

AUGUST 2013

BRISBANE
SUBURBAN

Office Market Brief

HIGHLIGHTS

- The Brisbane Suburban market has seen steady supply coming to the market, with 51,000m² of new stock completed since the start of 2012. Much of the accommodation is demand-led with pre-commitments featuring largely across the suburban market. Current construction levels are lower, with one smaller building under construction at Darra.
- The vacancy rates across the two PCA tracked suburban markets have shown mixed fortunes over the past 12 months with Chermside up from 5.1% to 6.7% and Upper Mount Gravatt/Macgregor falling from 9.2% to 7.4%. Knight Frank has undertaken analysis of the Inner North Eastern region, which has featured much of the recent supply and found that while the new stock has been strongly demand-led, the older stock is weighing on the market with a current total vacancy of 13.2%.
- The investment demand for suburban assets has remained relatively robust, largely dominated by private investors and syndicators and highly dependent on the covenant arising from the sitting tenant. Recently constructed assets with strong tenants and substantial WALEs have found consistent favour in the market. Yields across this sector are steady with prime investments represented in the relatively broad range of 8.25% - 9.25%.

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Table 1
Selected Brisbane Suburban Office Market Indicators as at July 2013

Precinct	Total Stock (m ²)	Vacancy Rate (%)	Annual Net Absorption (m ²)	Annual Net Additions (m ²)	Average Prime Gross Face Rent (\$/m ²)	Average Incentive (%)	Average Prime Core Market Yield (%)
Chermside	34,298	6.7	-539	-	400	25.0	8.25 – 8.75
Upper Mt Gravatt & Macgregor	102,494	7.4	1,805	-	410	25.0	8.25 – 9.25
Inner North East	134,930	13.2	n/a	#31,470	490	25.0	8.25 – 8.75
Total **	271,722	10.2	1,266				

Source: Knight Frank/PCA ** represents the totals only for the precincts studied, does not reflect the whole Brisbane suburban market # gross additions Chermside and Upper Mt Gravatt & Macgregor are two precincts tracked by the PCA, however they form only selected hubs of the wider Brisbane Suburban market. Knight Frank has recently begun to track a new precinct known as the Inner North East, which is defined as the area to the north east of the CBD, beyond the existing Brisbane Fringe (Fortitude Valley, Bowen Hills) but not as far north as the Chermside precinct. This includes suburbs such as Hamilton, Hendra, Eagle Farm, Nundah, Windsor, Lutwyche and surrounding areas.

Knight Frank classifies the Brisbane suburban office market in the following broad regions: **Inner North East** (as above), **North** (which includes the PCA precinct of Chermside plus areas such as Strathpine), **East** (ie Murarrie & Cannon Hill), **West** (ie Indooroopilly, Darra) and **South** (which includes the PCA precinct of Upper Mt Gravatt & Macgregor plus areas such as Eight Mile Plains).

Supply & Development

The traditional suburban regions covered by the PCA, Chermside and Upper Mt Gravatt & Macgregor, saw little development activity during 2012 and into 2013 with the 3,200m² 37 Brandl St, Eight Mile Plains formally added to the precinct space over the past 18 months. However approximately 10,950m² of new development in the Freeway Office Park and Brisbane Technology Park, both in Eight Mile Plains has been recorded by Knight Frank over that time.

The Inner North East precinct has seen significant new additions, with in excess of 36,550m² of new accommodation added to the region in the past 18 months. This region has been growing at a faster rate than other suburban markets over previous years as its proximity to the CBD, a mix of existing

commercial precincts to be expanded, available development land and changing zoning has encouraged activity. The largest recently added building was the 12,910m² property pre-committed by Energex and Powerlink, developed by Property Solutions.

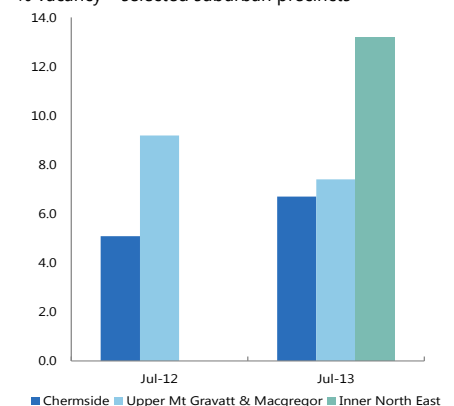
Other major additions have included 5-7 Lobelia Circle, Eagle Farm which was 60% pre-committed to the AFP and the first major office building within the Hamilton Northshore ULDA precinct, KSD1, which was 33% pre-committed by Devine (subsidiary of the developer Leighton) and is now 89% leased.

Current construction levels are lower, with only one building of circa 2,441m² currently underway at the BTP Park at Darra. However the level of projects with approval in place, awaiting commitment, remains high and further smaller speculative starts are likely.

Tenant Demand & Rents

As with the wider commercial market, demand has been subdued over the past year within the Brisbane suburban market. Nevertheless pre-commitments have continued to occur as tenants are attracted to new space. Market rental levels have been under pressure with incentives growing to average 25% across the markets. Gross face rents for prime space average \$400 – 410/m² in the Chermside and Mount Gravatt precincts and \$490/m² in the Inner North East. Recent vacancy uplifts in the Chermside and Inner North East regions have seen secondary rents suffer (avg \$325 – 350/m² gross), with un-renovated or older style secondary properties particularly impacted.

Figure 1
Brisbane Suburban Office Vacancy
% vacancy – selected suburban precincts



Source: Knight Frank/PCA Inner North East precinct analysis commenced July 2013

Table 2
Brisbane Suburban Office Supply – >2,000m²

Project	Region	NLA (sq m)	% Leased	Status	Date
5-7 Lobelia Circle, Eagle Farm	Inner NE	6,256	60%	Complete	Sep 12
Freeway Office Park, Bld 6, EMP	South	3,000	33%	Complete	Sep 12
1231-1241 Sandgate Rd, Nundah	Inner NE	12,910	100%	Complete	Oct 12
38 Southgate Ave, Cannon Hill	East	3,500	100%	Complete	Dec 12
Nellie St, Nundah	Inner NE	6,600	100%	Complete	Dec 12
485 Kingsford Smith Dr, Hamilton	Inner NE	6,436	89%	Complete	Mar 13
12 Electronics St, EMP	South	2,500	48%	Complete	Jun 13
Freeway Office Park, Bld 3, EMP	South	4,000	-	Complete	Jul 13
18 Station Rd, Darra	West	2,441	80%	U/C	Mar 14

Source: Knight Frank U/C = under construction EMP = Eight Mile Plains

Investment Activity & Yields

Investment activity within the Brisbane suburban office market has been steady, with well-tenanted investment opportunities sought by both private investors and syndicators. These investor types are attracted to the relatively higher yields outside of the recognised CBD and Fringe markets.

The largest recent suburban sale was the \$77.87 million pre-purchase by Growthpoint of 1231-1241 Sandgate Rd from developer Property Solutions in May 2011. Given the quantum of the asset, and that the office space was fully pre-committed, the core market yield of 8.11% was more in line with the larger investments in the Fringe market, than the traditional suburban market. This highlights a trend common across all investment markets at this time, the greater competition which emerges for a property with a long WALE to good quality tenants.

Since 2011 there has been little stock to compare with this larger sale, with recent transactions occurring across the \$3 million to \$25 million price bracket. Recorded yields have covered a wide range from the relatively tight 8.33% for 70 Station Rd, Indooroopilly with 3.0 years remaining on the BCC's lease, through to the 10.13% passing yield recorded across a portfolio of 4 properties in Eight Mile Plains, purchased by the Benlee Property Trust No. 6. Prime yields are currently averaging 8.25-9.25% across the precincts, lowest in the Inner North East.

Table 3
Recent Leasing Activity Brisbane Suburban

Address	Region	Area (sq m)	Face Rental (\$/m ²)	Term (yrs)	Tenant	Start Date
1231 Sandgate Rd, Nundah ^	INE	1,654	450 g #	8	Q Super	Oct 13
1231 Sandgate Rd, Nundah ^	INE	1,469	425 g #	6	Dept of Education	Sep 13
12 Electronics St, Eight Mile Plains	S	1,212	410 g	n/a	Seymour White	Jun 13
461 Lutwyche Rd, Stafford	INE	900	415 g	5	Bookmaker.com.au	May 13
Webster Rd, Stafford	INE	900	340 g	7	Anglicare	Mar 13
5 Palmer Pl, Murarrie	E	808	395 g	5	FMC Australasia	Mar 13
485 Kingsford Smith Dr, Hamilton*	INE	2,542	435 n	15	Domino's Pizza	Feb 13
485 Kingsford Smith Dr, Hamilton*	INE	2,616	445 n	8	Devine	Feb 13
38 Southgate Ave, Cannon Hill*	E	1,310	425 g	8	Orica	Dec 12
38 Southgate Ave, Cannon Hill*	E	1,485	435 g	10	Compass	Dec 12
Source: Knight Frank g gross n net ^Sub-lease # Effective *Pre-commitment/new space INE = Inner North East, S = South, E = East						

Outlook

The Brisbane suburban office market has shown continued maturation, however remains largely demand-led, with the majority of development driven by pre-commitment. This is expected to continue with a number of projects ready to start once the required commitment is secured. The exception is projects such as Freeway Office Park, where recent construction has been delivered on a speculative basis.

Tenant demand is patchy, in line with the wider commercial markets, and market rental levels for existing properties are under

pressure. In contrast, the rents for pre-committed projects are tied to construction costs and expected end value and thus remain at a level which is higher than the wider market. The suburban market provides a cost effective alternative for tenants who have no locational imperative to be within the CBD or Fringe markets.

Modern larger developments such as in Nundah and Hamilton have achieved rents in excess of \$500/m² gross, representing similar rates to the Fringe. With the interest in higher yielding investments building in the market, suburban assets which have long WALEs are expected to remain sought after.

Table 4
Recent Sales Activity Brisbane Suburban

Address	Region	Price (\$ mil)	Core Market Yield (%)	NLA (m ²)	\$/m ² NLA	WALE	Vendor	Purchaser	Sale Date
5/747 Lytton Rd, Murarrie	E	22.96	8.53	5,459	4,206	4.3	Centuria Funds Mgt	Private Investor	Aug 13
38 Southgate Ave, Cannon Hill	E	17.25	8.36	3,525	4,926	8.2	Anthony John Group	Hellenic Property Investments	Apr 13
Portfolio Sale, Eight Mile Plains*	S	22.59	10.13^	8,516	2,653	n/a	Peet Income Property Fund	Benlee Property Trust No. 6	Apr 13
48 Miller St, Murarrie	E	13.60	9.13^	2,967	4,584	5.0	Private Investor	Fawkner Property syndicate	Nov 12
70 Station Rd, Indooroopilly	W	11.83	8.33	2,246	5,268	3.0	Reading International	Private Investor	Oct 12
Source: Knight Frank ^ passing yield *includes 10 Brandl St, 36 Brandl St, 69 Brandl St & 7 HiTec Court E = East, S = South, W = West									

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