Brisbane CBD Office Market

Knight Frank

April 2024

Brisbane CBD market has been supported by strong tenant demand with significant rental growth in the past year.

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Key Insights

Tenant market strength has supported strong rental growth while the investment market has remained subdued

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11.7%
Total vacancy up slightly

Total vacancy increased slightly from 11.6% in July 23 to 11.7% in January 2024. This was a calculation anomaly and vacancy is expected to fall to 10.3% mid-year. (PCA)

16,423
Sqm net absorption CY23

Despite negative net absorption in H2 2023, there is a positive longer-term trend. For 2023 prime net absorption was 58,706sqm, secondary was negative due to a large tenant relocation and stock withdrawal.

-30k
Net supply for 2024

Withdrawal of secondary stock will dominate changes to stock for 2024 and result in negative net additions this year

9.7%
Total vacancy forecast January 2025

Lack of supply in 2024 will support a meaningful reduction in the vacancy rate.

5.7%
Prime gross effective rent growth forecast CY2024

Limited prime options will continue to drive rental growth during 2024.

7.05%
Average prime yield

Yield softening is continuing for the CBD market with investor demand still soft. Prime yields have softened by 20bps in the quarter and 175 bps in this cycle.

Brisbane CBD Office Market Indicators – 1 April 2024

Grade	Total Stock sqm^	Vacancy Rate %^	Annual Net Absorption sqm^	Annual Net Additions sqm^	Av Gross Face Rent $/sqm	Av Incentive %	Effective Rent Gth % y/y	Core Market Yield %*
Prime	1,385,391	10.2%	58,706	-	907	39%	9.9%	7.05%
Secondary	958,178	13.8%	-42,274	-13,093	748	41%	10.0%	8.25%
Total	2,343,569	11.7%	16,432	-13,093				

Source: Knight Frank Research/PCA ^as at 1 January 2024 * assuming WALE 5 years

Economic momentum lower

Supported by population growth the economy is still slowing

ECONOMIC MOMENTUM IS SLOWING AS EXPECTED

The quarterly GDP growth of 0.2% and annual growth of 1.6% to Q4 -23 reflected the slowing expected in the economy as a result of tighter monetary policy. With 1.6% growth forecast to the end of 2024 the expectation remains of steady but not exceptional economic growth. After lagging in 2023, Queensland GSP growth is expected to be higher to the end of 2024 at 3.2%. A broader recovery is forecast for 2025 with Australia GDP +3.3% and Qld 3.1%.

The latest quarterly inflation data shows uplift of 3.6% (Q1-24) over the past year, as the battle to reduce inflation enters the final phase. The pace of inflation reduction is slowing as services inflation is more difficult to contain than goods inflation and progress can be marginal. While the cash rate is still considered to be at the peak for this cycle the pace of any cash rate easing is likely to be slower than envisioned last year.

ECONOMY HAS BEEN SUPPORTED BY SURGING POPULATION GROWTH

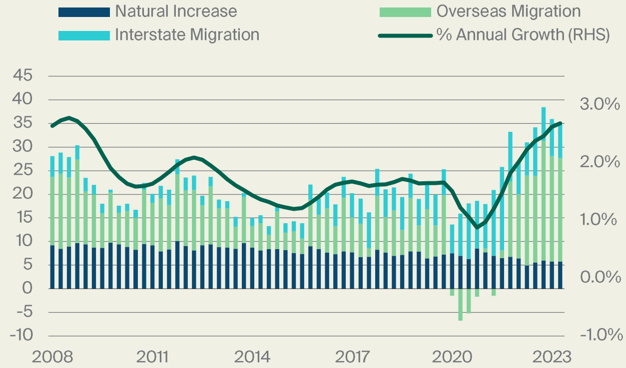
Queensland recorded 2.7% annual population growth to September 2023, ahead of the strong national figure of 2.5%. The temporary surge in net offshore migration has boosted population growth across Australia. Sixty-one percent of Queensland's population growth came from offshore migration during the year, compared to 83% for Australia as net offshore migration reached 548,770 people. This surge is expected to be short-lived with a tiered reduction over the next four years back to the migration baseline of 235,000 per annum. Interstate migration remains an important source of population uplift for Queensland, ensuring long term accelerated population growth. During FY23, 30% of the net interstate inflow came from those 0-19 years old, indicating strong family relocation.

WHITE COLLAR HEADCOUNT TO CONTINUE TO GROW AS UNEMPLOYMENT REMAINS RELATIVELY LOW

The unemployment rate is still relatively low at 3.8% in March 2024 after the seasonal uplift in January was corrected. While the number of job ads has fallen 15% year on year for Australia to March 24 and 8% for Queensland, according to Seek, the labour market has remained tight.

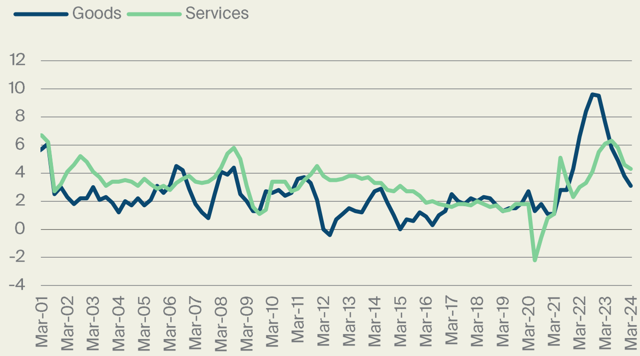
Forecast office workforce growth in Brisbane is expected to moderate in 2024 after three years of higher growth. The annual growth rate is expected to return to above 2% again from 2025, matching the expected growth in the services industries to support population growth and ongoing infrastructure construction surge.

Population Growth Queensland
Quarterly '000 increase by component & total growth rate



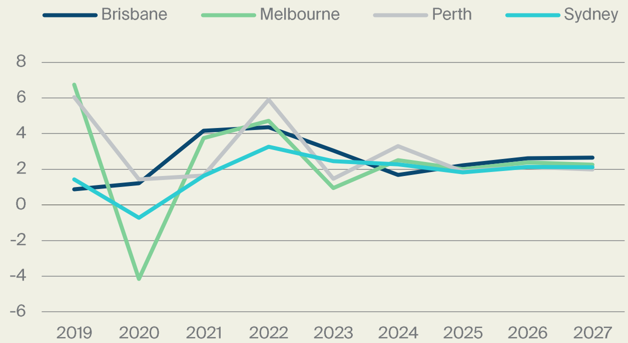
Source: Knight Frank Research, ABS

Goods and Services Inflation
% annual change



Source: Knight Frank Research, ABS

Office Workforce Growth by City
% change y/y, selected cities



Source: Knight Frank Research, Oxford Economics

Sustained net absorption

BROAD-BASED LEASING ACTIVITY AS TENANTS LOCKING IN FUTURE NEEDS

Tenant demand for the CBD was broad-based in 2023 and into 2024. Typical for Brisbane market activity was dominated by Professional, Scientific & Technical services and Government. Recently the State was the more active government tenant, but this is expected to switch to the Federal government during 2024.

The importance of the workplace to attract and retain staff plus maintain a dynamic and highly attended workplace remains of key importance to both large and mid-tier tenants. Top and mid-tier professional firms are increasingly locking in future premises decisions and taking advantage of the relatively greater choice on offer now than there is expected to be in the next three years.

During 2023, 12% of leasing activity by area was for tenancies 10,000sqm +, a further 28% came from tenancies in the 5,000—10,000sqm range. This included some major pre-commitments as well as imminent occupation. This trend is expected to continue in 2024 with several larger occupiers yet to determine their next move.

Boosted by pre-commitment activity, the Professional, Scientific & Technical tenants accounted for 34% of 2023 leasing activity. Half of this was from the legal sector followed by engineering/architectural with 17%.

Smaller tenants remain an important part of the market but have not been as decisive in their space decisions as in recent years.

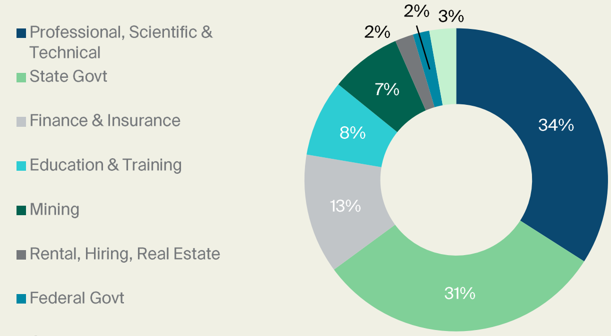
NET ABSORPTION TO SLOW BUT EXPECTED TO REMAIN POSITIVE IN 2024

Net absorption for H2 2023 was -12,682sqm, the first fall in three years. This result was largely due to the withdrawal of a single, fully occupied building (320 Adelaide St 13,093sqm) meaning that net absorption was neutral for the wider market. This comes after three periods which were well above average, totaling 116,465sqm over 18 months.

Net absorption was concentrated in A grade with 40,071 sqm of absorption in H2 2023. Much of this was due to the State Government relocating from the secondary 41 George St (29,3821sqm) into 150 Mary St and other prime grade spaces. This relocation was also the main factor behind the fall in net absorption for the B grade market of -31,567sqm.

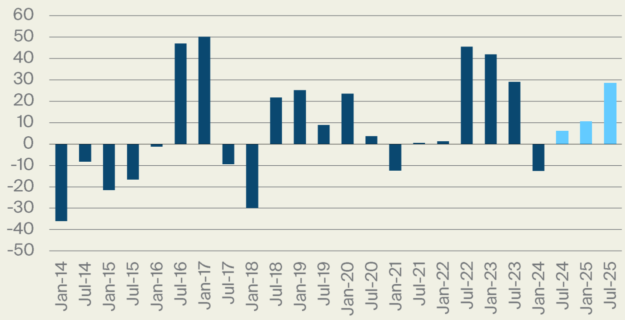
Net absorption is forecast to be positive for 2024, albeit at a more modest level as the slowing economy impacts tenant confidence in the short term. Positive economic momentum for Brisbane is likely to be balanced by some commercial tenants relinquishing underutilised space as has already been seen in the major southern markets.

Brisbane CBD Tenant Activity
2023+ 2024 ytd



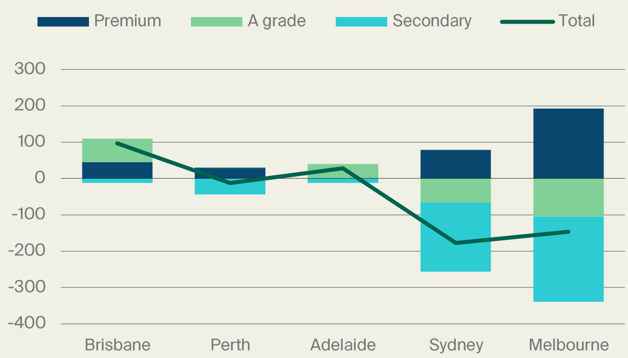
Source: Knight Frank Research

Brisbane CBD Net Absorption
'000 square metres



Source: Knight Frank Research/PCA

CBD Cumulative net absorption 2020-2023
'000sqm



Source: Knight Frank Research, PCA

Vacancy continues to fall

REFURBISHED STOCK THE ONLY NEW OPTIONS DURING 2024

No stock was added to the Brisbane CBD in H2 2023. There was withdrawal of 13,093sqm which represents 320 Adelaide St removed for refurbishment with the building expecting to return to stock in Q2 2024. With no new construction expected to enter the market during 2024 and limited banks of contiguous space, refurbishments will provide some relief in the next two years.

The withdrawal of 70 Eagle St will allow for refurbishment and a return to market in early 2025. Other whole building refurbishment opportunities include 140 Elizabeth St (9,908sqm in mid-2025), 41 George St (29,960sqm) and 150 Charlotte St (11,080sqm), although the latter two are under contract with conversion to student accommodation likely.

Completion at the fully pre-committed 205 North Quay is expected late 2024 or early 2025. The premium development at 360 Queen Street is 75% pre-committed with H2 2025 completion for joint venture partners Investa & Charter Hall. Waterfront North is targeting 2028 completion and is c50% pre-committed.

ADDITIONAL CONSTRUCTION STARTS POSSIBLE BUT LIMITED NEW BUILDINGS LIKELY PRE-2028

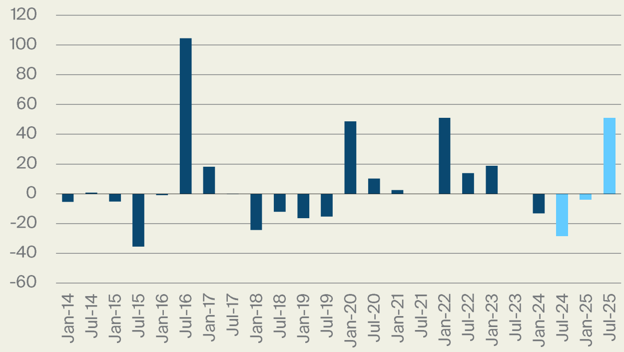
Financial feasibility is still difficult for new commercial building starts with construction costs, extended development timeframes and softer take-out yields all remaining significant hurdles. While demand for new stock and upgrading staff experience is expected to remain central to tenants' decision making, the timeframe for additional building construction commencements remains unclear. Most CBD sites are subject to 3-4 year construction programmes, making large-scale commercial development, outside of the assets already under construction, unlikely to achieve delivery before 2028+.

VACANCY EXPECTED TO FALL BELOW 10%

Total vacancy was 11.7% in January 2024, down from 12.9% a year earlier. Vacancy has now fallen significantly from the recent peak of 15.4% in January 2022, due to sustained demand. While the quantum of net absorption is likely to reduce in the short term, it will remain positive and combined with no supply this directly translates into further falls in the vacancy rate.

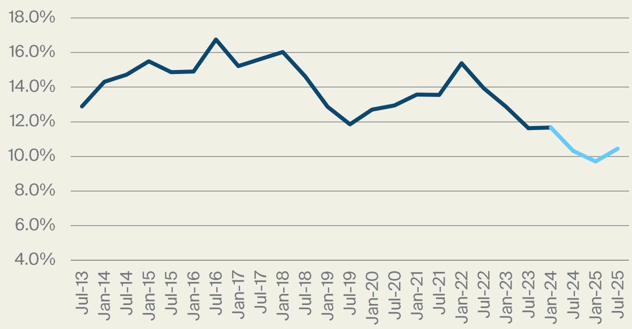
Total vacancy is forecast to dip to 9.7% by the end of 2024 before increasing again in response to the new supply through 2025. The lack of new supply 2026-2028 will support vacancy falling again to below 9% with the prime market expected to become very tight, particularly for contiguous space.

Net Additions - Brisbane CBD
'000sqm additions and withdrawals



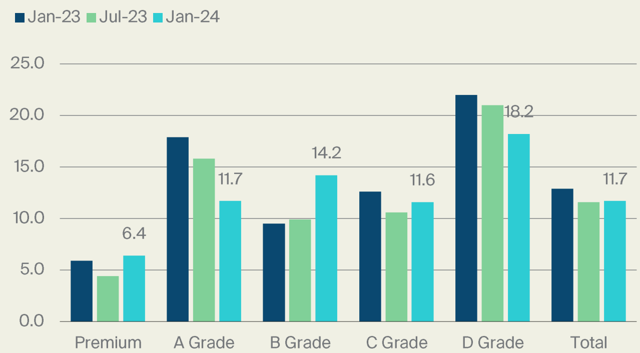
Source: Knight Frank Research, PCA

Brisbane CBD Vacancy
total vacancy rate



Source: Knight Frank Research/PCA

Brisbane CBD Vacancy by Grade
% vacancy rate



Source: Knight Frank Research/ PCA

Major office supply

Major Refurbishments

#	ADDRESS	SQM	COMPLETION
1	70 Eagle St	11,476	2025
2	140 Elizabeth St	9,908	Mid -2025

Under Construction / Major Pre-commitment

#	ADDRESS	SQM	COMPLETION
3	205 North Quay	43,700 (100% committed)	Early 2025
4	360 Queen St	46,700 (75% committed)	H2 2025
5	Waterfront Brisbane North	72,500 (50%+ committed)	2028

Development Approved/ Application/ Mooted

#	ADDRESS	SQM	COMPLETION
6	150 Elizabeth St	54,000	STC
7	101 Albert St	47,000	STC
8	135 Eagle St	35,000	STC
9	1 Queen St	25,000	Mooted
10	Roma Street Airspace	50,000+	Mooted
11	343 Albert St	50,160	Mooted
12	Waterfront Brisbane South	50,000	2035+

STC – Subject to commitment. The development has current planning approval in place but no firm timeline for delivery. Timing is dependent on receiving necessary tenant pre-commitment (c40% of NLA) and also the necessary development capital.

Mooted - Potential future development, planning approval may be outdated, proposed built form expected to change or planning approval not yet applied for

Strong rental growth

SUSTAINED PRIME RENTAL DEMAND TRIGGERS INCENTIVE CONTRACTION

Demand for premium and upper A grade space has continued to drive prime rental growth. With no new prime supply since 2021 and more than a year before uncommitted new space is delivered, larger tenants are increasingly securing their space well ahead of expiry.

Average prime gross face rent has increased by 6.3% to $907/sqm in the 12 months to April 24. Prime incentives average 39%, falling from 40% in the past six months, lifting effective rents by 9.9% over the 12 months.

Premium rents (+7.4% p.a) are still growing faster than A grade (5.9% p.a), on average, with demand concentrated across limited space. Within A grade the gap is widening between the most sought after assets and those which are more generic, although rents are lifting across the board.

SECONDARY RENTS ALSO SHOWING STRONG GROWTH MOMENTUM

Sustained demand and the improved B grade tenancy offering, coming from both improved building fabric and widespread speculatively fitted out suites, has continued to push face rents higher for the secondary market. Gross face average rent is $748/sqm as at April 2024. This represents an annual increase of 9.0% over the year. Incentives have fallen slightly to 41%, down from 41.5%, but remain sticky.

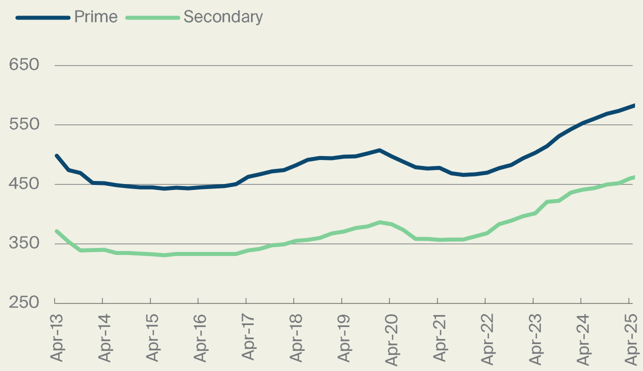
While government and large corporate tenants are moving away from secondary space due to staff expectations and higher ESG hurdles, Brisbane has seen sustained demand from privately owned and smaller tenants. The ability to plug and play with spec fitouts and the capacity for these companies to relocate within the building as they grow and mature makes this style of accommodation attractive.

RENTAL GROWTH WILL CONTINUE TO BE DRIVEN BY BEST IN CLASS ASSETS

Prime effective rents are forecast to grow by a further 5.7% over CY 2024. Conservatism due to slower economic growth and cost pressures is expected to moderate growth during 2025 before the inherent lack of new supply will see rents accelerate again 2026-2028. Prime face rents are forecast to grow by an average of 6.1% in the five years 2024-2028. Incentives will fall to 38% over the next two years before stabilising.

Secondary rents will also continue to see upward pressure in the medium term. Over the longer term though the gap between prime and secondary rents is expected to widen again with the current gap of 18% below the long term average of 22%.

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
Ashurst	111 Eagle St	Financial	2,759	1050 n	35-40	10	Jul 25
HMW Group	71 Eagle St	Financial	1,198	950 g	35-40	7	Aug 24
AEC	179 Turbot St	North Quarter	2,545	740 g	35-40	10	Aug 24
CleanCo	300 George St	North Quarter	3,316	840 g	40+	7	Jul 24
Oracle Global Services	340 Adelaide St	Uptown	1,424	705 g	35-40	5	Jul 24
Corporate Travel Management Group^	180 Ann St	Uptown	1,672	688 g	Nil	5	Apr 24

Source: Knight Frank Research/PCA n net g gross ^sub-lease

Investors remain cautious

TRANSACTION ACTIVITY WAS SLOW IN 2023

Transaction activity in 2023 was concentrated at the start and the end of the year, with limited activity mid-year. The total transaction turnover of $763 million was well below the long-term average of $1.3 billion.

The gap between purchasers' offers and the vendors' expectation/book value has been slow to close. This has resulted in formal marketing campaigns being unsuccessful on occasion. Additionally, where agreement has been reached on a contract price the raising of capital has proven difficult to achieve in a timely manner. This has not been isolated to Brisbane and is reflective of the level of return investors expect from property when fixed income returns have significantly increased in line with long term bonds.

LIMITED INSTITUTIONAL DEMAND

Book values have been gradually stepping downwards and are now more in line with purchaser intentions than 18 months ago. Despite the strong leasing market in Brisbane, purchasers have all been domestic entities since Q3-22. Additionally, recent transactions have been dominated by private investors and unlisted syndicators with access to private funds, leaving institutional funds notably absent.

Assets understood to be under contract and subject to DD include 85 George St, 41 George St, 119 Charlotte St and 240 Queen St. 150 Charlotte St is under unconditional contract for $64.5 million, with settlement in April 2025. Active or recently completed campaigns include 120 Edward St, 126 Margaret St, 133 Mary St (withdrawn) and 116 Adelaide St.

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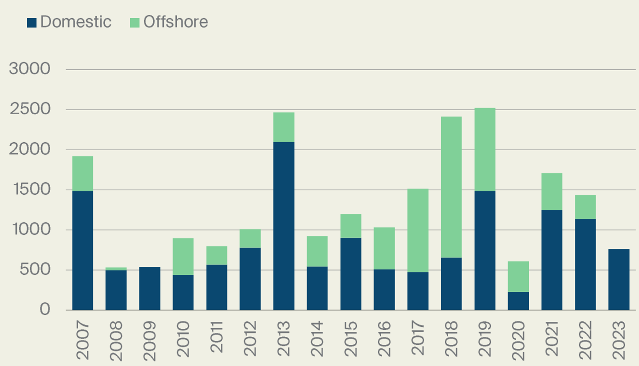
Months since an offshore entity has purchased a major Brisbane CBD asset

Brisbane CBD Office Transactions

$million by purchaser location, sales $10m+



Source: Knight Frank Research

Recent significant sales

Property	Price $ m	Core Market Yield %	NLA sqm	$/sqm NLA	WALE	Purchaser	Vendor	Sale Date
150 Charlotte St	64.5	VP	11,080	5,821	0.7	Undisclosed	Australian Unity Office Fund	Unconditional (settlement 04/25)
309 North Quay^	46.0	Site	6,436 site	7,147 site	n/a	Shayher Group	Charter Hall/Quad Real	Mar 24
40 Tank St	73.0	8.25	6,218	11,740	5.5	Alceon Group	Charter Hall Long WALE REIT/ CH Direct PFA Fund	Mar 24
55 Elizabeth St#	172.0	7.25 - 9.0	19,038	9,035	4.8	Elanor Investors	Credit Suisse	Dec 23
175 Eagle St	245.0	6.26	22.258	10,199	4.0	Hancock Property	GIC/PSP Charter Hall	Nov 23
333 Adelaide St	41.8	7.84	7,499	5,567	4.5	Stadia Capital (for a private investor	Icon Capital	Aug 23

Source: Knight Frank Research ^improved but sold essentially as a development site #core market yield varies dependent on retention and leasing assumptions

Yield softening is ongoing

SLOWING INFLATION HAS PUSHED BACK THE EXPECTATIONS OF CASH RATE REDUCTIONS

Australian inflation is now sitting at 3.6% to Q1-24 continuing the progress from the peak of 7.8% in December 2022. The combination of a stalling in the reduction of services inflation (4.3%) and a higher quarterly inflation reading of 1.0% (against consensus forecasts of 0.8%) has dented confidence in the path of further inflation correction and associated easing in monetary policy. The final phase to bring CPI down to the target range may be longer and more difficult than expected at the start of the year. This is also apparent in the US with stubborn services inflation having stabilised at 4.95% for February.

The pace of reduction in cash rates and associated longer-term bonds remains in question. For Australia, the cash rate reduction is not expected until fourth quarter of the year, with limited falls expected prior to the start of 2025. The 10-year bond rate is forecast to return towards the neutral long-term expectation of c3.5% during 2026.

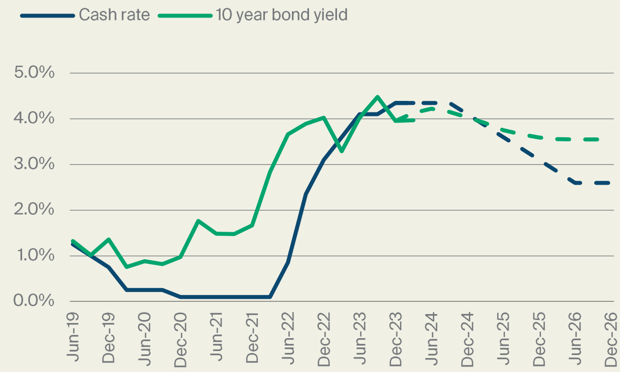
Long-term bond yields have been volatile since the start of 2024, ranging between 3.95% and 4.52% in the first four months of the year. Trader sentiment that inflation was tamed brought the yields below the 4% barrier, but more recently this has been unwound by comments both in Australia and the US surrounding the resilience of inflation. Recent comments by US Federal Reserve Chairman Powell has seen US 10-year yields bounce above 4.5%. This has continued to put pressure on the necessary investment hurdle rates for office property to attract investment from both private and institutional funds.

YIELD SOFTENING IS ONGOING

Although transaction evidence remains thin for the Brisbane CBD, particularly for prime investments, yields are considered to have softened further. Prime yields are considered to range 6.0%– 7.75% with a median of 7.05%. This represents a further 20bps softening since the start of the year and 175bps for this cycle overall. Given the lack of a 'bellwether' transaction in Brisbane attention should be given to the recent major Sydney CBD sale of 255 George St which reflected a 6.4% core market yield for the prime asset, indicating additional softening for Brisbane is likely, despite the stronger tenant market.

Secondary core market yields have followed suit with a current range 7.75% - 8.75% and a median of 8.25%. This is a softening of 25bps over the quarter and 180bps for this cycle. Passing yields for secondary assets can vary quite widely given the recent strong rental growth and vacancy exposure.

Interest Rate Outlook



Source: Knight Frank Research, Oxford Economics (EOP Qtr)

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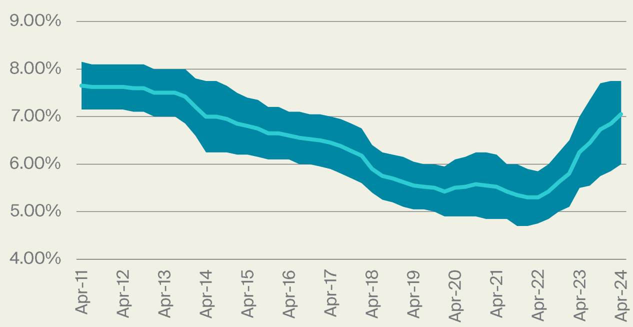
Bps softening for prime yields since the low of Q1-2022

Brisbane CBD Prime Yield Range
Core market yield range & median (3-5 year WALE)



Source: Knight Frank Research

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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