- *Tenant engagement from larger users will improve from mid-year*
- *Investment market activity is rebuilding after a slow 2020*
- *Brisbane is well placed long term as its profile grows on the global stage*

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Brisbane CBD Office

Market Report, April 2021

BRISBANE CBD READY FOR POST COVID EXPANSION

As greater certainty returns to the local and global health and economic outcomes there is a welcome return in confidence and transaction activity in the Brisbane CBD

13.6%
VACANCY

35%
of all leasing deals 2020+2021ytd were to professional services

$530+
MILLION UNDER CONTRACT

"The wildcard in the market remains the sub-lease space being marketed - the actions of tenants over the next 12 months on this space—to either re-occupy or relinquish has the potential to move the needle for the total vacancy rate."

The Key Insights

Despite limited supply additions in H2 2020, negative net absorption of −13,513sqm saw vacancy increase to 13.6%. Vacancy will increase again to 15.7% mid-2021 under the pressure of further negative net absorption and new supply.

Prime and secondary gross effective rents have fallen by 6.5% and 7.5% respectively since the onset of COVID-19. The majority of this has come from increased incentives. Effective rents will stabilise late 2021.

Large tenant activity has remained slow, although there are a number of significant decisions with announcements imminent. During 2020 and 2021 ytd 85% of leasing activity (excluding renewals) was for tenants sub-1,000sqm.

Investment turnover was low in 2020 at $607.6 million. Activity has returned to the market in 2021 with $210 million settled and a further c$530 million under contract, pointing to a strong year.

Yields have remained firm for core assets with the yield band widening to reflect assets with short term vacancy exposure.

City CBD Office Market Indicators—April 2021

GRADE	TOTAL STOCK SQM^	VACANCY RATE %^	ANNUAL NET ABSORPTION SQM^	ANNUAL NET ADDITIONS SQM^	AVERAGE GROSS FACE RENT $/SQM	AVERAGE INCENTIVE %	EFFECTIVE RENTAL GROWTH % YOY (gross)	AVERAGE CORE MARKET YIELD %*
Prime	1,280,206	11.6	-2,629	7,072	772	38.5	-4.5	4.85-6.20
Secondary	992,821	16.3	-7,178	5,675	615	42.0	-6.9	6.15-7.40
Total	**2,273,027**	**13.6**	**-9,807**	**12,747**				

Source: Knight Frank Research/PCA ^ as at I January 2021 PCA Data *assuming WALE 5.0 years

RECOVERY FASTER THAN EXPECTED

The Australian and Queensland economies have regained the ground lost to the pandemic more quickly than initially forecast.

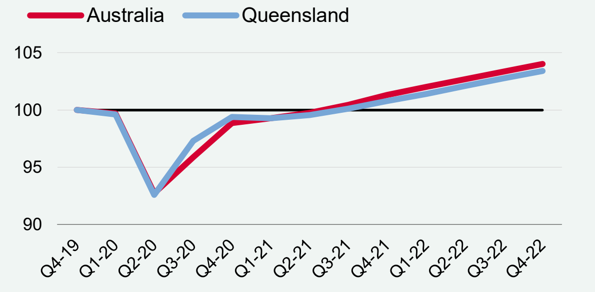
The necessary measures taken by Governments across the globe to control personal movement and lockdown regions to slow the spread of the COVID-19 virus did have a severe impact on economic output. Australia entered recession (two consecutive quarters of negative growth) for the first time since 1991 in Q2 2020.

As the economy began to re-open during Q3 the rebound was also surprisingly fast. The size and speed of the economic stimulus applied by the Federal Government was central to this, allowing companies to remain open and pay wages while business activity was low/recovering. The Queensland and Australian economy are set to exceed previous output levels by Q3 2021, which is a far faster recovery than modelled at the start of the pandemic.

While Queensland's acceleration was initially higher than the country as a whole, due to the earlier opening of offices, retail and education facilities, future growth is set to be more in line with the national movement. From 2022—2025 both the Australian GDP and Queensland GSP growth is forecast to range between 2.5% - 3.0% per annum (Oxford Economics).

Depth and duration of economic downturn

Index GSP/GDP, 100=Peak Q4-19



Source: Knight Frank Research, Oxford Economics (trend)

South East Queensland Olympic win to provide a boost to confidence and infrastructure investment

The installation of South East Queensland by the IOC as the preferred bidder for the 2032 summer Olympic games has boosted sentiment across the market. While the focus will be on adaptive use of existing facilities and potential temporary facilities, given the new focus on hosting affordable and sustainable Olympics, there are likely to be direct benefits to CBD or inner city precincts chosen for new indoor entertainment centres/arenas. These are likely be built in locations with potential for urban regeneration linked to the new Cross River rail stations—ie Woolloongabba, Roma Street Precinct in the CBD and/or Bowen Hills.

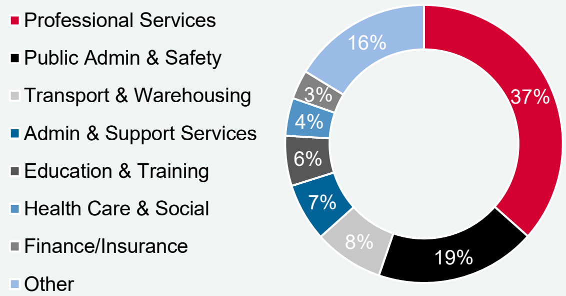
Recovery in employment has been above expectations

Employment in Queensland rebounded quickly after the shock of an 8.4% fall in employed persons across March, April and May of 2020. This has been followed by steady gains since June 2020 with ABS data showing that total employment in Queensland had exceeded the previous high of February 2020 by December 2020. These increases have continued into 2021 with a further uplift of 26,380 employed persons (part time and full time) in January & February meaning that as at February 2021 the number of employed persons in Queensland was 33,632 higher than in February 2020.

The forecast of office workforce growth from Oxford Economics indicates an uplift of 15% across the next five years (c3% p.a) for the Brisbane CBD with professional services and public administration to dominate, as expected.

Brisbane CBD Components of Growth

5yr growth in office workforce



Source: Knight Frank Research, Oxford Economics

TENANT CONFIDENCE IMPROVING

Leasing activity dominated by smaller tenants.

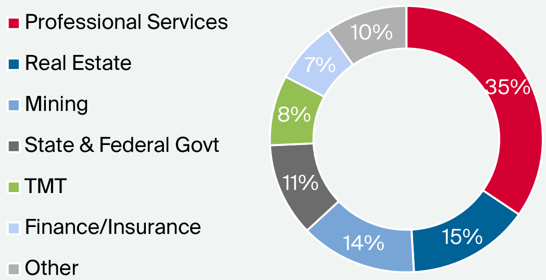
Smaller tenants have continued to dominate leasing activity during 2020 and into 2021 with 65% of deals concluded being sub-500sqm. A further 20% of deals by number were 500—1,000sqm. Smaller tenants have been noticeably more nimble with shorter lease terms, strong deals on offer and greater clarity around their immediate office space needs (ie less adoption of or less impact on fitout of WHF) the likely drivers.

35% of take-up was to professional services firms

Take-up by tenant type showed a fairly traditional pattern for the Brisbane market with 35% of take-up (by area) for Professional Services firms well ahead of TMT (Technology, Media & Telecom) at 8.5% and Financial & Insurance (7.5%). The mining sector was also active with 14% of activity, this came both from BHP's expansion and also a number of smaller mining services firms.

To date, fewer long term lease decisions have been made by larger tenants than would have been expected, with several negotiation processes ongoing and progressing, but slow. Tenants active in the CBD market and expected to make their next location decision announcements soon include CUA (6,000sqm expected to go to 300 George St), KPMG (8,000sqm), McCullough Robertson (4,000sqm), APA Group (4,000sqm) and the Federal Govt Services Australia (formerly DHS) requirement of c38,000sqm. As these deals are formally announced to the market it will increase confidence for both the tenant and landlord markets.

2020 & 2021 ytd Brisbane CBD Leasing
by industry type



Source: Knight Frank Research

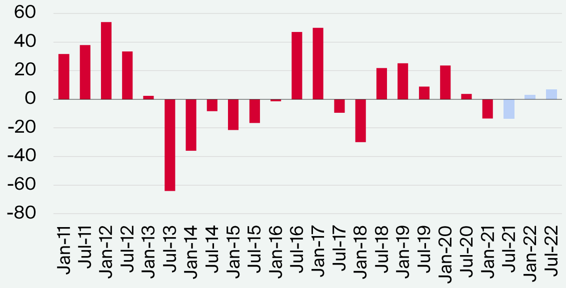
Negative net absorption is expected for H1 2021

Net absorption was negative during H2 2020 at -13,531sqm as corporates began to react to the lower desk utilisation levels created through the WFH policies introduced during lockdown. A further contraction of a similar quantum is expected for H1 2021 with – 13,417sqm of negative net absorption. Net absorption is expected to be neutral in H2 2021 before showing some minor improvement as economic improvement flows through to space acquisition .

Decisions on workspace design & size are ongoing

Despite the Brisbane CBD being able to have offices at least partially occupied since mid-2020 the re-population appears to have stalled in the mid-60% range (PCA Occupancy March 2021). National, international and many levels of government have kept occupation limits in place to be in line with global or national practices. Therefore, the true long-term behaviours of workers returning to central offices remains untested and is likely to be so until the vaccination programme is completed and social distancing no longer required. Nevertheless, the majority of surveys undertaken in Australia and elsewhere point to significant numbers of workers not expecting to return to a central office for a 5 day week. Companies are investigating and testing different strategies with few in implementation phase as yet, although this will emerge during 2021. The outcome for net absorption is likely to be mixed with fewer desks for task work per employee balanced by more informal spaces, AV rooms, auditory privacy rooms and mixed space designed to increase the desirability of choosing to work in an office location. These changing workplace designs will be a factor in net absorption over the coming years with the bulk of the changes aligned to lease expiry.

Brisbane CBD Net Absorption
'000 square metres



Source: Knight Frank Research/PCA

AT LEAST 160,000SQM OF SUPPLY NEXT 4 YRS

Completion of the 105,000sqm under construction in the next two years will limit the improvement in vacancy as tenant activity improves

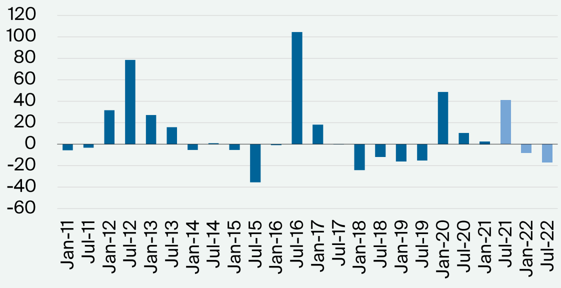
The near term supply cycle has remained unchanged in the CBD market with the two projects under construction to continue without changes to timing or size. The Midtown Centre remains on track for completion mid-2021 with 47% pre-committed.

The other major project at 80 Ann St is also well into construction for completion H2 2022 with the anchor tenant Suncorp. Suncorp is understood to have reduced its original pre-commitment in the building, however the addition of flex space provider Spaces (IWG) over c6,000sqm sees the project 73% pre-committed.

Given the current climate it is expected that the next major supply for the CBD will arise from the Federal Government DHS requirement for H2 2024. There does not currently appear to be the lead-time, pre-commitment activity or risk appetite to deliver an additional building to the one triggered by this major pre-commitment before 2025. Five projects were understood to be shortlisted.

The number of potential new projects for 2025+ has continued to increase, as seen on page 6. Outside of the projects covered above, under construction, there is over 500,000sqm in projects with development approval, active applications or mooted schemes. While the weight of money seeking investment into Brisbane saw many of these projects progress early 2020, the current more risk averse climate should keep the timing of delivery aligned with major pre-commitments.

Brisbane CBD - Net Additions
'000sqm net supply



Source: Knight Frank Research, PCA

From 2022-2024 there is expected to be an increase in full building refurbishment across the CBD as significant tenant relocations leave whole or substantial buildings vacant and ready for refurbishment.

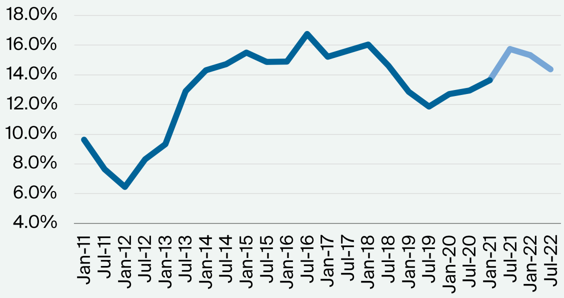
Peak in vacancy is expected in June 2021

The expected completion and inclusion into the stock figures of Mid-Town Centre, combined with forecast negative net absorption in H1 2021 will send the vacancy rate higher, to a peak of c15.7% in June 2021. Vacancy is expected to remain elevated during 2022 before beginning to see material decreases during 2023. In the medium term, vacancy is expected to remain above 12% through to 2024/25 which will continue to limit supply additions without substantial pre-commitment.

The wildcard in vacancy forecasts remains the level of sub-lease space being marketed for lease. The PCA sub-lease vacancy remained relatively low at 1.0% (22,600sqm) in the January survey, however this only represents space physically vacated by the sub-lessor. Across the CBD market Knight Frank is tracking approx. 50,000sqm of sub-lease space available for lease. The difference being that more than half of this space has not yet been physically vacated, although likely significantly under-utilised.

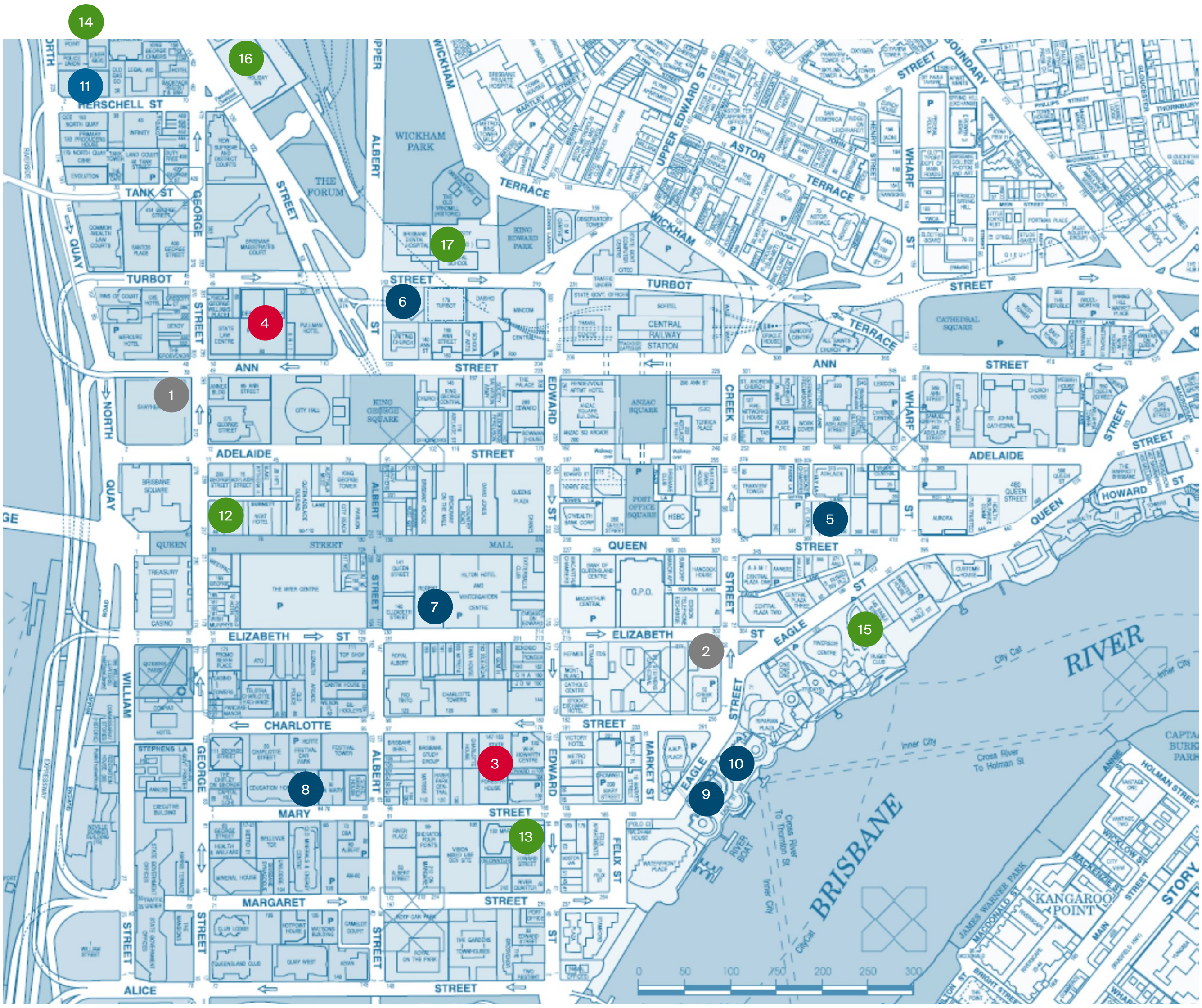
The actions of tenants over the next 12 months on this space—to either re-occupy or relinquish has the potential to move the needle for the total vacancy rate. Recently some full floors of sub-lease have been withdrawn from marketing, however new sub-lease space continues to be put on the market and about 7,500sqm of previously marketed but occupied space has transitioned to physically vacant in Q1 2021.

Brisbane CBD Vacancy
total vacancy rate



Source: Knight Frank Research/PCA

MAJOR OFFICE SUPPLY



RECENTLY COMPLETED

1. 300 GEORGE ST–47,700 SQM [URBIS/ TRANSURBAN/AMAZON}
   SHAYHER GP – 27% COMMITTED. H2 2019
2. 12 CREEK ST ANNEX–7,200 SQM [HUDSON RECRUITMENT]
   DEXUS PROP GP– 37% COMMITTED. H1 2020

UNDER CONSTRUCTION/ MAJOR PRE-COMMITMENT

3. MIDTOWN CENTRE 155 CHARLOTTE ST & 150 MARY ST–45,000 SQM [RIO TINTO]
   DMC PROJECTS/ASHE MORGAN– 47% COMMITTED. H1 2021
4. 80 ANN ST–60,243 SQM [SUNCORP]
   MIRVAC/M&G– 73% COMMITTED. H2 2022

NB Dates are Knight Frank Research estimates
Major tenant commitment in [brackets] net to NLA

DEVELOPMENT APPROVED

5. 360 QUEEN ST–38,000 SQM
   CHARTER HALL POF/ICPF– SITE WORKS TIMING STC
6. 343 ALBERT ST–50,160 SQM
   CHC 5%/GIC95% TIMING STC
7. 150 ELIZABETH ST–C42,000SQM
   ISPT– TIMING STC. MAY REFRESH DA
8. 62 MARY ST- 38,000SQM
   QIC–TIMING STC
9. WATERFRONT PRECINCT NORTH TOWER– 75,331 GFA SQM
   DEXUS APPROVAL APPEALED
10. WATERFRONT PRECINCT SOUTH TOWER– 60,000 GFA SQM
    DEXUS APPROVAL APPEALED
11. 205 NORTH QUAY–61,983 GFA SQM
    CBUS/NIELSON PROP. APPROVAL APPEALED

DEVELOPMENT APPLICATION/MOOTED/ EARLY FEASIBILITY

12. 60 QUEEN ST–26,592 SQM
    CHARTER HALL. DEV APPLICATION
13. 133 MARY ST ANNEX–12,226 SQM
    ARA. DEV APPLICATION
14. 309 NORTH QUAY–C55,000 SQM
    CHARTER HALL. DEV APPLICATION
15. 141 EAGLE ST–27,000 SQM
    GPT. MOOTED
16. GRIFFITH UNI CAMPUS–ROMA STREET CROSS RIVER RAIL STATION MOOTED
17. 200 TURBOT ST–TBC
    MIRVAC. MOOTED

FACE RENTS STABLE WHILE INCENTIVES CLIMB

Face rents have stabilised after decreasing late 2020. Incentives continue to increase as activity for medium to larger tenants remains low.

Prime face rents stabilised late 2020 and were unchanged in Q4 2020 and Q1 2021, but have fallen by 1.2% since the start of 2020. Landlords have been able to largely sustain face rents however incentives have continued to increase.

Average prime incentives are currently 38.50% but will be at 39% by the end of 2021. When 'soft incentives' such as extended lease start date, removed or reduced make goods and lessor's works are included the vast majority of prime deals are above 40%. Average prime incentives were 35% at the start of 2020 and have increased by 350bps since then. At this stage 39% is expected to be the peak for documented incentives, on average across the prime market, however additional inducements should also be factored in by landlords.

Prime effective rents have fallen by 4.5% in the year to April 21 and are 6.5% below the levels of January 2020, reflecting the COVID-19 impact. Effective rents are forecast to fall a further −2.1% to late 2021/early 2022 before stabilising. While the economic recovery has generally been faster than anticipated, the hesitancy from tenants and delays in major decision making will see the rental market remain soft for the next year. Longer term, effective rental growth is forecast to return to 2.5%-4.0% per annum from 2023+.

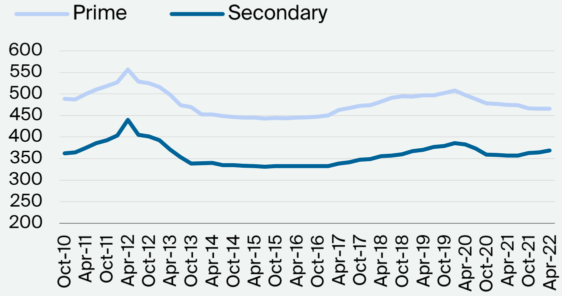
Significant tenant activity is on the horizon but largely decisions have been deferred

The lack of major deals negotiated during 2020 means there remains a question over the rental direction and potential resizing of tenancies as a more flexible workplace approach is taken. The largest tenant is play is the Federal Government DHS requirement for c38,000sqm in late 2024. The shortlist of five developments were required to submit final offers in early February and finalisation of the deal is expected during Q2.

The secondary market has recorded effective rental falls of −6.9% yoy to April 2021 (-7.5% since Jan 20) with stabilisation emerging mid-2021. Incentives have increased to 42% on average, the peak for this cycle. There have been a greater number of secondary, mostly small, deals done but competition between landlords is fierce.

Brisbane CBD Rents

$/sqm gross effective prime v secondary



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	FACE RENT $/SQM	INCENTIVE	TERM YRS	START DATE
Clarence Serviced Offices	95 North Quay	North Qtr	1,422	600	35-40	10	Sep 21
Sentinel Property Gp	240 Queen St	Financial	1,398	725	35-40	5	Jun 21
Credit Sense	133 Mary St	Midtown	807	605	35-40	5	Apr 21
Walshs	10 Eagle St	Financial	820	790	35-40	7	Apr 21
CleanCo	140 Creek St	Uptown	1,238	750	35-40	7	Mar 21
IBM	345 Queen St	Financial	1,105	765	40+	5	Feb 21
Dept of Health	32 Turbot St	North Qtr	1,100	715	Undisclosed	5	Oct 20

INVESTMENT TURNOVER TO GROW IN Q2

The drought of major transactions during 2020 is lifting as economic conditions improve and non-gateway cities return to focus

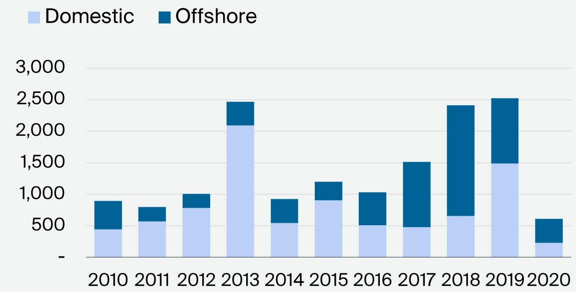
Transaction activity in the Brisbane CBD was low during 2020 with only $607.6 million in transactions across the year. This was the lowest total transaction level since the post-GFC hangover of 2008 & 2009. Offshore activity was limited to the settlement of the one major sale of 66 Eagle Street, which accounted for 63% of the total transaction activity. The remaining sales were to domestic players, dominated by the November 20 purchase of 340 Adelaide St by Forza Capital. The B grade asset was sold for $86.75 million with a core market yield of 6.40%. The multi-tenanted building had seen some good leasing traction post refurbishment and had a 2.3 year WALE.

Building on more assets formally offered to the market during late 2020, transaction activity is beginning to recover with a $210 million sale recently settled and a further c$530 million of CBD office assets under contract.

The building at 310 Ann St has traded for $210 million, settling in March 2021 after a lengthy campaign. The building is 45% leased to Allianz and 44% leased to the State Government with a rent guarantee over one level. The 7.4 year WALE was attractive to passive investors in the current climate with the core market yield reflecting 5.60%. The building was purchased by domestic player Ashe Morgan with 49% of the asset held by an offshore wholesale fund.

Brisbane CBD Office Sales $10m+

$m by purchaser location



Source: Knight Frank Research

Demonstration of occupier resilience and economic upside has seen buyer activity increase since Q4 2020

Under contract at the time of writing is 10 Eagle Street which is being sold by Dexus Office Trust Australia (CPPIB & Dexus Property Group). The contracted purchaser is local private syndicator, Marquette Properties which will acquire the property for $285 million.

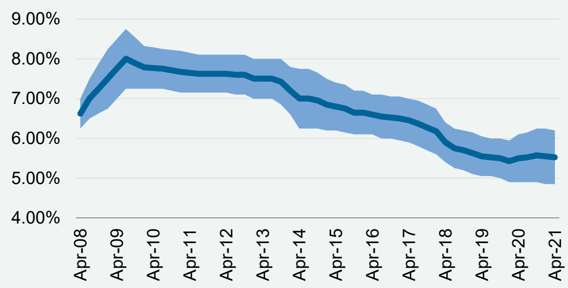
Also expected to transact shortly is 545 Queen St, offered to the market by interests associated with the Saragossi family. The 13,422sqm building is under contract for a reported $117 million to Cromwell Group, which reflects a core market yield of 6.10% and passing yield of 6.75% for the refurbished asset.

A joint venture between Charter Hall Group and Abacus Property Group (CHAB Office Trust) has contracted to purchase 241 Adelaide St in the Brisbane CBD for a total $63.5 million. The transaction, subject to conditional contracts, will occur through two tranches. The leasehold interest in the office building, a 10,107sqm B grade asset, is being sold by Australian Unity Office Trust for $31.5 million. The freehold component, currently owned by the Brisbane Club, is under conditional contract for $32 million, with a leaseback of up to 5 years plus options over the site and club facilities.

There remain relatively few CBD assets formally offered to the market, although that will change through the course of Q2. With recent campaigns resulting in successful sales, at firm yields, vendor confidence is improving. There is no doubt that purchaser appetite for Brisbane remains high, although non-core office is secondary to core office and industrial assets at this time on buyer radar.

Brisbane CBD Prime Yield Range

Core market yield range & median (3-5 year WALE)



Source: Knight Frank Research

Yields have held a tightening bias despite few transactions and limited offshore active buyers

Sales negotiated post-COVID-19 onset and the assets currently under contract are dominated by local buyers rather than offshore investors. While offshore money is currently heavily investing into the industrial market within Brisbane the office market appears less favoured. Whether this is a function of limited opportunities for inspection or changing allocation targets remains difficult to determine. This climate is providing local buyers the opportunity to gain greater positions in the market prior to the expected uptick in global recognition for Brisbane as the Olympic games draw closer, likely spurring a new tranche of global investment allocation into South East Queensland.

Nevertheless the yields achieved for recent and in-train sales have remained firm. As expected the prime yield band is widening to now be 4.85% - 6.20% with true core assets trading at tighter yields while exposed assets have a greater risk premium applied. Overall the sustained expansive monetary policy settings for the cash rate and 3 year bonds have kept funding costs low. The recent increases to both the Aust (1.69%) and US (1.74%) 10y treasury yields are still considered speculation, however if sustained will begin to impact longer term fixed interest rates.

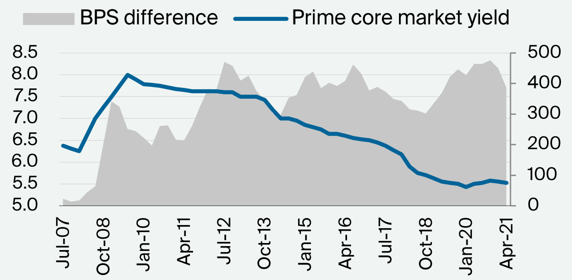
The recent 10yr bond yield increases have reduced the premium to prime yields from record highs in Q3 2020 of 475bps down to 384 bps. This remains well above the post GFC average of 346bps and as yet will not be pressuring yields upwards.

The faster than expected economic recovery has increased investors' risk appetite however the yield band is expected to continue to widen in the short term for prime assets, but overall remain firm. Secondary yields remain more vulnerable to weaker sentiment given risks to income with secondary vacancy again above 16%.

"This climate is providing local buyers the opportunity to gain greater positions in the market prior to the expected uptick in global recognition for Brisbane as the Olympic games grow closer, likely spurring a new tranche of global investment allocation..."

Brisbane CBD Prime yields

% median core market yield (LHS), bps premium to 10 yr bond yields (RHS)



Source: Knight Frank Research, RBA

Recent significant sales

PROPERTY	PRICE $M	CORE MARKET YIELD %	NLA SQM	$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
10 Eagle St	285.00^	5.60	27,826	10,242	2.7	Marquette Properties	Dexus Office Trust Australia	Under contract
545 Queen St	117.00^	6.10	13,422	8,717	tbc	Cromwell Group	Private Investor	Under contract
310 Ann St	210.00^	5.40	18,362	11,437	7.4	Ashe Morgan (49% offshore investor)	Private Investor	Mar 21
340 Adelaide St	86.75	6.40	12,776	6,790	2.3	Forza Capital	Mirvac	Nov 20
155 Edward St#	87.00	-	1,528 site	-	6.5	Dexus Property Group	Private Investor	Aug 20
66 Eagle St	380.0^	5.04	31,896	11,914	3.5	Deka-Immobilien Global	APPF Commercial & ADIA	Mar 20

NLA of 2,044sqm the income is from high end retail tenants but purchased as a medium term redevelopment option, yield undisclosed ^gross price

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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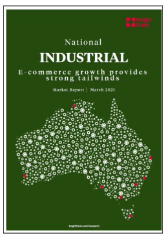

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