



MARCH 2013 BRISBANE CBD

Office Market Overview

Knight Frank

HIGHLIGHTS

- The Brisbane CBD vacancy rate increased to 9.1% as at January 2013, up from 6.2% a year prior. Net absorption in the second half of 2012 was a low 2,406m² (representing only 7% of the annual total of 35,726m²) as tenant demand was scarce. The vacancy rate is expected to continue to rise over the coming 12 months as backfill and contraction activity impacts on the market.
- Market rents have softened in the face of the increased vacancy rate, and the expectation of further increases. Both prime and secondary effective rents are forecast to fall 7.3% and 9.5% respectively over the 2013 calendar year. The prime market is expected to show steady recovery from 2014, however the secondary market is expected to take longer to regain lost ground.
- The investment market for the Brisbane CBD recorded total transactions of \$986 million over the year to March 2013, representing strong investment interest in the market. With a number of Brisbane's prime assets being traded during the past 18 months the demand for these assets has been seen to increase engendering a firming in prime yields as witnessed in other major markets across Australia.

MARCH 2013

BRISBANE CBD

Office Market Overview

Table 1
Brisbane CBD Office Market Indicators as at January 2013

Grade	Total Stock (m ²)	Vacancy Rate (%)	Annual Net Absorption (m ²)	Annual Net Additions (m ²)	Average Gross Face Rent (\$/m ²)	Average Incentive (%)	Average Core Market Yield (%)
Prime	1,055,719	8.1	53,974	103,075	688	25.0	7.00 – 8.00
Secondary	1,121,149	10.0	-18,248	-2,388	545	28.0	8.15 – 9.60
Total	2,176,868	9.1	35,726	105,463			

Source: Knight Frank/PCA

SUPPLY & DEVELOPMENT ACTIVITY

The second half of 2012 saw one new building reach completion, with the 28,077m² 145 Ann Street opening in November 2012. When added to the supply additions of the first half of 2012, this took total supply to 112,523m², relatively high when compared to recent years. Relatively modest supply withdrawals resulted in annual net addition to stock of 105,463m².

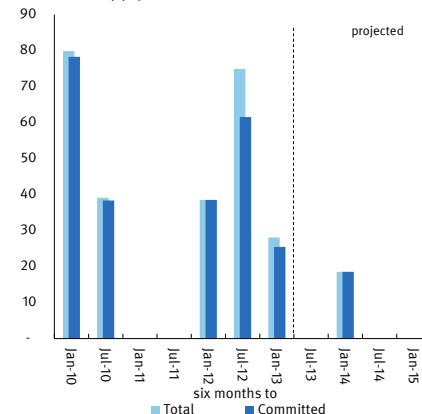
In contrast there is only one new building expected to be completed during the calendar year of 2013. 55 Elizabeth Street is under construction with an expected delivery mid-2013. The 18,517m² building is fully leased by the ATO, which is to relocate from two existing CBD buildings. Following the delivery of this project, there is a forecast hiatus of new space additions until the second half of 2015, leaving 2014 devoid of any new accommodation within the Brisbane CBD. To fill this void there is expected to be refurbishment activity, particularly where secondary buildings have been hard-hit by vacancies, however the upper end of the market will remain devoid of new stock.

In contrast the period from late 2015 to the end of 2016 is forecast to see completion of 196,280m² of prime space, through three projects. After a number of years when the next supply cycle remained in flux, during the final months of 2012, greater clarity emerged. The first building to be completed will be the Daisho developed 180 Brisbane (180 Ann St) which will proceed to construction during the second quarter of 2013. This building is being commenced on a speculative basis and has a forecast completion of Q4 2015.

Additional supply can come to the market during 2015 from 111 Mary Street (35,000m²) and 30 Albert St (25,850m²), however both still require a significant level of pre-commitment to commence.

Two further buildings are currently slated for completion in the second half of 2016. The Grocon developed 480 Queen Street has reported commitment from BHP (14,000m²+), Freehills (5,000m²) and a serviced office operator (1,500m²) taking the project to 33% commitment. Construction is expected to start during 2013, subject to a successful sale and/or downsizing of the tower. The Queensland Government has announced Cbus Property as the preferred developer of 1 William Street, committing to 74,853m², but currently intending to offer circa 15,000m² for sub-lease. Completion of this project is expected in late 2016.

Figure 1
Brisbane CBD Supply
(*000m²) Supply (new & refurb) & commitment

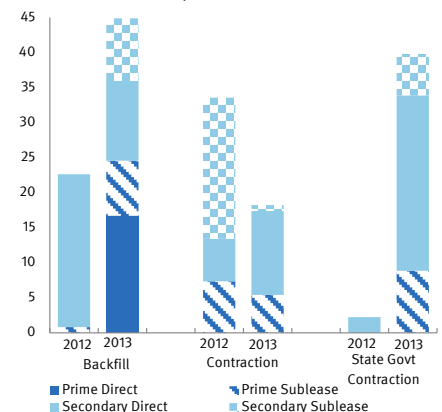


Source: Knight Frank/PCA

Backfill & Contraction Space

Backfill and contraction space has continued to increase within the Brisbane CBD market over the past six months. Knight Frank has tracked significant areas available as either direct or sub-lease space which have come to the market as backfill, private sector contraction or State Government contraction.

Figure 2
Brisbane CBD Backfill & Contraction
(*000m²) marketed space 2012 and 2013



Source: Knight Frank

As shown above, there remains significant space available that came to the market during 2012. Of the 73,563m² which came to the market last year, approx. 80% (58,376m²) remains available. In addition there is now a further 102,860m² being marketed in 2013, 65,059m² of this is direct space with the remaining 37,801m² offered as sub-lease. At this stage the State Government contraction is accounting for circa 40,000m² of this space with a mix of direct and sub-lease space.

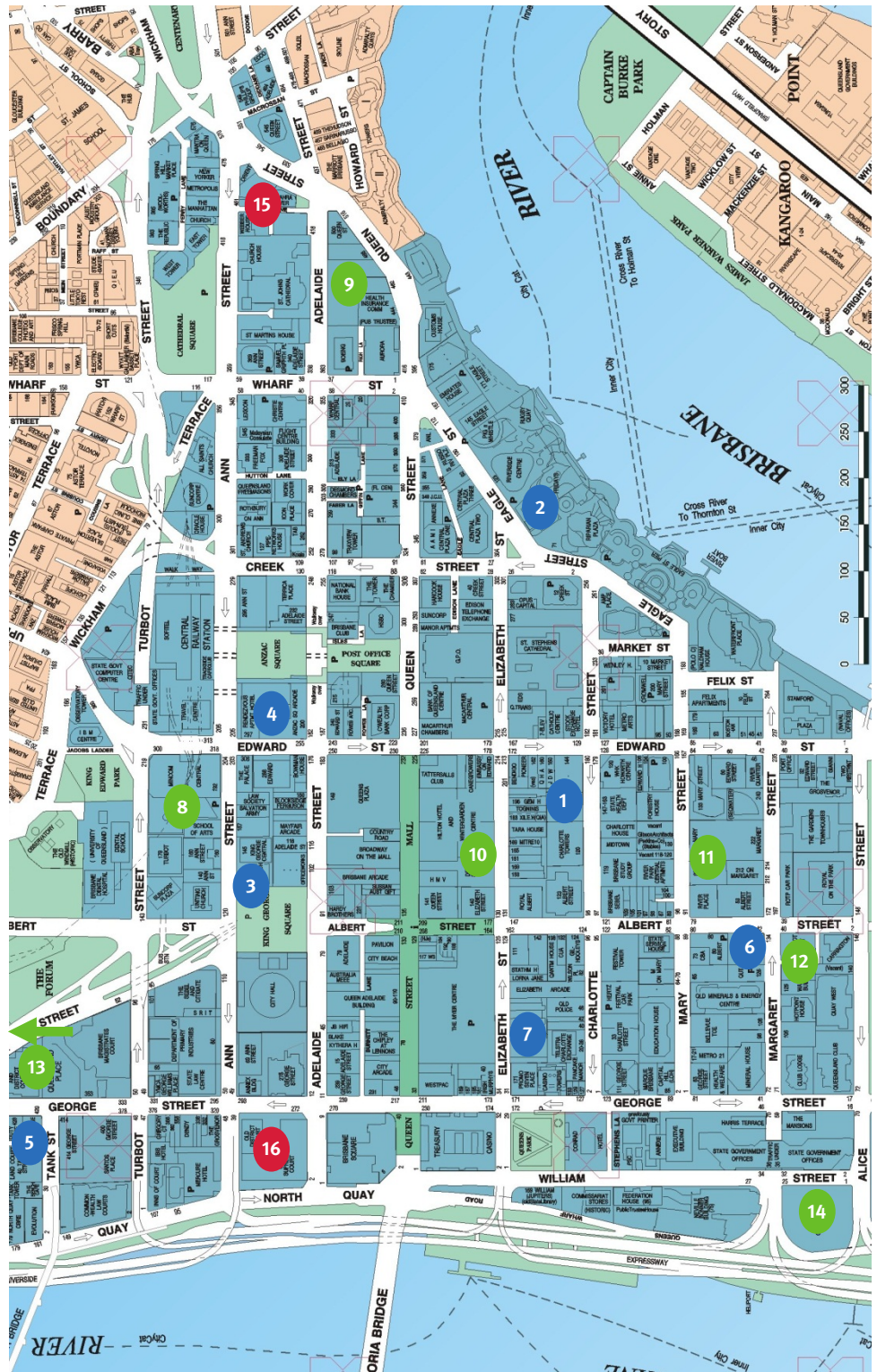


MAJOR OFFICE SUPPLY

- 1 #150 Charlotte St – 10,980m² [Fed Govt] CIMB– June 2012 - 27% committed
- 2 111 Eagle St – 64,041m² [ANZ/E&Y/Arrow] GPT– June 2012 – 91% committed
- 3 145 Ann St – 28,077m² [CUA/GHD]- Leighton/CPA – November 2012 - 92% committed.
- 4 #200 Adelaide St – 6,081m² PFA Diversified & *State Govt* Q2 2013
- 5 #420 George St – 6,500m² Nielson Properties – Q2 2013.
- 6 ^60 Albert St - 6,010m² LaSalle Funds Mgt *Arrow Energy*- June 2013
- 7 55 Elizabeth St -18,517m² [ATO] Grocon/Credit Suisse – Q3 2013 – 100% committed
- 8 180 Ann St – 57,465m² Daisho – Q4 2015
- 9 480 Queen St – 63,815m² - [BHP/Freehills] Grocon – 2016 – 33% committed.
- 10 The Regent Development – 50,000m² ISPT – 2015+
- 11 111 Mary St– 35,000m² Billbergia/ AMP Capital – 2015+
- 12 30 Albert St – 25,850m² Marquette Property/Mirvac – 2015+
- 13 Transit Centre Stage II – 70,000m² GPT/APPF – tba
- 14 1 William St, 74,853m² [State Govt] Cbus Property – Q4 2016 – 80% committed
- 15 550 Queen St – 18,539m² GFA Consolidated Properties – tba
- 16 Law Courts Site State Govt - Offered for Tender – mixed use 2015+

- Under Construction / Complete
- DA Approved / Confirmed / Site Works
- Mooted / Early Feasibility

As at March 2013, excluding strata buildings.
 # Major Refurbishment / entire building available
 ^ Sub-lease space >5,000m² contiguous.
 Sub-Lessor indicated in *italics*
 Major pre-commits in brackets
 Avail Office NLA Quoted
 Source of Map: Knight Frank



TENANT DEMAND & RENTS

Tenant demand has been relatively soft over the past six months within the Brisbane CBD. While market attention has been focussed on the State Government divestment of space, they have not been alone in returning space to the market.

As a result of this softer demand and higher supply over the past year, the vacancy rate has increased from 6.2% in January 2012 to be 9.1% in January 2013. While the vacancy rate for premium space has been impacted by the delivery of 111 Eagle Street, the greatest impact has been on the secondary market, which now has a vacancy rate of 10.0%.

Table 2 Brisbane CBD – Vacancy Rates Vacancy by building grade		
Precinct	Jan 2012	Jan 2013
Premium	2.7%	11.7%
A Grade	4.0%	7.3%
Prime	3.8%	8.1%
B Grade	7.5%	9.6%
C Grade	8.4%	8.9%
D Grade	16.3%	19.4%
Secondary	8.1%	10.0%
Total	6.2%	9.1%

Source: PCA

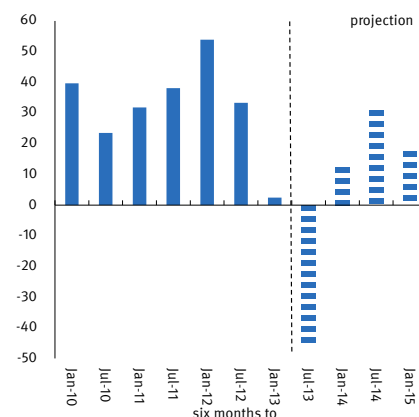
Net Absorption

Net absorption fell away during the second half of 2012, as reflected in the tenant sentiment and downsizing activity. However, the net absorption remained positive as some tenant activity, largely tenants relocating into new buildings and expanding, outweighed the negative elements. Recording net absorption of 2,406m² for the second half of the year, the annual figure of 35,726m² was dominated by the 33,320m² recorded in the first half of 2012 (likely mostly generated within the first quarter of 2012).

Net absorption for the first half of 2013 is now expected to be strongly negative, as the list of contraction and backfill space continues to

grow. As detailed above, this is largely due to the space which will be relinquished (contraction space offered on a direct basis) during 2013, concentrated in the first half of the year, will result in substantial negative net absorption. At this stage the forecast indicates negative net absorption of approximately 46,000m² in the first half of the year.

Figure 3
Brisbane CBD Net Absorption
(*000m²) per 6 month period



Source: PCA/Knight Frank

While tenant enquiry is not yet reflecting this, economic forecasts point to far stronger growth in the second half of 2013, leading to a return to positive net absorption albeit relatively modest. With stronger economic performance anticipated in 2014 and 2015 the net absorption is expected to recover, with near trend demand returning, although impacted by expected tenant relocations to the Near City during late 2014 and 2015.

Anticipated Vacancy Levels

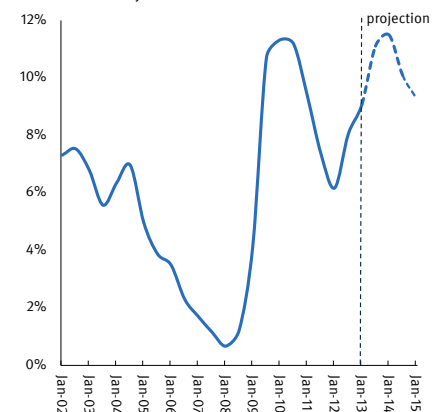
The vacancy situation and expectations has changed dramatically over the past 6-12 months, while an increase in vacancy was expected due to higher supply completions during 2012, the level of tenant contraction within the market was greater than could have been foreseen.

The quantum of this change has been impacted by three separate factors. The first was the speedy reduction in public service office workers and the associated disposal of tenancies by the State Government. At the same time there has been a softer resource market, particularly the coal market, conditions reducing the project space demand. The final factor occurring is general corporates looking to rein in their costs before trading conditions pick up again in 2014. Happening separately, these factors would impact, but not injure the market, however, together they have significantly changed market conditions.

The vacancy rate is forecast to continue to increase from the current levels of 9.1%, breaching 11% by mid-2013. This vacancy figure may not completely encompass all of the space which is available for lease, as not all sub-lease space will be considered physically vacant.

The vacancy rate is expected to begin to recover from the start of 2014, assisted by the lack of additional supply and improving net absorption levels.

Figure 4
Brisbane CBD Vacancy
% total vacancy



Source: PCA/Knight Frank



Tenant Demand

Tenant demand has changed greatly over the past 12 months, and while there are negative headwinds in the short term, medium term indicators are for a recovery in demand in line with improved domestic and international economic conditions. However, the degree of the current conditions is taking focus from the likely improvement over time.

At this stage Knight Frank has identified 57,987m² of space which is being marketed and available in 2013 arising from either State Government contraction or private sector downsizing. The majority of this space (64%) is direct space with the remaining 20,978m² on a sub-lease basis. When added to the 44,873m² of backfill space which has been identified, this provides for just over 100,000m² of additional vacancy to the Brisbane market in the near term, with much of this forming contiguous blocks of space.

Despite the generally soft sentiment, larger tenants have continued to progress their medium to long term requirements. In late 2012 BHP pre-committed to approximately 14,000m² of space in 480 Queen Street while the QLD State Govt committed to the 74,853m² 1 William Street development. The APLNG requirement of 12,000m², while still not finalised, is unlikely to be chosen within the CBD. Other tenants actively seeking significant areas of space at this time include Boeing (8,000m² 2014); Flight Centre (20,000m² 2016), Parsons Brinkerhoff (5,000m² 2015), Newcrest Mining (5,000 –

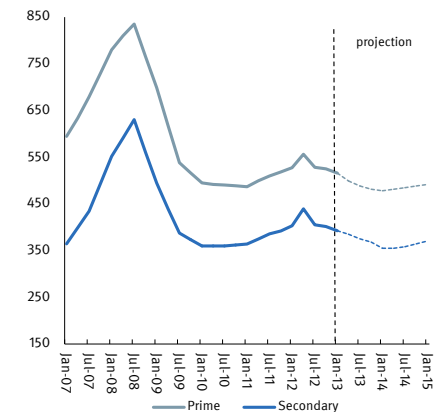
7,000m² 2015), Peabody (5,000m² 2013) and KPMG (8,000m² 2016). Although a number of these tenants have been in the market for some time, as they finalise their requirements over the coming months this may improve the sentiment within the market.

Rental Levels

Rental rates have come under increasing pressure over the past 12 months as the market conditions have softened. Prime gross face rentals have remained relatively stable over the 12 months to January 2013 to average \$688/m², however this is lower than the \$700/m² recorded during the course of 2012. Incentives have also reflected the lower activity levels, increasing over the year from 23.0% to 25.0% plus as at January 2013. This has impacted the gross effective rental which at the current level of \$516/m² reflects a fall of 2.2% over the past year.

Further falls in effective prime rents are expected as the amount of vacant space competing for tenants will be high, despite the relative lack of new supply to the market. Gross effective rent is currently forecast to fall a further 7.3% over the 12 months to January 2014, as both face rents and incentive levels will remain under pressure. Significant improvement to gross effective rental profiles is not expected to emerge until 2014. For the calendar years of 2014 and 2015 effective rental growth averaging 3.24% p.a is forecast, as the continued oversupply of secondary space will keep a brake on prime rents, despite the relative shortage of new space.

Figure 5
Brisbane CBD Rents
\$/m² p.a average gross effective rent



Source: Knight Frank

Average gross secondary face rents are currently \$545/m², which is also in line with the January 2012 result, however moderated through 2012. Incentives for secondary stock have also increased over the past 12 months, going from 26.0% up to 28.0%. This resulted in a fall to average gross effective rents of 2.7% over the past year. This softening trend will continue, with the secondary market particularly exposed to the current tenant weakness. Over the coming year the average gross effective rent is forecast to fall a further 9.5%.

Overall it is expected that the range of rents achieved will widen as some owners may engage in further discounting as and when available to them, while others will be constrained by internal or external covenants to maintain a rental floor.

Table 3
Recent Leasing Activity Brisbane CBD

Address	Grade	Area (sq m)	Face Rental (\$/m ²)	Term (yrs)	Incentive (%)`	Lease Type	Tenant	Start Date
480 Queen St	A	c14,000	undis	undis	undis	Pre-commitment	BHP	Mid-2016
480 Queen St	A	5,000	undis	undis	undis	Pre-commitment	Freehills	Mid-2016
150 Charlotte St	A	746	595 g	7	25+	Existing	Zurich	Apr 13
443 Queen St	A	4,000	725 g	3	10-15	Existing	Hatch	Nov 12
33 Herschell St	B	1,715	500 g	10	undis	Existing	Langports English Language College	Nov 12
145 Ann St	A	2,300	725 g	10	20-25	New Space	Qld Competition Authority	Oct 12
240 Queen St	A	1,009	455 g	2	Nil	Existing	Herbert Greer	Sep 12

Source: Knight Frank g gross `estimated incentive calculated on a straight line basis

INVESTMENT ACTIVITY & YIELDS

Despite growing investor interest and activity, there are few completed transactions to be reported from recent months. Since the completion of DEXUS & DWPF's \$241.6 million purchase of 12 Creek Street in October 2012, there was little activity through to March 2013. The only notable completed deal during that time was the \$40 million purchase of 443 Queen Street by a private investor. The property was sold with a new three year lease in place to Hatch over 75% of the building, with the remaining space vacant.

The first of what is expected to be a number of sales over the coming months is 400 George Street. This prime property has a half share under contract to the South Australian Motor Accident Commission for circa \$195 million, with settlement scheduled prior to the end of March. This will be the third recent sale of a major prime building within the Brisbane CBD (following 10 Eagle Street and 12 Creek Street during 2012) and is the first of the current generation buildings sold since the 50% transaction of 275 George St in January 2010. The sale is expected to show the continued firming trend to yields at the upper end of the market. While yet to be confirmed, the core market yield is expected to be in the order of 7.00%.

Despite the relatively few recently completed deals to report, there are a number of transactions which are reaching advanced negotiation at this time.

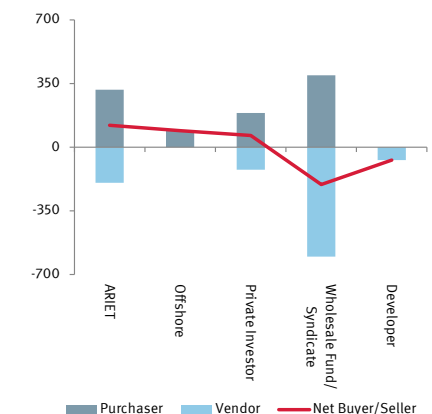
In addition, a sale of a portfolio of office assets from the Qld State Government to QIC is also expected to be finalised in the near future. The exact composition of the portfolio is yet to be announced; however the end value is estimated in the region of \$700 million. Both of these transactions will provide a boost to the transaction levels, bringing the actual levels of activity in line with the investment demand which is witnessed in the market.

GREATER INSTITUTIONAL COMPETITION IN THE MARKET

Over the 12 months to March 2013 there have been a total of 11 sales in excess of \$10million for a total transaction volume of \$986 million. This is in line with the previous 12 month period which recorded \$1,011 million from 15 sales. This represents two strong years of sales activity, with a number of prime assets sold. The next major prime offerings are the Grosvenor International owned 259 Queen Street, which is expected to engender strong demand despite the likely relocation of Bank of Queensland from 30% of the building in 2015. Also expected to draw interest is Brookfield's slightly older 240 Queen Street.

The increased purchasing capacity of AREITs is reflected by them being net purchasers of major Brisbane CBD investment stock over the past 12 months. The purchasing activity was concentrated at the prime end of the market with 10 Eagle St acquired by CPA (\$195 million) and 50% of 12 Creek St by purchased by DXS for \$120.8 million, with the remaining half purchased by the Dexus Wholesale Fund.

Figure 6
Brisbane CBD Purchaser/Vendor
\$ million sales over \$10million yr to March 2013



Source: Knight Frank

Offshore activity was positive, however arose from the two smaller sales of 488 Queen Street (\$20 million) by MRL capital and CIMB's acquisition of 150 Charlotte Street (\$71 million), rather than from a headline asset.

Table 4
Recent Sales Activity Brisbane CBD

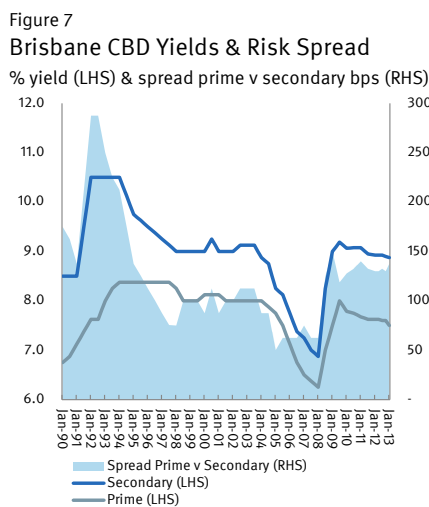
Address	Grade	Price (\$ mil)	Core Market Yield (%)	NLA (m ²)	\$/m ² NLA	WALE	Vendor	Purchaser	Sale Date
400 George St	A	c195.00 (50%)	undis	43,548	c8,955	undis	Grosvenor Aust	SA Motor Accident Commission	Mar 13
443 Queen St	A	40.00	8.33	5,574	7,176	2.3	Bramley	Private Investor	Nov 12
12 Creek St	A	241.60	7.64	32,227	7,497	4.7	APGF	DEXUS & DWPF	Oct 12
40 Creek St	B	84.50	8.01	12,353	6,840	5.8	Charter Hall Opportunity Fund 5	Private Investor	Sept 12
160 Ann St	B	74.92	9.06	16,060	4,665	6.9	Investa Enhanced Fund	CorVal	Sept 12

Source: Knight Frank



Despite greater competition from the other purchaser classes, private investors have remained net buyers in the Brisbane CBD market. The two largest recent acquisitions by private buyers were the \$84.5 million purchase of 40 Creek Street, a refurbished B grade asset purchased by Peter Gunn and the \$40 million purchase of 443 Queen Street by the Brice Family.

The wholesale funds/syndicates sector recorded the highest level of purchases at \$395.7 million (40% of transaction volume) as entities such as the DWP's purchase of 50% of 12 Creek Street, CorVal's acquisition of 160 Ann Street for \$74.9 million and the South Australian Motor Accident Commission's purchase of a 50% interest in 400 George Street.



Source: Knight Frank

Nationally prime yields have shown a definite firming trend at the top end of the market over the past six months and this has also now begun to be reflected in the Brisbane market. To date this firming is largely quarantined to the modern, prime grade relatively passive assets, as the appetite for risk remains relatively low.

As the level of investment activity increases, and the assets available for sale decreases, it is expected that this firming trend to yields may extend across the wider investment market.

OUTLOOK

Demand across the Brisbane CBD market has remained soft over the past nine months, with the lack of tenant enquiry translating into lower levels of activity. This resulted in a modest net absorption of 2,406m² over the second half of 2013. The immediate outlook for net absorption appears to be strongly negative, engendered by tenants relocating out of the CBD and contraction by both the State Government and private sector tenants.

This negative activity is expected to be largely confined to the first half of 2013, however the impact will be felt on the market for the next 12-18 months. As outlined above, the negative net absorption is expected to come about because of a combination of factors which have coincided to fall within a relatively short period of time. While further State Government excess space may continue to come to the market, the initial flurry of activity is expected to now be in the past.

MARKET RENTS TO SOFTEN DURING 2013

With general expectations that the market will improve from early 2014, the longer term outlook remains solid for the Brisbane CBD market. In addition, the long-awaited formalisation of the next round of construction for the market is expected in the coming months. Tenants, which have been looking at their relocation options for a long period of time, are now expected to take action in the coming six months.

Nevertheless, the vacancy rate is expected to increase over 2013, potentially reaching 11.5% at the start of 2014. The relative lack of additional supply to the market in the near term will mean that the market is somewhat insulated from further downside, and the expected return to positive net absorption will have a direct impact on reducing the vacancy rate through 2014 and the majority of 2015.

For both the prime and secondary market, effective rents are expected to fall over the course of 2013, via a combination of easing face rents and increasing incentives. Prime gross effective rents are expected to fall to their low-point in late 2013, representing a circa 7.3% fall from January 2013. From that point the recovery in rental levels is expected to be steady, accelerating into 2015 as the vacancy rate steadily falls in the absence of new supply. The average annual forecast growth for prime effective rents is 2.7% p.a over the four years from 2014. As expected, given the weight of space coming to the market, the secondary market is expected to face tougher conditions than the prime sector, with effective rents taking a number of years to regain the ground expected to be lost over the course of 2013. Tenant upgrading is expected to return as profitability recovers, with tenants eager to obtain higher grade accommodation with relatively little uplift from passing rentals. Rental forecasts are currently based on relatively modest demand expectations, with potential upside to the forecasts should the resources sector recover to the conditions seen during 2011.

INVESTMENT DEMAND IS STEADILY GROWING

In contrast to the relative weakness in the leasing market, the investment demand is building. Although recent months have seen relatively few completed transactions, this is soon to change, with a number of transactions to reach their conclusion. The weight of money from off-shore investors is now being joined by increasing purchasing appetite from local institutions, both wholesale and listed entities. This weight of money has already led to increased competition for assets formally on the market. The firming trend to yields, largely confined to the top of the market at this stage, has the potential to spread to other sectors of the market if purchasers move up the risk curve.



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