



# BRISBANE SUBURBAN

OFFICE MARKET OVERVIEW FEBRUARY 2015

## HIGHLIGHTS

New supply in the suburban market is dominated by smaller buildings across a number of business parks with good transport links. Much of the future supply is awaiting pre-commitment.

Tenant demand has been steady over the past year and rental levels have stabilised with average prime incentives of 28%. The suburban market is facing tenant drift into the competitive CBD and Fringe markets

The strong investment demand has impacted the suburban market with tighter prime yields. However the Brisbane suburban market suffers from a lack of scale to attract major investors on all but a few assets.

## KEY FINDINGS

**Supply** during 2015 is expected to be **24,430m<sup>2</sup> which is 63% higher** than in 2014, largely due to one sizeable addition

Across the precincts studied total **vacancy fell modestly** from 9.3% to 9.2% over the past year

**Prime yields firmed by 25bps over the past year**, with further pressure at the lower yield range



**JENNELLE WILSON**  
Director – Research QLD

## SUPPLY & DEVELOPMENT

Supply in the suburban market tends to comprise smaller buildings below 5,000m<sup>2</sup>. Most developments are commencing subject to pre-commitment with only smaller buildings being speculatively developed

The Brisbane Suburban market recorded gross supply (greater than 1,000m<sup>2</sup>) of 14,925m<sup>2</sup> during 2014. This is in line with the 12,542m<sup>2</sup> which was added to the market in 2013. Supply is largely concentrated in established office park and regeneration areas with good transport networks.

Major additions during 2014 included the first two buildings at Westlink Green, located at Darra in Brisbane's west. 1 Westlink Court (2,512m<sup>2</sup>) and 2 Westlink Court (2,915m<sup>2</sup>) are 68% and 70% occupied respectively with Cement Australia, Montrose Access and BTP Services the dominant tenants.

In the South East corridor, 51 McKechnie Drive, Eight Mile Plains was completed mid-2014 and the building in the Brisbane Technology Park was fully pre-committed by Metro South Health. In the nearby Garden City Office Park at 2404 Logan Road, Eight Mile Plains a smaller building of 1,500m<sup>2</sup>, Building 19, was also completed. A further 2km to the south at the Freeway Office Park, 2728 Logan Rd, Eight Mile Plains, Building 5 was completed in late 2014. The 2,000m<sup>2</sup> building was fully pre-committed by Integria Health.

In the Inner North East precinct the first building of the BTP Hamilton Northshore development was completed during

2014. 371 Macarthur Avenue is a two level building of 2,763m<sup>2</sup> and is 86% leased by a number of tenants including BTP Services. Further stages in the office park will commence subject to pre-commitment.

Supply additions during 2015 are expected to total 24,430m<sup>2</sup>, dominated by the completion of a 12,500m<sup>2</sup> building in Springfield. The development, at David Henry Way, was undertaken following a 9,505m<sup>2</sup> commitment by GE Australia.

Completed in February 2015 was 33 Remora Rd, Hamilton developed by the Shayher Group. The building offers 3,160m<sup>2</sup> of office space over four levels. Two owner occupied facilities are also expected to boost the supply levels this year - Hastings Deering are constructing a freestanding 2,150m<sup>2</sup> office building at Archerfield and Churches of Christ are constructing a 4,400m<sup>2</sup> building as the first stage of a redevelopment of their headquarters at Kenmore.

At Innovation Square, within the Brisbane Technology Park, Eight Mile Plains work is soon to commence on a 2,218m<sup>2</sup> building on a speculative basis. There also remains a number of approved suburban office buildings in the existing office parks and proposed mixed use developments that will proceed subject to pre-commitment.

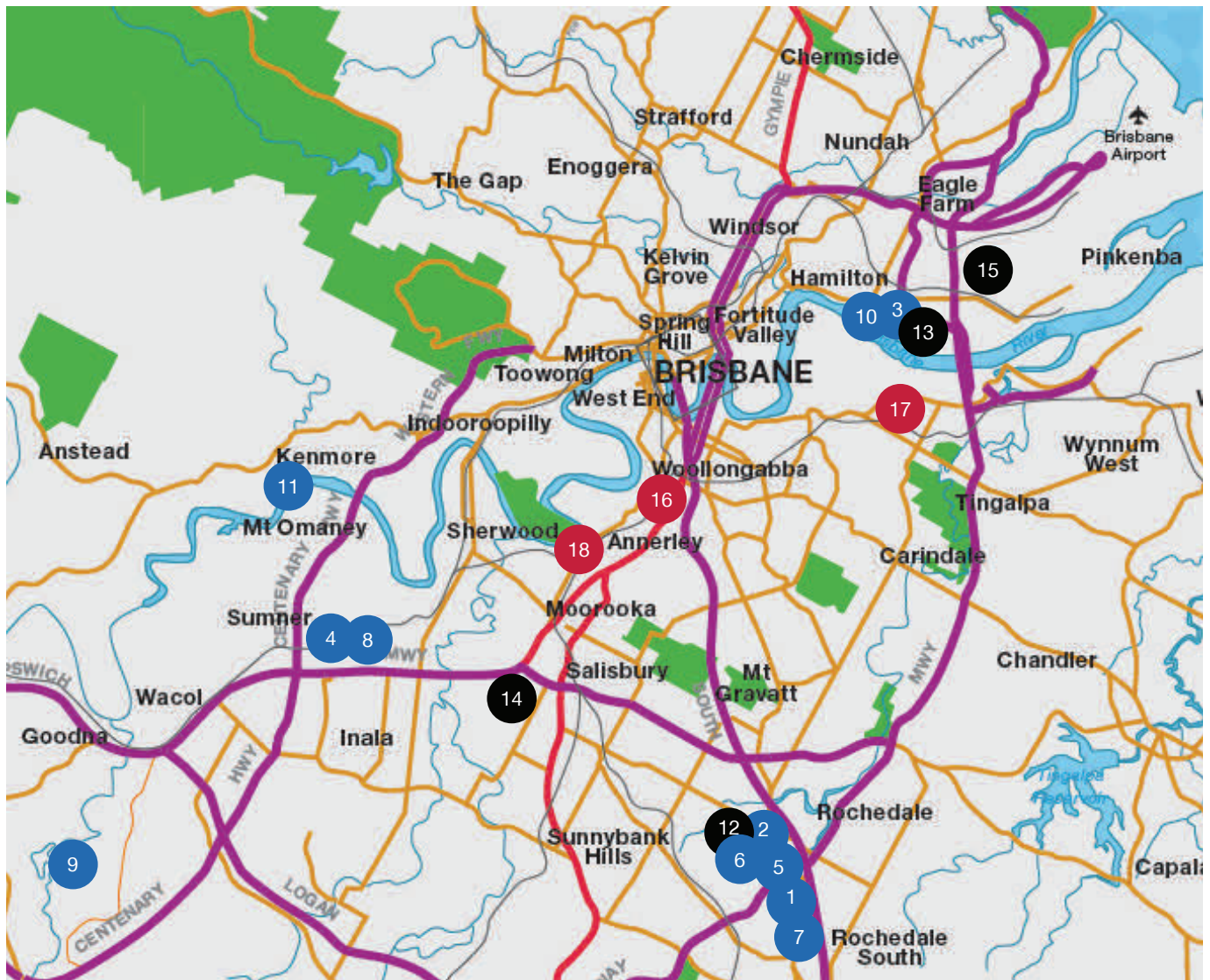
TABLE 1

### Selected Brisbane Suburban Office Market Indicators as at January 2015

Sub-Market	Total Stock (m <sup>2</sup> )	Vacancy Rate (%)	Annual Net Absorption (m <sup>2</sup> )	Annual Net Additions (m <sup>2</sup> )	Av. Gross Prime Face Rent (\$/m <sup>2</sup> )	Av. Prime Incentive (%)	Average Prime Core Market Yield (%)
Chermside	34,298	8.5	-626	-	400	28	8.00-8.75
Upper Mt Gravatt & Macgregor	101,515	9.8	-1,659	-979	410	28	8.00-8.75
Inner North East	144,095	9.1	3,699	2,763*	458	28	8.00-8.75
<b>Total<sup>^</sup></b>	<b>279,908</b>	<b>9.2</b>	<b>1,414</b>				

Source: Knight Frank/PCA \* gross additions ^Represents the totals only for the precincts above, does not reflect the whole Brisbane Suburban market  
NB See definitions on Page 8.

# MAJOR SUBURBAN OFFICE SUPPLY



- |  |  |   |
|--|--|---|
| <p><b>1</b> Freeway Office Park, Bld 3, Eight Mile Plains—4,000m<sup>2</sup> - Q2 2013<br/>OPD Lennon/Strata—75% committed</p> <p><b>2</b> 12 Electronics St (BTP), Eight Mile Plains<br/>1,988m<sup>2</sup> - Q3 2013<br/>Graystone Pty Ltd—81% committed</p> <p><b>3</b> 371 Macarthur Ave, Hamilton (BTP Hamilton) 2,763m<sup>2</sup> - Q2 2014<br/>Harvest/Graystone—86% committed</p> <p><b>4</b> 1 Westlink Court, Darra (BTP Westlink Green) - 2,512m<sup>2</sup> - Q2 2014<br/>Graystone (onsold to Stronghold) - 68% committed</p> <p><b>5</b> Garden City Office Park, Bld 19, Eight Mile Plains—1,500m<sup>2</sup> - Q2 2014<br/>OPD Lennon</p> <p><b>6</b> 51 McKechnie Dr (BTP), Eight Mile Plains—3,150m<sup>2</sup> - Q2 2014<br/>Graystone—100% committed</p> <p><b>7</b> Freeway Office Park, Bld 5, Eight Mile Plains—2,000m<sup>2</sup> - Q4 2014<br/>OPD Lennon—100% committed</p> | <p><b>8</b> 2 Westlink Court, Darra (BTP Westlink Green) - 2,915m<sup>2</sup> - Q4 2014<br/>Graystone (onsold to Stronghold) - 70% committed</p> <p><b>9</b> David Henry Way, Springfield<br/>12,500m<sup>2</sup> - Q1 2015<br/>85% committed</p> <p><b>10</b> 33 Remora Rd, Hamilton—3,160m<sup>2</sup><br/>Shayher Group—Q1 2015</p> <p><b>11</b> 41 Brookfield Rd, Kenmore—4,400m<sup>2</sup><br/>Churches of Christ—Q4 2015<br/>100% committed</p> <p><b>12</b> 2 Clunies Ross Court (BTP), Eight Mile Plains—2,218m<sup>2</sup> - Q4 2015</p> <p><b>13</b> Macarthur Ave, Hamilton (BTP Hamilton) Blds 2 &amp; 3—2,400m<sup>2</sup> &amp; upto 9,000m<sup>2</sup> - s.t.p Harvest/Graystone</p> <p><b>14</b> 146 Kerry Rd, Archerfield—2,150m<sup>2</sup><br/>Hastings Deering—Q4 2015<br/>100% committed</p> | <p><b>15</b> Boronia Rd, Brisbane Airport—4,450m<sup>2</sup><br/>Brisbane Airport Corp—Q2 2016<br/>100% committed</p> <p><b>16</b> Boggo Road Redevelopment, Annerley<br/>Leighton Properties— 6,428m<sup>2</sup> Stage 1<br/>commercial component—s.t.p</p> <p><b>17</b> Southgate Remaining Stages, Cannon Hill—Anthony John Group—Masterplan c26,000m<sup>2</sup> office component—s.t.p</p> <p><b>18</b> Yeerongpilly Green Stage 1—shortlist of developers—Masterplan 9,800m<sup>2</sup> commercial component—s.t.p</p> <p><b>Legend:</b></p> <ul style="list-style-type: none"> <li><span style="color: blue;">●</span> Under Construction / Complete</li> <li><span style="color: black;">●</span> DA Approved / Confirmed / Site Works</li> <li><span style="color: red;">●</span> Mooted / Early Feasibility</li> </ul> <p>As at February 2015, excluding strata<br/>s.t.p = Subject to Pre-commitment<br/>Source of Map: Knight Frank</p> |
|--|--|---|

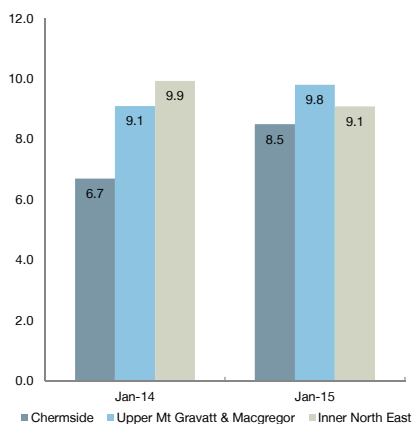
# TENANT DEMAND & RENTS

Tenant demand has remained patchy across the Brisbane suburban market over the past year. Tenants, particularly larger tenants, are being provided with many cost effective options from both CBD and Fringe properties in competition to the suburban market.

A number of commitments have been made to suburban office buildings, largely new builds, where the benefits of being in a suburban location, such as car parking and access to arterial roads, have reinforced the benefits of the relatively cheaper rentals which are on offer in the suburban markets.

## Vacancy

FIGURE 1  
**Brisbane Suburban Vacancy**  
% Total Vacancy Selected Precincts



Source: Knight Frank/PCA

Despite the relatively lower levels of tenant activity in the suburban market, the vacancy rates across the major precincts remain under double figures, and are lower than the respective figures in the Brisbane CBD and Fringe markets.

Chermside has the lowest total vacancy rate with 8.5%, despite an increase over the past year, with vacancy increasing to 2,911m<sup>2</sup>. Chermside is a fairly stable market with limited future supply additions planned as the neighbourhood surrounding the Chermside market hub has increasingly seen medium and high density residential developments.

In the Upper Mt Gravatt & Macgregor precinct the total vacancy has increased slightly over the past year to be 9.8%. This is despite the withdrawal of 979m<sup>2</sup>, above The Village Shopping Centre at 1932 Logan Rd, Upper Mount Gravatt, which has been removed from the survey. Although total vacancy is higher on an annual basis this market has shown some improvement in the past six months after the vacancy peaked at 12.3% in mid-2014.

The Inner North East, a market surveyed by Knight Frank, has improved over the past year and has a current total vacancy of 9.1%. Unlike the Chermside and Upper Mt Gravatt & Macgregor markets which have no sub-lease space, a relatively high proportion of the total vacancy in the Inner North East is made up of sub-lease. The sub-lease vacancy rate in the Inner North East is 3.7%, dominated by the 3,200m<sup>2</sup> Boulderstone space in Kelvin Grove.

## Net Absorption

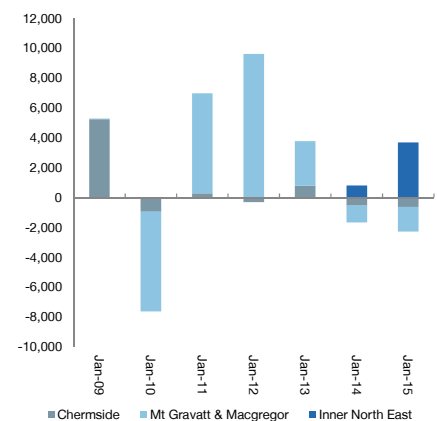
For the older suburban precincts of Chermside and Upper Mt Gravatt & Macgregor the net absorption has been negative over the past two calendar years, although by relatively modest amounts.

In contrast, the Inner North East has recorded positive net absorption in both 2013 and 2014. After only a modest increase over 2013 there was greater improvement during 2014. This has arisen from a number of buildings with the larger impacts coming from:

- the take-up of the last floor in 485 Kingsford Smith Dr, Hamilton, constructed in early 2013.
- Re-leasing of 1,000m<sup>2</sup> of space which had been vacated by the Education Dept in 257 Gympie Rd, Kedron
- AIPT and Service Stream taking a total of 1,900m<sup>2</sup> in 543 Lutwyche Rd, Lutwyche and
- Take-up of 2,373m<sup>2</sup> of newly completed space at 371 Macarthur Ave, Hamilton.

“The vacancy rates across the major precincts remain under double figures”

FIGURE 2  
**Brisbane Suburban Net Absorption**  
(‘000m<sup>2</sup>) per 12 month period



Source: Knight Frank/PCA

In the East, the closure of the Westpac call centre at Cannon Hill will result in c5,000m<sup>2</sup> of space becoming vacant in Q2 2015. Overall the net absorption levels in the suburban markets are expected to remain modest with strong competition from both the CBD and Fringe markets.

## Tenant Demand

Tenant demand for suburban office space is steady but subdued with demand dominated by tenants which are sub-5,000m<sup>2</sup>. Tenants that obtain efficiency benefits from locating within a suburban location are expected to remain focussed on suburban locations. However for other tenants the lure of discounting in the Fringe and CBD markets may draw them into more central locations. Occupier demand across the suburban markets is often skewed with a higher proportion of occupiers seeking to own their premises. The majority of developments offer options to either lease or purchase to widen their potential market.

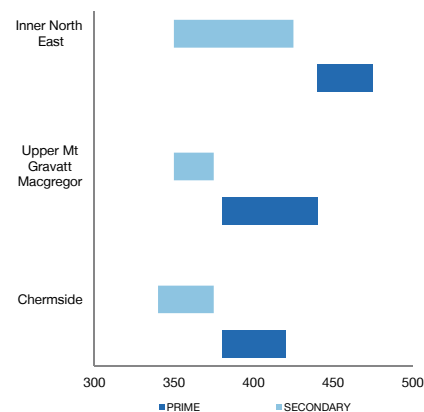
One of the larger requirements in the market at this time is Catholic Education (5,000m<sup>2</sup> - 6,000m<sup>2</sup>) which is seeking occupation in Q1 2016, floorplates of 1,000m<sup>2</sup>+ and onsite parking for 170 cars (1:32) with a preference to own rather than lease. Other requirements include MS Society (1,500m<sup>2</sup>–2,000m<sup>2</sup>) and Woolworths (c3,200m<sup>2</sup>) which is understood to be close to agreeing a deal in Eight Mile Plains.

## Rental Levels

Rental rates have remained under pressure in the suburban market as the wider commercial rental market remains soft. Over the past 12 months there has been little to no change in face rents across the Chermerside and Upper Mount Gravatt & Macgregor markets, with average prime gross face rents of \$400/m<sup>2</sup> and \$410/m<sup>2</sup> respectively.

The Inner North East gross prime face rent has softened slightly, to \$458/m<sup>2</sup>, as the precinct has had to compete with the adjoining Fringe market. The Fringe market, particularly in the Urban Renewal area, has had both new completions and also sub-lease space in prime accommodation which has drawn a number of tenants, to the detriment of the Inner North East. Incentives remain a significant factor in the suburban market and appear to have stabilised over the past year to average 28% for prime assets and 30% for secondary space. Secondary gross face rents currently average \$358/m<sup>2</sup> in Chermerside, \$362/m<sup>2</sup> in Upper Mt Gravatt Macgregor and \$388/m<sup>2</sup> in the Inner North East.

FIGURE 3  
Brisbane Suburban Rents  
\$/m<sup>2</sup> p.a gross face rental ranges



Source: Knight Frank

Expectations for rental growth in the suburban market remain modest with little to no change expected in the short term. The market will continue to be led by new construction, large or small. With tightening yields, these new builds are expected to continue to be offered at relatively competitive rents. Older accommodation will be forced to continue to meet the market in the medium term, keeping incentives high.

TABLE 2

### Recent Leasing Activity Brisbane Suburban

Address	Region	NLA m <sup>2</sup>	Face Rent \$/m <sup>2</sup>	Incentive %	Term yrs	Tenant	Start Date
2 Westlink Green, Darra	W	1,424	335 n	20-25	10	Montrose Access	Dec 14
2 Westlink Green, Darra	W	1,491	335 n	undis	7	Graystone#	Dec 14
485 Kingsford Smith Dr, Eagle Farm	INE	1,397	475 g	undis	7	Collins Foods	Nov 14
96 Mt Gravatt Capalaba Rd, Upper Mt Gravatt	SE	360	390 g	25-30	5	Panasonic	Nov 14
800 Kingsford Smith Dr, Eagle Farm	INE	509	137 n	undis	3	Investstruction	Nov 14
200 Evans Rd, Salisbury	W	580	350 g	undis	7	Kings Transport	Sep 14
1019 Old Cleveland Rd, Carindale	East	1,225	385 g	25-30	5	Suncorp	Jul 14
257 Gympie Rd, Kedron	INE	572	350 g	20-25	5	Ingenia Communities	Jul 14
169 Wellington Rd, East Brisbane	East	841	425 g	undis	5	Rexel Electrical Supplies	May 14
2728 Logan Rd, Eight Mile Plains	SE	2,700	435 g	20-25	10	Teys Australia ^	Apr 14
10/27 South Pine Rd, Brendale	N	534	195 n	undis	3	Aspire College	Apr 14
543 Lutwyche Rd, Lutwyche	INE	800	250 g	25-30	4	AIPT	Mar 14

^ estimated incentive calculated on a straight line basis g gross n net ^ pre-commitment #developer leaseback  
Source: Knight Frank INE Inner North East SE South East W West N North

# INVESTMENT ACTIVITY & YIELDS

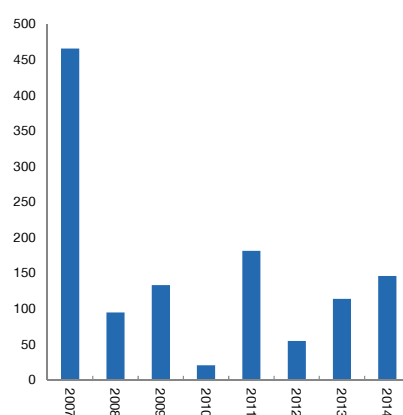
The overall commercial investment market remains strong with an upswing in total transactions recorded across Australia over the past 24 months. Across Australia, office transactions in excess of \$10 million have been at record levels of \$14 billion and almost \$16 billion in turnover over the past two calendar years. This demand has been concentrated on core assets, with some recent broadening of focus to higher-yielding value add assets and also development sites, particularly for a change of use to residential.

For the Brisbane suburban market, this increased investment interest has not translated in to significant purchasing activity, although total transaction levels have shown steady growth over the past two years. When analysing Brisbane suburban office market sales the threshold is set to \$5 million+, with \$146.4 million in transactions recorded during 2014. This was a 28% increase over the \$114.1 million in transactions which was recorded during 2013.

This recent activity, while showing recovery, remains significantly below the level of transactions seen at the last peak of the market in 2007 with \$466.1 million

in turnover. In 2007 both tenant and investor demand spilled over into the Brisbane suburban market as it provided some of the last vacant existing space and also new stock which could quickly be delivered to the market.

FIGURE 4  
**Brisbane Suburban Office Sales**  
\$ million sales (\$5 million+)



Source: Knight Frank

During 2013 and 2014 combined there have been nine transactions in excess of \$10 million in the Brisbane suburban market and these purchases have been

dominated by institutional investors such as 360 Capital Office Fund, Investec Australia Property Fund, and syndicates from entities like Benlee, Stronghold and Heathley Asset Management.

Over the same period there have been 10 office sales in the \$5-10 million category with these almost exclusively being purchased by private investors. The only three exceptions were one owner occupier purchase and Denison Diversified Property Fund purchasing smaller office assets from the APGF Real Estate Trust.

Over the past two years, and given the market's clear preference for modern, newly constructed space, the dominant vendor class has clearly been developers. During 2014 developers accounted for \$103.7 million in sales, accounting for more than 70% of all sales in the market by value.

With feasibility for future office developments now significantly lower than for residential development, there were no major purchases made by developers for new office construction in the past 12 months.

TABLE 3

## Recent Sales Activity Brisbane Suburban

Address	Region	Grade	Price \$ mil	Core Market Yield %	NLA m <sup>2</sup>	\$/m <sup>2</sup> NLA	WALE	Vendor	Purchaser	Sale Date
45 Brandl St, Eight Mile Plains	SE	B	5.30	8.87 <sup>^</sup>	1,527	3,471	4.8	Harvest Property	Private Investor	Dec 14
2078 Logan Rd, Upper Mount Gravatt	SE	B	9.60	6.23 <sup>#</sup>	1,756	5,467	1.0	Private Investor	Private Investor	Nov 14
1993 Logan Rd, Upper Mount Gravatt	SE	B	5.50	n/a <sup>#</sup>	1,600	3,438	n/a	Civic Solutions	Harvest Education Technical College	Oct 14
53 Brandl St, Eight Mile Plains	SE	A	10.25	8.68	3,007	3,409	1.1	Industria REIT	Benlee Stronghold Property Trust No 9	Sep 14
485 Kingsford Smith Dr, Hamilton	INE	A	62.00	8.03	9,328	6,647	9.6	Leighton Properties	360 Capital Office Fund	Apr 14
Building 2, Westlink Green, Darra	W	A	13.02	8.59	2,915	3,978	8.5	BTP Westlink Green	Heathley Asset Management	Feb 14
Bld 20, 2404 Logan Rd, Eight Mile Plains	SE	A	20.95	8.16	3,568	5,873	6.2	OPD Pty Ltd	Investec Australia Property Fund	Feb 14

<sup>^</sup> passing yield <sup>`</sup> pre-sale <sup>#</sup> property has future development potential to 15 storeys

Source: Knight Frank #The vendor will lease back 590m<sup>2</sup> on the ground floor for two years and the purchaser will owner occupy the whole of the upper level

The largest sale during 2014 was the \$62 million purchase by 360 Capital Office Fund of 485 Kingsford Smith Drive at Hamilton in the Inner North East precinct, developed in 2013. The sale had been conditional on the successful listing of the AREIT. The core market yield of 8.03% reflected the demand for core assets and appeared to include little to no premium for the building being outside of the recognised Brisbane Fringe market.

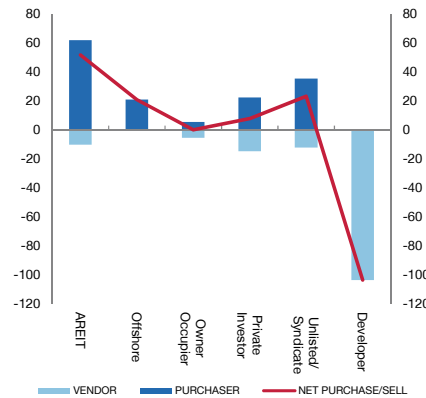
The other major sale of 2014 was Bld 20, 2404 Logan Road, Eight Mile Plains which was purchased by the Investec Australia Property Fund for \$20.95 million and was the only significant offshore investment in the Brisbane Suburban market. The core market yield of 8.16% reflected the good tenant covenants and WALE of 6.2 years.

Private investor and owner occupier activity is expected to be supported by the continued low interest rate environment over the course of 2015. Owner occupiers will have strong purchasing power for assets with partial or significant vacancy where the vacant space suits their business needs. Private investors are continuing to grow their presence in both the industrial and also the suburban office markets in the search for greater returns. For smaller assets with one or two tenants on long leases the yields achieved may be tighter than the larger end of the market, due to the strong competition between private investors and SMSFs for the relatively few such assets available.

For the larger investment market, prime core market yields are currently in the range of 8.00% - 8.75%, with the yield being driven more by asset and tenant quality than location at this stage of the cycle. Prime yields, particularly if a modern, core asset with a long WALE was offered to the market, would continue to test the 8.0% barrier.

Secondary yields are expected to continue to trade across a wide band with the older style buildings facing very different outcomes based on their tenant profiles. The current range for secondary core market yields is 8.75% - 10.00% and this is expected to remain relatively stable over the course of 2015.

FIGURE 5  
Brisbane Suburban Office Sales 2014  
\$ million sales \$5 million+



Source: Knight Frank

“Prime core market yields in the suburban market are currently in the range of 8.00% - 8.75%, with the yield being driven more by asset and tenant quality than location at this stage of the cycle.”

## Outlook

- Supply is expected to be higher during 2015, boosted by the 12,500m<sup>2</sup> construction at Springfield. In the medium term construction is expected to remain steady, but slow, as larger projects remain subject to pre-commitment to commence and only smaller buildings will be constructed speculatively.
- Occupier demand is also expected to remain in line with recent years in the short term with any larger tenants also being offered strong deals to upgrade to the Fringe or CBD market.
- With both supply and demand expected to be quite stable over the coming year the vacancy rates are expected to remain at similar levels. There has been improved take-up associated with newer assets, however older assets with major tenant expiries may struggle to hold these tenants as they investigate options to upgrade.
- Rents are expected to remain under pressure, with incentives at 28% - 30% the norm across the market. Face rents for prime space now appear to have stabilised while secondary space, particularly un-refurbished, may continue to require discounting.
- The current upswing in investment demand across Australia has tightened the investment market over 2013 and 2014. As purchasers are forced to look wider for higher yielding or value-add assets they have already demonstrated the ability to look beyond traditional CBD and Fringe markets. Greater purchasing activity in the suburban market has largely been held back by a lack of stock of a suitable scale to attract institutional investors.
- Prime yields have firmed by at least 25bps over the past year and will remain on a downward trend during 2015.



**RESEARCH**

**Jennelle Wilson**  
Director— Research QLD  
+61 7 3246 8830  
[Jennelle.wilson@au.knightfrank.com](mailto:Jennelle.wilson@au.knightfrank.com)

**Matt Whitby**  
Group Director  
Head of Research & Consulting  
+61 2 9036 6616  
[Matt.Whitby@au.knightfrank.com](mailto:Matt.Whitby@au.knightfrank.com)

**CAPITAL MARKETS**

**Ben McGrath**  
Managing Director—QLD  
+61 7 3246 8814  
[Ben.McGrath@au.knightfrank.com](mailto:Ben.McGrath@au.knightfrank.com)

**Justin Bond**  
Senior Director— Institutional Sales  
+61 7 3246 8872  
[Justin.Bond@au.knightfrank.com](mailto:Justin.Bond@au.knightfrank.com)

**Richard Morrison**  
Director— Commercial Sales  
+61 7 3246 8846  
[Richard.Morrison@au.knightfrank.com](mailto:Richard.Morrison@au.knightfrank.com)

**Tom O'Driscoll**  
Sales Executive — Commercial Sales  
+61 7 3246 8827  
[Tom.O'Driscoll@au.knightfrank.com](mailto:Tom.O'Driscoll@au.knightfrank.com)

**OFFICE LEASING**

**Andrew Carlton**  
Senior Director— Office Leasing  
+61 7 3246 8860  
[Andrew.Carlton@au.knightfrank.com](mailto:Andrew.Carlton@au.knightfrank.com)

**Shane Van Beest**  
Director— Office Leasing  
+61 7 3246 8803  
[Shane.VanBeest@au.knightfrank.com](mailto:Shane.VanBeest@au.knightfrank.com)

**Nicholas Ritchie**  
Leasing Executive — Office Leasing  
+61 7 3246 8824  
[Nicholas.Ritchie@au.knightfrank.com](mailto:Nicholas.Ritchie@au.knightfrank.com)

**Matt Barker**  
Leasing Executive — Office Leasing  
+61 7 3246 8810  
[Matt.Barker@au.knightfrank.com](mailto:Matt.Barker@au.knightfrank.com)

**VALUATIONS**

**Peter Zischke**  
Director  
+61 7 3246 8811  
[Peter.Zischke@qld.knightfrankval.com.au](mailto:Peter.Zischke@qld.knightfrankval.com.au)

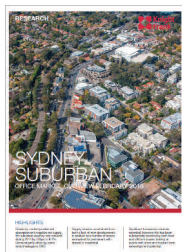
**Suburban Market Definitions:**

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 East** (which includes the PCA precinct of Upper Mt Gravatt & Macgregor plus areas such as Eight Mile Plains).

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