

- Demand for suburban space remains steady from defence and technology
- The major business parks dominate demand and investment activity
- Investment activity has slowed as debt costs have impacted the market



Brisbane Suburban Office

Market Report, February 2023

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BROAD RANGE OF INVESTORS

The maturation of the Brisbane suburban market has seen it emerge as an important asset class to include in a balanced portfolio



The Key Insights

A total of \$479million in transactions was recorded in Brisbane's suburban office market during 2021. In contrast, only \$266.66million in transactions were reported in 2022, a 44% decrease.

Short term, the investment market is being impacted by the global cost of debt increases, in place to get inflation under control. Longer term, Brisbane remains poised to benefit from the Golden Decade leading into the Olympics, with major infrastructure coming online in the coming years.

Dominated by domestic buyers, suburban office investments are attractive to those seeking exposure to the office market at a lower price point and outside the CBD & surrounds. Assets secured with strong core tenants, well positioned, and ESG accredited will remain strongly sought as suburban office precincts offer unique benefits.

After only adding new supply of 7,088sqm during 2021 + 2022 supply is set to surge in 2023 with just under 17,000sqm currently under construction, spread across the major office parks.

Inflation induced monetary policy increases, impacting economic growth and sentiment

The economic environment has been volatile over the past two years with COVID-19 induced lockdowns, supply chain issues and substantial government stimulus spending, triggering an inflationary response. Inflation in Australia reached 7.8% for the December 22 quarter, largely in line with recent forecasts. The expectation is that inflation will begin to moderate in 2023, with recent data indicating this might be slower than first anticipated.

The necessity to rein in inflation before it becomes entrenched has meant that central banks have reacted swiftly. The cash rate increased in May 2022 for the first time since late 2010 and subsequently has risen nine times over ten months. This moved the cash rate from a covid-induced low of 0.1% to the current 3.35%. The RBA remains steadfast that inflation outside of the target band needs to be temporary. On balance, expectation remains that further cash rate increases will occur in 2023, although at a slower pace to 2022. Economists forecast a peak in cash rates between 3.85% and 4.00%.

The rising cash rate and subsequent increase in debt costs has had an immediate impact on the property market with a slow down in transactions across all asset classes. However to date, they have been slow to dampen consumer spending and economic growth. The latest data for retail spending to December 2022 indicates a minor fall over the month from the cyber sales induced peak in November 2022, however remains 7.5% higher than a year ago and 27% above pre-COVID levels. The latest GDP result of 0.6% growth in Q3-22 resulted in an annual GDP uplift of 5.9%, still benefitting from the strong bounce back of Q4-2021. While economic growth is expected to moderate to 1.5%-1.75% for CY 2023, this remains well ahead of most advanced economies.

SUPPLY & DEVELOPMENT

Supply concentrated in established office parks

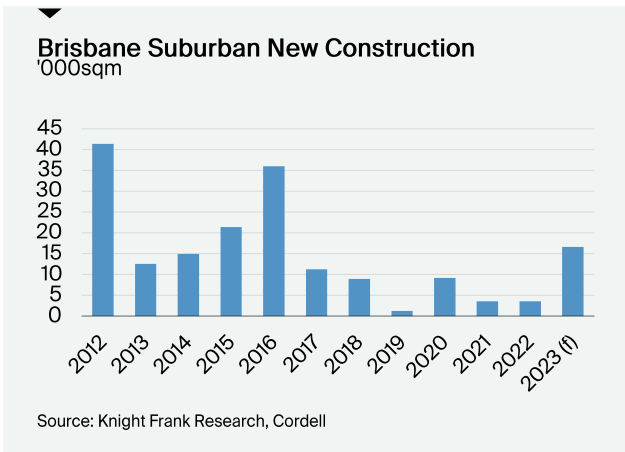
There has been limited recent supply in Brisbane's suburban office market. 2020 saw a speculative development delivered in the established office park of Freeway Office Park and a 7,000sqm pre-committed building for Super Retail Group in Strathpine. In 2021 significant supply was limited to Hamilton Northshore with 385 Macarthur Ave completed late in the year. Similarly 2022 supply was limited to the recently completed pre-committed development for Michael Hill Jeweller in Cannon Hill.

With many of the business parks in Eight Mile Plains now only having one or two development sites remaining the focus is expected to return to closer business parks such as BTP Northshore, Hamilton, which has greater land availability. Hamilton has strong transport links and will gain market focus as the location for the Olympic Village.

2023 completions expected to be the highest in 7 years

Southgate Business Park in Cannon Hill also remains popular with the recent completion of the Michael Hill development to be soon followed by the construction of the Raytheon Building in 2023, adding another corporate tenant to the area, alongside NAB, Honeywell and Queensland Government.

Suburban supply is expected to surge in 2023 with just under 17,000sqm currently under construction. This is spread across the major office parks and this trend for construction to be concentrated within existing hubs is likely to continue in the medium term.



SUPPLY

RECENTLY COMPLETED:

- 34 Southgate Avenue, Cannon Hill
3,520sqm, 100% Pre-commit Michael Hill Jeweler
- 385 Macarthur Avenue, Hamilton (Dec 2021)
3,568sqm (100% Occupied)

UNDER CONSTRUCTION:

- 101 Southgate Ave, Cannon Hill
7,734sqm (inc 1,235sqm warehouse)
100 % committed Raytheon
- 5 Miles Platting Road, Eight Mile Plains
3,000sqm (estimated completion 2023)
- 391 Macarthur Avenue, Hamilton
3,592sqm (estimated completion May 2023)
- Bld 14, Freeway Office Park, Eight Mile Plains
2,300sqm (estimated completion early 2023)

DEVELOPMENT APPROVAL:

- 11 Corporate Drive, Cannon Hill (3,350sqm)
- 23 Miles Platting Road, Eight Mile Plains (3,778sqm)
- 28 King Street, Caboolture (2,855sqm)
- 7-9 Westmoreland Boulevard, Springwood (1,500sqm)
- 70 Park Road, Yeronga (6,099sqm)
- 35 Hi-Tech Court, Eight Mile Plains (4,310sqm)
- 1068 Wynnum Road, Cannon Hill (Southgate 2 - 23,000sqm)
- 45 Hi-Tech Court, Eight Mile Plains (3,530sqm)
- 12 Hercules Street, Hamilton (CIMIC Building—15,178sqm)
- 2634 Logan Road, Eight Mile Plains (2,036sqm)

Projects with active planning schemes. Excludes mooted and abandoned schemes, however not all of the above are actively marketing at this time.

BROAD TENANT DEMAND

Population growth and infrastructure investment is driving demand for Brisbane suburban space

Brisbane's population has increased by 19.6% over the 10 years to July 2021 (ABS) to be 2.57 million persons, just under half of the total population of Queensland.

Higher level data shows that Australia's growth rate for the year to June 2022 has recovered from the pandemic lows to sit at 1.1%, still below the 10-year average of 1.6%. Of the states, Queensland recorded the highest annual growth of 2.0% or 104,405 persons (compared with a 10-year average of 1.6%), largely driven by strong net interstate migration.

Annual net inflow of 55,418 for 2021-22, the highest since 1994. However Q2 22 showed only 8,488 net inflow into Qld (less than any of the previous three quarters) which is reflective of a slow down in interstate relocations which often accompanies an increase in economic uncertainty.

There is ongoing significant infrastructure investment with the Cross River Rail now laying track in the completed tunnels. The \$5.4billion project will allow for greater commuter rail capacity, particularly for the Gold Coast and southern suburbs from 2025. The recently announced City Deal, an agreement across local, state and federal governments to facilitate regionally important infrastructure across bipartisan lines, has also ensured funding for the Brisbane Metro project—a network of dedicated high capacity busses within a defined busway system, also improving accessibility for the southern suburbs.

Employment growth has been strong

Employment conditions have remained strong, surpassing pre-COVID-19 levels by the end of 2020. The latest figures show that despite falls of employed persons in December. There are 210,600 more jobs than at the start of 2020. On a national basis there are 774,000 more jobs over the same period which indicates that 29% of additional jobs have been created in Queensland. The Queensland unemployment rate in December was 3.8%, up from a 14-year low of 3.3% in November.

Broad range of tenants seeking suburban space

Rental growth in the suburban market tends to be driven by the economic cost of new developments. Recent pre-commitments have indicated rents in the order of \$435-\$500 net, depending on location and improvements. Incentives do remain elevated and older or secondary stock does need to compete on a price basis.

Tenant demand is highest in modern or new builds within established office park precincts as these buildings provide the floorplate and green ratings required for corporate tenants. For tenants in sensitive industries such as defence, technology or even jewellery the benefits of having a stand-alone building are significant and suburban assets provide this option for tenants of under 10,000sqm. Business parks also provide an attractive alternative for employees seeking a shorter commute so the demographic profile in proximity to the office parks is important. These are also generally locations with ample car parking and easy access to arterial roads.

Recent significant tenant commitments

OCCUPIER	PROPERTY	SUBURB	SIZE SQM	FACE RENT \$/ SQM	INCENTIVE	TERM YRS	START DATE
Raytheon#	101 Southgate Avenue	Cannon Hill	6,499	435 n	Undisclosed	10	PC (2023)
Michael Hill Jeweller#	34 Southgate Ave	Cannon Hill	3,520	430 n	Undisclosed	10	PC (Q422)
Alliance	34 Corporate Drive	Cannon Hill	2,000	485 g	40%	7	Jul 22
Wenco International	31 McKechnie Drive	Eight Mile Pl.	1,245	290 n	30-35%	5	May 22
Multicap	7 Brandl Street	Eight Mile Pl.	1,395	450 g	40+%	5	Jan 22
Cornerstone Health	364 Ipswich Road	Annerley	1,320	486 g	25%	12	Feb 22
SimPro	2404 Logan Road	Eight Mile Pl.	2,400	405 g	35%	10	Aug 21

pre-commitment to whole buildings..... PC = practical completion n= net g = gross

CAPITAL MARKET ACTIVITY SLOWS

Transactions lower in 2022 but activity remains above pre-covid levels

Brisbane's suburban investment market has proven to be quite resilient in the face of falling investment volumes across investment markets, as the cost of debt increases impact. While 2022 volumes were lower than 2021, the suburban market overall has seen a significant upswing in total transactions recorded across the region over the past 2 years.

A record amount of \$479million in transactions \$10million+ were recorded in Brisbane suburbs during 2021. That was almost as much as the previous three years combined from 2018 to 2020. 2021 activity was dominated by the \$144.9 million purchase by property funds manager, Castlerock Property of the City Heart Building in Ipswich. The substantial asset provides 17,734sqm of prime office accommodation largely leased to Government tenants.

In the absence of a major sale 2022 recorded lower turnover at \$267million in transactions (\$10million+), a 44% decrease from 2021. Recent sales activity has been dominated by modern or brand new stock in Hamilton or Cannon Hill. This has continued the trend for business parks to dominate sales activity rather than stand-alone office assets as business parks are seen to provide the amenity and scale required to attract occupants and investment.

A recent example is the unlisted property fund Stronghold Investment's purchase of 391 and 385 Macarthur Avenue in the BTP Northshore precinct for a total of \$60.6 million. The transactions reflected passing yields of 5.93% and 5.73% respectively and a blended core market yield of c6% for the transaction.

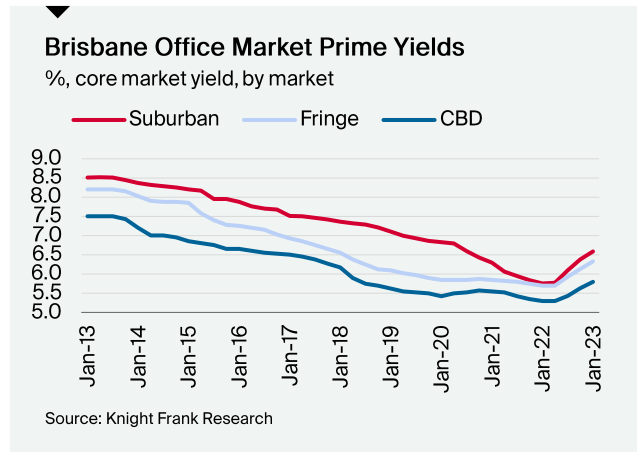
Yield reaction to higher funding costs is becoming clearer with more recent transactions

As with most capital markets the Brisbane suburban investment market paused from April 2022 as the changing monetary policy and debt cost environment impacted on affordability. Activity paused for a number of months with 2/3rds of the annual turnover recorded in the second half of the year. As more sales have finalised this has given a clearer picture of the impact of higher debt costs on yields.

Yields have softened since the low-point reached in early 2022 and median core market yields were 82bps softer as at January 2023. The current range of 5.9% - 7.25% across the five suburban precincts represents a median of 6.58%.

Anecdotally the potential sale of 101 Southgate St, Cannon Hill, a 10-year pre-committed fund through development, will represent a core market yield of 6.25%. A similar, although smaller project with a 10 year pre-commitment sold for a core market yield of 5.0% in mid-2021. It is therefore likely that some further yield softening will emerge into 2023 if debt costs remain elevated. The perceived stabilisation in inflation both locally and in the US will give buyers greater confidence that yields will soon stabilise.

The suburban market is dominated by domestic buyers and these have largely been unlisted funds and syndicates. The relatively smaller asset size means there is a wide pool of potential buyers ranging from private investors through to smaller REITS and wholesale funds. This broad demand should assist to return volume to the sales market in 2023.



SUBURBAN TRANSACTIONS

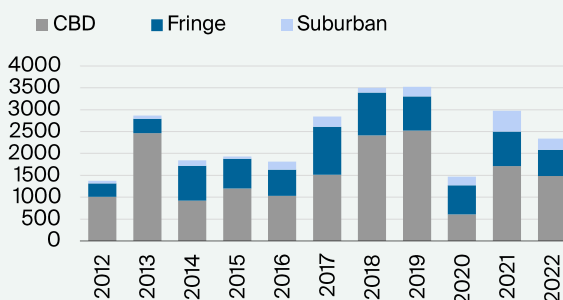
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“As more sales have finalised this has given a clearer picture of the impact of higher debt costs on yields “

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Brisbane Office Investment Sales \$10m+

\$m office sales by market



Source: Knight Frank Research, RCA

Recent significant sales

PROPERTY	PRICE \$M	CORE MARKET YIELD %	NLA SQM	\$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
385 Macarthur Avenue, Hamilton	30.60	c6.0%	3,568	8,576	5.00	Stronghold	Alceon	Sep-22
391 Macarthur Avenue, Hamilton #	30.00	c.6.0%	3,592	8,351	5.00~	Stronghold	Alceon	Sep-22
7 Smallwood Place, Murarrie	13.65	VP	3,277	4,165	VP	Alceon	Ozcorp Capital	Sep-22
365 Macarthur Avenue, Hamilton	43.50	5.30	5,040	8,631	9.20	RF Cor Val	Lederer Group	Jul-22
1 Westlink Court, Darra	14.00	-	2,404	5,823	3.30	Stronghold	Graystone	Jul-22
31 Mckechnie Drive, Eight Mile Plains	10.18	5.89	1,585	6,419	4.60	Janet Scott Property	Eight Mile Properties	Jul-22
1 Miles Platting Road, Eight Mile Plains	19.73	6.43	2,808	7,028	2.83	Southern Cross Group	Alceon	May-22
461-473 Lutwyche Road, Lutwyche	16.87	6.10	3,217	5,245	6.50	Properties & Pathways	Alceon	Apr-22
96-98 York Street, Beenleigh	33.50	5.49	4,669	7,277	8.42	Unity Office Fund	Alder Constructions	Feb-22
665 Fairfield Road, Yeerongpilly	36.25	5.88	4,198	8,635	8.00	Certane	Ascot Capital	Nov-21
240 Waterworks Road, Ashgrove	51.90	5.56	5,712	9,086	6.93	Elanor	Private Investor	Nov-21
117 Brisbane Street, Ipswich	144.90	6.28	17,734	8,170	6.51	Auslink Prop Trust 2 (Castlerock)	Cromwell Prop Gp	Oct-21
34 Southgate Avenue, Cannon Hill#	36.0	5.0	3,520	10,227	10.0	Irongate REIT	Cannon Hill Developments	Aug-21
444 Logan Road, Stones Corner	13.90	6.20	1,974	7,041	5.27	MRS Property	Aquetas Property	May-21

fund through ~rental guarantee ^transferred again July22 from Irongate to 360 Capital as part of the Irongate portfolio wind-down for \$40.45m and not considered to reflect market value

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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