

A photograph of a modern, multi-story office building with large glass windows and a flat roof. The building is surrounded by greenery and a paved area. The sky is blue with scattered white clouds.

MARCH 2014

BRISBANE SUBURBAN

Office Market Brief

HIGHLIGHTS

- There are currently four suburban office buildings (over 1,000m²) under construction, totalling 21,100m². This adds to the 12,542m² of space completed over the course of 2013. The suburban market is expected to remain largely pre-commitment led for the larger projects, with some smaller speculative construction in the office parks.
- The vacancy rates across the PCA tracked suburban markets indicate a stable market for Chermside which is unchanged at 6.7% vacancy as at January 2014. At the same time Upper Mount Gravatt/Macgregor has increased from 7.4% to 9.1% over the six month period. The analysis undertaken by Knight Frank over the Inner North Eastern region shows a marginal fall in the vacant space to 10.1% as at January 2014.
- Investment demand for Brisbane suburban assets has increased in line with the broader improvement in the investment market. While private investors are active in the smaller end of the market, there is also increased presence from syndicators and other institutional funds. Yields for prime suburban assets have firmed slightly over the past six months to range between 8.25% - 9.00% across the market.

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Table 1
Selected Brisbane Suburban Office Market Indicators as at January 2014

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	28.0	8.25 – 8.75
Upper Mt Gravatt & Macgregor	102,494	9.1	-1,126	-	410	28.0	8.25 – 9.00
Inner North East	139,912	10.1	824 [^]	#6,554	475	28.0	8.25 – 8.75
Total **	276,704	9.3	-841				

Source: Knight Frank/PCA ** represents the totals only for the precincts above, does not reflect the whole Brisbane suburban market [^]6mths # 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

Supply for the suburban Brisbane market continues to trickle on at a steady rate with 12,542m² of new supply in significant projects added during the calendar year of 2013. The largest of these was KSD1, 485 Kingsford Smith Drive, Hamilton which is the first major commercial component of the Hamilton Northshore redevelopment area. The complex has 7,298m² of office accommodation with a ground level and adjoining retail component of 2,028m², anchored by a Woolworths of 1,126m². Following the commitments of Devine and Dominos during construction, one floor remains available for lease.

At this time there are four projects under construction with three of these to be completed during 2014. This supply is

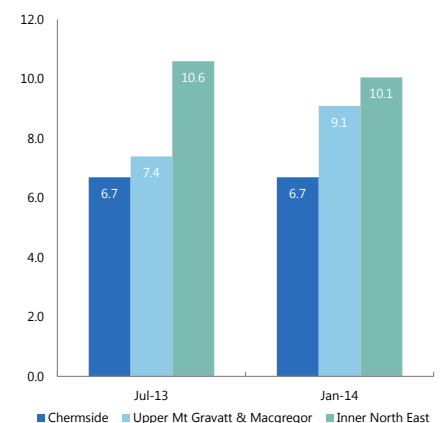
spread across the precincts with the Inner North East represented by the 3,000m² Stage 1 of the BTP Hamilton which is in early construction. The West is represented with projects at Station Rd, Darra, which is 80% committed and the 12,500m² facility under construction at Springfield which is majority pre-committed to GE Aust. On the South there is a 3,150m² facility under construction at the Brisbane Technology Park, Eight Mile Plains with that building committed to Metro South Health (Qld State Govt). The majority of longer term future supply is expected to continue to come from the existing business parks such as the Brisbane Technology Park redevelopment, Freeway Office Park, BTPs at Darra and Hamilton and the Cannon Hill Office Park. Outside of these precincts new developments at Buranda (The Boulevard) and Dutton Park (Boggo Road) are expected to come on line in the medium term.

Tenant Demand & Rents

Tenant demand remained relatively sluggish, as with the wider commercial market, over the course of 2013. Increased tenant activity, particularly in the Inner North East, has been in evidence in early 2014 with tenants demonstrating a greater propensity to take action. The vacancy in this precinct has fallen to 10.1%, over the past six months recording 824m² of net absorption.

Face rentals have remained stable at \$400 – 410/m² gross for Chermside and Upper Mt Gravatt however have softened to \$475/m² for the Inner North East. Across the board there has been a steady increase in incentives, which now average 28%.

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



Source: Knight Frank/PCA

Table 2
Major Office Supply — Brisbane Suburban

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	81%	Complete	Sep 12
485 Kingsford Smith Dr, Hamilton	Inner NE	7,298#	89%	Complete	Mar 13
12 Electronics St, EMP	South	1,988	81%	Complete	Jun 13
Freeway Office Park, Bld 3, EMP	South	4,000	66%	Complete	Jul 13
383 Macarthur Ave, Hamilton [^]	Inner NE	3,000	-	U/C	Sep 14
18 Station Rd, Darra	West	2,441	80%	U/C	Mar 14
51 McKechnie Dr, EMP	South	3,150	100%	U/C	Jun 14
David Henry Way, Springfield	West	12,500	85%	U/C	Mar 15

Source: Knight Frank U/C = under construction EMP = Eight Mile Plains # office component
[^]part of BTP Northshore Hamilton

Investment Activity & Yields

Investment demand is on the increase across the board, and the suburban Brisbane market is no exception to this trend. With the majority of assets on a smaller scale, the market has become hotly contested by private investors, syndicators and selected domestic trusts.

The most significant sale of the past six months is the \$62 million purchase of KSD1, 485 Kingsford Smith Drive, Hamilton by 360 Capital. The property was contracted late in 2013 for inclusion in the 360 Capital Office Fund. The property transacted on a reported core market yield of 8.25% reflecting the premium paid for the WALE of 9.1 years.

Outside of this larger sale, the market has been dominated by sub-\$10 million transactions with the Denison Diversified Property Trust purchasing three assets in Eight Mile Plains as part of a larger portfolio purchase. Future investment opportunities are largely linked to the development in the sector, with the pre-committed building at Parkside, Springfield currently on the market. With yields across the market on a firming trend, the suburban markets can provide higher returns for investors willing to broaden their outlook past the traditional CBD and Fringe markets.

Table 3
Recent Leasing Activity Brisbane Suburban

Address	Region	Area (sq m)	Face Rental (\$/m ²)	Term (yrs)	Tenant	Start Date
18 Station Rd, Darra	W	833	375 n	10	Cement Australia*	Mar 14
18 Station Rd, Darra	W	1,108	350 n	8	BTP Services*	Mar 14
543 Lutwyche Rd, Lutwyche	INE	1,000	undis	undis	Service Stream	Mar 14
543 Lutwyche Rd, Lutwyche	INE	800	undis	4	AIPT	Feb 14
20 Hudson Rd, Albion	INE	732	430 g	5	SkyNet Satellite	Jan 14
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
37 Brandl St, Eight Mile Plains	S	1,295	360 g	5	Assa Abloy	Aug 13
Source: Knight Frank g gross n net ^Sub-lease # Effective *Pre-commitment/new space						
INE = Inner North East, S = South, W = West						

Outlook

Development activity, albeit mostly on a smaller scale, is continuing through the Brisbane Suburban market. Most development is either pre-committed or a smaller speculative development. With a number of office parks and mixed used developments either underway or with development approval, there is set to be a steady supply of suburban office space into the future as demand warrants.

This will continue to place pressure on existing secondary stock, with tenants generally keen to embrace more modern accommodation. There has been pressure to grow incentive levels over the past six months, and this is expected to continue in the short term, despite some early good signs in the market.

Investment demand has built to the extent that yields are contracting for prime assets, but purchasers are expected to remain selective of the location and tenant profiles.

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
Bld 20, 2404 Logan Rd, Eight Mile Plains	S	20.95	8.25^	3,568	5,872	c6.0	OPD Pty Ltd	Investec Australia Property fund	Feb 14
107 Miles Platting Rd, Eight Mile Plains#	S	7.17	undis	2,841	2,526	1.8	APGF Real Estate Investment Trust (Centuria)	Denison Diversified Property Trust	Jan 14
26 Brandl St, Eight Mile Plains#	S	4.91	undis	2,443	2,012	3.4			
77 Brandl St, Eight Mile Plains#	S	5.01	undis	2,892	1,733	2.3			
485 Kingsford Smith Dr, Hamilton~	INE	62.0	8.25	9,328	6,647	9.1	Leighton/Devine	360 Capital Office Fund	Dec 13
18 Mt Gravatt-Capalaba Rd, Upper Mt Gravatt	S	7.10	8.85	2,100	3,381	1.6	Private Investor	Private Investor	Sep 13
3360 Pacific Hwy, Springwood	S	11.3	7.42^*	5,968	1,893	n/a	Receivers	Private Investor	Oct 13
Source: Knight Frank ^ passing yield #part of a national portfolio sale of five assets ~subject to capital raising & ASX listing * sold 44% vacant									
INE = Inner North, S = South									

Americas

USA
Bermuda
Brazil
Canada
Caribbean
Chile

Australasia

Australia
New Zealand

Europe

UK
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
The Netherlands
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
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Tanzania
Uganda
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Knight Frank Research

Jennelle Wilson

Director – Research QLD
+61 7 3246 8830
Jennelle.Wilson@au.knightfrank.com

Matt Whitby

National Director
Head of Research & Consultancy
+61 2 9036 6616
Matt.Whitby@au.knightfrank.com

Knight Frank Valuations

Peter Zischke

Director
+61 7 3246 8811
Peter.Zischke@qld.knightfrankval.com.au

Commercial Agency Contacts

Grant Whittaker

Managing Director – Queensland
+61 7 3246 8888
Grant.Whittaker@au.knightfrank.com

Ed Sutton

Director – Capital Markets
+61 7 3246 8814
Ed.Sutton@au.knightfrank.com

Richard Morrison

Director – Commercial Sales
+61 7 3246 8846
Richard.Morrison@au.knightfrank.com

Andrew Carlton

Director – Office Leasing
+61 7 3246 8860
Andrew.Carlton@au.knightfrank.com

Shane Van Beest

Associate Director – Office Leasing
+61 7 3246 8803
Shane.VanBeest@au.knightfrank.com

Nick Ritchie

Leasing Executive – Office Leasing
+61 7 3246 8824
Nicholas.Ritchie@au.knightfrank.com

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