion, a sharp rebound from 2020

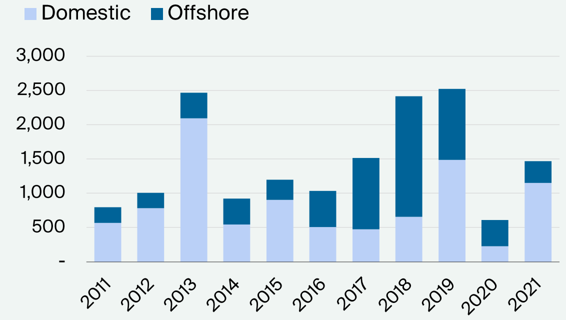
Transaction activity in the Brisbane CBD has rebounded in 2021 as both investor confidence has been boosted and more assets have been formally offered to the market. Already more than twice the turnover level of $607.6 million in 2020 the current turnover is $1.47 billion. While this has remained dominated by domestic buyers, accounting for 78% of the value of transactions to date, offshore capital flows have continued by taking minority positions in assets such as 307 Queen St (PGIM) and 310 Ann St (Value Partners).

This transaction activity has continued to build despite the constrained ability of Sydney and Melbourne based buyers to physically inspect assets since the reintroduction of sustained lockdowns in June 2021 for Sydney and August 2021 for Melbourne. The market imperative to acquire assets has overcome reticence to purchase without physical inspection as behaviour adapts to the realities of the world with enough time being spent on hold.

An on market campaign has recently been completed for refurbishment opportunity at 444 Queen St. Currently offered to the market is the Blue Tower Complex made up of 12 Creek St and 12 Creek St Annex, covering some 38,644sqm on a site of 3,026sqm.

Brisbane CBD Office Sales $10m+

$m by purchaser location, 2021=ytd



Source: Knight Frank Research

Buyer demand has been deep for a broad variety of assets, resulting in firm pricing

The two largest sales in 2021 to date have been 10 Eagle St and 275 George St. 10 Eagle St, also known as Gold Tower, sold by Dexus Office Trust Australia (CPPIB & Dexus Property Group) for $285 million. The well located property with a WALE of 2.6 years sold at a core market yield of 5.6% and longer term has some development upside on the large island site of 3,477sqm.

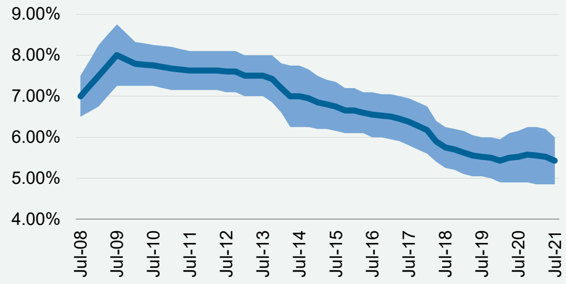
Settling in July was the 50% transaction of 275 George St for $264 million, reflecting $12,656/sqm. The half share in the property was purchased by the existing co-owner Charter Hall's wholesale Prime Office Fund. With a WALE of 6.6 years the sale reflected a core market yield of 5.13%.

Recently completed off-market 307 Queen St has sold for $214.48 million to a JV between Fortius Funds management and US-based PGIM. The multi-tenanted building sold with a WALE of 3.5 years for a core market yield of 5.75%. The vendor, LaSalle Investment Management had undertaken refurbishment works since purchasing the asset in 2016.

Transaction activity has not been restricted to institutional grade assets with 262 Adelaide St selling for $18.8 million and 299 Adelaide St transacting for $85 million. This reflects the broad range of investor demand which is active in the market. This is likely to see further on-market campaigns emerge this year as competition between buyers has been strong, indicative of further strong pricing levels across the CBD.

Brisbane CBD Prime Yield Range

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



Source: Knight Frank Research

Prime yields have firmed 10bps over the past year with the firming bias remaining in force

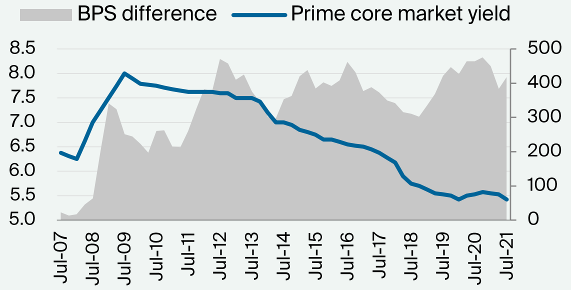
Despite the prevalence of domestic buyers with limited offshore direct purchasing activity during 2021, anecdotally there has been strong competition for prime assets, keeping yields on a firming bias. Offshore buyers have been keen to place capital with trusted partners as opposed to direct purchases while travel remains restricted. However the sentiment is that buyers will increasingly work around the restrictions rather than being delayed by them. The CBD market is not the only Brisbane market which is experiencing strong investment inflows with just under $1 billion invested into industrial assets in H1 2021 after an exceptional 2020 where $1.6 billion was invested.

The prime yield band is narrowing again as confidence in long term tenant demand has recovered to be 4.85% - 6.00% for assets with WALEs 3-5 years. While some assets have potential leasing exposure, the market is not pricing that risk strongly again as appetite for assets is outweighing future risks. The average prime yield is now 5.4%, down by 10bps since the start of 2021. The modest yield firming is a product of greater transactions and investor demand however was also supported by sustained low long term bond yields. After increasing to 1.69% (Aust 10yr) in March and remaining above 1.5% through to July bond yields decreased to 1.25% in July and 1.12% in August before again breaching 1.50% in late September. Despite these fluctuations, the bps premium between the bond rate and prime yields remains well above long term average levels, providing no upward pressure on yields at this time.

"Despite the prevalence of domestic buyers with limited offshore direct purchasing activity during 2021 anecdotally there has been strong competition for prime assets, keeping yields on a firming bias."

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
307 Queen St	214.48	5.75	19,617	10,933	3.5	Fortius Funds Mgt/ PGIM	LaSalle Investment Mgt	Aug 21
275 George St	264.00 (50%)	5.13	41,720	12,656	6.6	Charter Hall POF (joint owner)	Keppel REIT	Jul 21
50 Ann St	205.00	6.60	25,520	8,033	3.6	Hines Global	Goldman Sachs/ ESR Cayman	Jun 21
10 Eagle St	285.00	5.60	27,826	10,242	2.6	Marquette Properties	Dexus Office Trust Australia	May 21
545 Queen St	117.50	5.40	13,363	8,793	4.2	Cromwell Group	Private Investor	May 21
310 Ann St	210.00	5.40	18,360	11,437	7.4	Ashe Morgan (JV Value Partners)	Cornerstone Properties	Feb 21

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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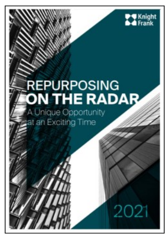

Repurposing on the radar 2021

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