- *Tenant demand has remained strong*
- *New construction limited to two projects between now and late 2025*
- *Sales volume remains low as vendors and purchasers remain misaligned*

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Brisbane CBD Office

Market Report, May 2023

TENANT DEMAND ROBUST

Tenant confidence and activity has continued to surge with high net absorption in the past year. Transaction activity remained subdued, hampered by the gap between vendor and purchaser expectations

12.9%
VACANCY

+87k
Sqm positive net absorption in 2022

7.2%
Gross prime face rental growth (YoY)

"Tenants continue to focus on creating an attractive workplace to maximise productivity. Face rents in best of class assets are growing strongly as a result and flowing through to uplift across the market."

The Key Insights

The sustained monetary policy tightening, with cash rate increases at 11 of the past 12 RBA meetings, is now having a measurable impact on the economy. Inflation appears to have peaked and the cash rate of 3.85% at, or close to, peak.

Total vacancy decreased from 14.0% in mid-22 to 12.9% in January 23, with strong net absorption outweighing the return of refurbished A grade space.

There are two new CBD assets under construction for delivery in late 2024 and mid-2025. With no new supply until late 2024 the vacancy rate has the ability to make meaningful reductions as 'new product' will be limited to refurbished space.

Prime face rent growth continued to accelerate in Q1 2023 despite the stubbornly high prime vacancy, with best in class assets leading the increase. Prime gross face rent increased by 7.2% y/y to $853/sqm. Incentives moderated slightly to average 41.0%, but remain necessary to induce tenants to relocate.

Capital market activity has remained lower through early 2023 as transactions have taken considerably more time to complete than in the past. Yields have softened c95bps from recent lows.

Brisbane CBD Office Market Indicators—1 April 2023

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)	CORE MARKET YIELD %*
Prime	1,385,391	14.4%	62,887	44,287	853	41.0%	7.2%	6.25%
Secondary	971,271	10.6%	24,464	-11,613	678	41.5%	9.1%	7.30%
Total	**2,356,662**	**12.9%**	**86,576**	**32,674**				

Source: Knight Frank Research/PCA ^as at January 2023 *assuming WALE 5.0 years,

ECONOMIC HEADWINDS BUILDING

Tighter monetary policy is having a measurable impact on economic activity

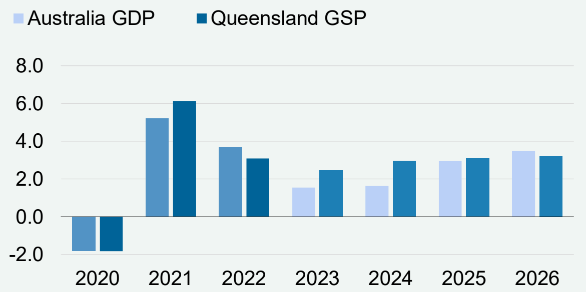
The sustained efforts to curtail inflation through monetary policy has seen a significant shift in confidence and the expected trajectory of economic growth. The RBA has now increased the target cash rate at 11 of the past 12 board meetings to go from 0.1% in April 2022 to the current 3.85%. This has been in line with moves in other advanced international economies as the sustained and synchronised inflation upswing needed to be curbed. With the latest CPI indicating that inflation has now peaked, attention has turned to how quickly it might return to the target band of 2.5 -3.0%. This will determine the length of time that the cash rate target will remain at the peak level, currently forecast at 3.85%—4.10%

The Q4 2022 Australian GDP quarterly growth was +0.5%, lower than the prior two quarters but consistent with a steady but moderating economic climate. The CY 2022 GDP growth of 3.7% is far lower than the covid-induced bounce back of 5.2% for 2021. Oxford economics forecasts GDP growth to moderate to 1.6% in 2023 and remain stable at 1.6% in 2024. The recent results and forecasts are stronger for Queensland win the short term with GSP growth of 2.4% in 2023 to be followed by 3.0% and 3.1% in 2024 and 2025.

Employment conditions have remained strong with national unemployment sitting at 3.5%, just above the almost 50-year low of 3.4% in October 2022. Queensland employment growth has also been strong with 90,460 jobs created since the start of 2022 and unemployment remaining tight at 4.2%, despite the recently strong population growth to both Brisbane and Queensland.

Economic Growth Australia v Queensland

% annual GDP and GSP



Source: Knight Frank Research, ABS, Oxford Economics

Strong infrastructure pipeline will boost underlying activity.

Population inflows into Queensland remained high during 2022 with net interstate migration of 46,623 persons in the 12 months to September 2022, the highest in more than 10 years. This has consolidated the strong inflows seen into Queensland after travel restrictions were lifted. Data for FY22 indicates that the inbound migration pattern remains strongly skewed to family with 73% of net inflows under 50 years old and 57% being young families (0-40 years old). Queensland has also seen stronger than average net offshore migration inflows which, at 42,805 persons in the year, almost matched the levels of inflows from internal migration. Across Australia net offshore migration has jumped strongly to 303,670 and Queensland traditionally attracts c15% of this inflow.

The sustained migration inflows, with Brisbane annual population growth of 2.3%, plus the longer term infrastructure and placemaking required for the 2032 Olympics has resulted in a deep infrastructure spending programme for the Brisbane CBD and environs. Cross River Rail is on track for delivery in 2025 and the recent City Deal has funded the Brisbane Metro programme with a 2024/2025 completion.

Global tighter credit conditions expected in the short term

The sustained increase in base interest rates has begun to impact on some balance sheets within the offshore banking sector with some recent failures capturing headlines. As with any change to underlying asset pricing, it can be difficult to quickly mark to market and provide liquidity without incurring losses. While further banking failures are likely, there is not expected to be a significant contagion across the financial sector, although commercial financing availability may be impacted by higher risk aversion in the short term.

With the exception of the UK, recent CPI global data for major economies have also recorded falls which appears to confirm that global inflation has peaked, the question which remains is how quickly it will fall back to the target range and how long contractionary monetary policy settings will need to remain. Oxford Economics is forecasting a mild, but co-ordinated, global economic contraction in late 2023.

PROFESSIONAL SERVICES TENANTS ACTIVE

Leasing activity has remained elevated with professional services dominating activity

Tenant demand has broadened in the past year with greater activity from larger tenants, particularly as top and mid-tier professional firms announced their longer term premises decisions. For 2022, 41% of leasing activity by area was in tenancies 5,000sqm +, higher than 39% in 2021 (which was dominated by the 43,700sqm Services Australia pre-commitment to 205 North Quay) and representative of more widespread decision making from tenants of scale and greater pre-commitment activity.

At the same time smaller tenants have remained the backbone of leasing activity in the Brisbane market with 31% of leases by area coming from sub-1,000sqm tenants A further 28% of space leased was for the mid-tier tenants of 1,000—5,000sqm as activity and confidence to act returned to professional firms.

Take-up by tenant type showed the continued strength of the professional services sector in Brisbane with 48% of take-up (by area). Legal services were the strongest of the professional services at 21% followed by accounting at 18%. After a recent pause the architectural, engineering and technical services sector has been buoyed by the strong infrastructure pipeline, non-residential building and mining demand to account for 5.5% of all leasing activity. The Government sector at 13% was down from a particularly active 2021 when they accounted for 33% of leasing activity however a number of briefs in the market indicate that the State and Federal Govts will be active during 2023.

Search for new generation premises remains front of mind for tenants

The commencement of construction at 360 Queen St and marketing of Waterfront North, Skygarden and other potential projects has kept pre-commitments in focus. Freehills will lease the top three floors (4,698sqm) in 360 Queen St and a further undisclosed tenant commitment will take the project to 65% pre-leased. Active briefs include Santos (10,000-15,000sqm, 2026), PWC (c6,000sqm, 2026), and Allens (4,000sqm 2027) which may choose to relocate to new space.

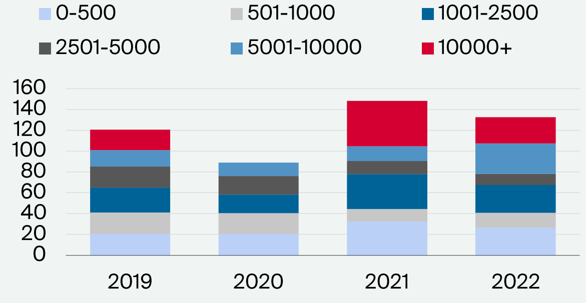
Net absorption to remain positive due to underlying growth but risks from corporate downsizing remain

Net absorption in 2022 totalled 87,351sqm, the highest annual net absorption in Brisbane for six years, the result of growth across corporate tenants plus continued strong growth amongst SME tenants. This strength was in contrast to the major southern capitals where exposure to financial and TMT tenants saw more muted results.

Forecasts for 2023 are more moderate as the changing economic climate is expected to impact on tenant sentiment, however the underlying growth story in Queensland will maintain positive momentum. Downside risks remain if larger corporate or government tenants release space on expiry or via sub-lease in any significant tranches, the timing of this is difficult to quantify. To date there has been relatively little notable downsizing in the Brisbane CBD, however it would be short sighted to believe that a closer focus on costs and office utilization could not result in some occupiers choosing to downsize in the medium term.

Brisbane CBD take-up by deal size

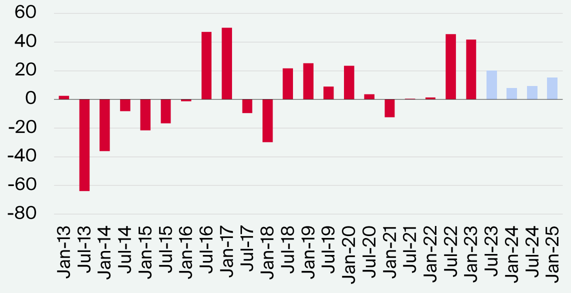
'000 square metres



Source: Knight Frank Research 2021 included Services Aust 43,000sqm deal

Brisbane CBD Net Absorption

'000 square metres



Source: Knight Frank Research/PCA

VACANCY REDUCING DUE TO NET DEMAND

No new supply until 2024 but options for 2026+ increase

The H2 2022 CBD supply was the return of 32,478sqm in 123 Albert St, which had been partially withdrawn in the previous period while lobby and other refurbishment works were undertaken. The market has been devoid of new construction since the completion of 80 Ann Street in early 2022 and this pause will continue through to late 2024, allowing for a meaningful reduction in the vacancy rate.

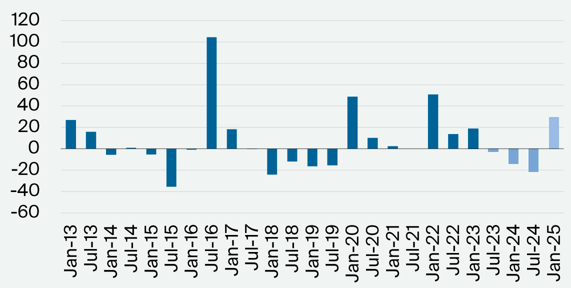
Significant changes to supply during 2023 are expected to be limited to the withdrawal of 70 Eagle Street for refurbishment following the relocation of QSuper at lease expiry by Q3 2023. The scope and timing of refurbishment works have yet to be confirmed by the new owners of the asset.

While 2024 will see the next new supply with the anticipated completion of 205 North Quay (43,700sqm, 100% committed) there are also likely to be withdrawals of smaller buildings, for refurbishment or potential redevelopment. Likely candidates include 41 George St (29,960sqm) in 2023, 150 Charlotte St (11,080sqm) and 140 Elizabeth St (9,908sqm) in H2 2024.

Pre-committed projects at 360 Queen St (46,700sqm, 45% committed) and Waterfront Brisbane North Tower (72,500sqm, 48% committed) continue to progress with delivery in 2025 and 2027/28 respectively. While tenants that could have pre-committed a further tower or two such as BCC, BHP and EY have elected to remain in their current tenancy, there are still tenants which could underpin further development starts, although the timeframe for these completions is now pushing out to 2026 and beyond.

Brisbane CBD - Net Additions

'000sqm net supply



Source: Knight Frank Research, PCA

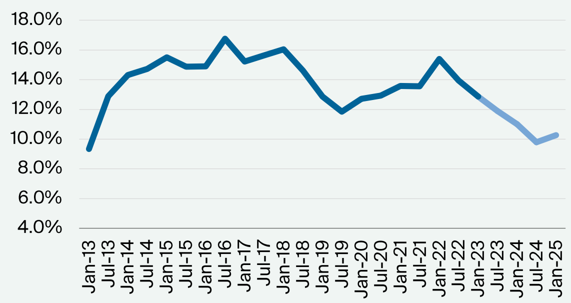
Vacancy rate improvement over the next two years supported by the low net supply

Total vacancy decreased from 13.9% to 12.9% in the six months to January 2023, with strong net absorption outweighing the return of refurbished A grade space. As outlined above the changing economic environment is expected to moderate net absorption, however Brisbane's general growth story and lesser exposure to financial and TMT tenants is expected to maintain momentum. The lack of supply means that net absorption directly translates into a fall in the vacancy rate with sustained reduction expected through to mid-2024. After dipping under 10% for the first time in 10+ years during 2024 the upswing of new supply and refurbished space is expected to keep the vacancy rate just into double digits through to 2027.

There is increasing disparity in the vacancy rate across the different grades with premium clearly the tightest at 5.9%, triggering higher rental growth in these assets. By contrast A grade vacancy sits at 17.9% with substantial tranches of space vacant in Brisbane Square, Midtown Centre, 300 George St and 123 Albert St (although large deals have been signed over much of this space, physically they were vacant at the last survey date). This elevated A grade vacancy is expected to take some time to work through, although tenant upgrading (ie Boeing move from B to A grade in 2024) will assist to erode this vacancy. The withdrawal of A grade tranches of space for refurbishment will also ameliorate the vacancy rate impact later this year. The B grade vacancy has fallen below 10% for the first time since mid-2012 as investment in assets and speculative suites, along with steady SME demand has benefitted that sector.

Brisbane CBD Vacancy

total vacancy rate



Source: Knight Frank Research/PCA

MAJOR OFFICE SUPPLY

MAJOR REFURBISHMENTS

1. 70 EAGLE ST– 11,476 SQM
   MOOTED–2024
2. 150 CHARLOTTE ST–11,080SQM
   MOOTED 2025

UNDER CONSTRUCTION/ MAJOR PRE-COMMITMENT

3. 205 NORTH QUAY–43,700 SQM [SERVICES AUSTRALIA]
   CBUS 100% COMMITTED H2 2024
4. 360 QUEEN ST–46,700 SQM [BDO,HOPGOODGANIM, FREEHILLS]
   CHARTER HALL POF/ICPF – 45% - 2025
5. WATERFRONT PRECINCT NORTH TOWER–72,500 SQM [DELOITTE, MINTERELLISON, GADENS, COLLIERS] DEXUS - 48% COMMITTED. 2027/28

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

DEVELOPMENT APPROVED

6. 200 TURBOT ST–66,079 SQM GFA
   MIRVAC. TIMING STC
7. 2 ALICE ST C26,000 SQM
   DESINATION BRISBANE – MASTERPLAN APPROVED
8. 343 ALBERT ST–50,160 SQM
   CHC 5%/GIC95% TIMING STC
9. 150 ELIZABETH ST–C42,000 SQM
   ISPT– TIMING STC. MAY REFRESH DA
10. 62 MARY ST- 38,000 SQM
    QIC–TIMING STC
11. WATERFRONT PRECINCT SOUTH TOWER–60,000 GFA SQM
    TIMING STC
12. 309 NORTH QUAY–C55,000 SQM
    CHARTER HALL. APPROVED (BOTH SCHEMES)
13. 60 QUEEN ST–26,592 SQM
    CHARTER HALL. APPROVED
14. 133 MARY ST ANNEX–12,226 SQM
    ARA. TIMING TBC/UNLIKELY
15. 25 MARY ST–45,587 SQM
    BELLEVUE TCE PROPERTIES. APPROVED

DEVELOPMENT APPLICATION/MOOTED/ EARLY FEASIBILITY

16. 135 EAGLE ST– C35,000 SQM
    GPT. DEVELOPMENT APPLICATION
17. GOLD TOWER ANNEX–5,710 SQM
    MARQUETTE PROPERTY - DEVELOPMENT APPLICATION
18. ALBERT STREET CROSS RIVER RAIL STATION AIRSPACE–C45,000 SQM DEVELOPMENT APPLICATION
19. ROMA STREET CROSS RIVER RAIL STATION AIRSPACE–MOOTED
20. 33 HERSCHEL ST–15,000SQM GFA
    CAPRICORN ASSET MGT–DEVELOPMENT APPLICATION

FACE RENTS GROWTH ACCELERATING

Prime market strong at the top end, competition emerging for best in class opportunities

Prime face rent growth has remained strong as competition is emerging for best in class opportunities, largely confined to premium buildings and higher level A grade. This is more prevalent in suites and part floors but is also beginning to impact full floor or multi-floor opportunities. Prime gross face rent has increased by 7.2% to $853/sqm in the 12 months to April 23. Incentives have fallen slightly over recent quarters to average 41.0%, in line with the levels of a year ago.

In the past year premium rents have been the major driver of prime rental growth, outpacing the acceleration of A Grade rents which have had a higher vacancy to absorb and a number of contiguous vacancies. On an annual basis premium rental face growth of 10.2% is significantly higher than A grade at 5.4%. The currently low premium vacancy of 5.9% will spur further premium rental growth albeit a psychological barrier of $1,000/sqm is being reached. High quality A grade space is also recording significant lifts to rental levels as further evidence that tenants are willing to pay a higher rent for a better tenant experience. This is driven by the war for talent and the perceived need to refresh and uplift the workplace experience.

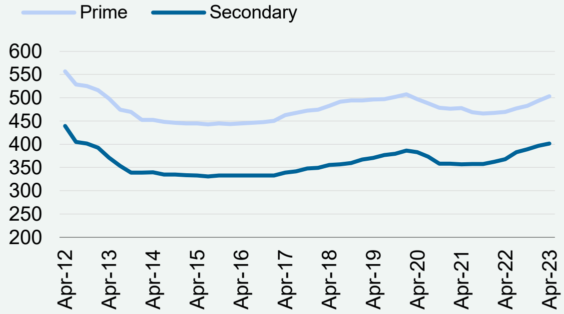
Face rents are expected to continue to grow strongly in 2023 up by 4.9% over the calendar year. Growth momentum will remain with a forecast average uplift of gross face rents of c3% over the coming five years. Incentives are expected to remain a significant part of the market with some falls in incentives from the current 41% average to 39% in 2025 & 2026.

Secondary rental growth sustained, but incentives are sticky

Sustained solid secondary take-up has continued to push gross face rents higher, reaching $686/sqm as at April 2023. This represents an annual increase of 8.2% over the year. Incentives remain elevated but have decreased slightly from 42% to 41.5% in the past six months. Inherently expectations are that incentives will retreat if there is tenant appetite to pay more, however this has not been the case to date. In part this is due to the escalating cost of fitout works and tenants' desire to have little to no capital outlay on relocation. The prevalence of spec fitouts in secondary space, while partly controlling costs if done in bulk and in a more cost effective manner, also continues to boost total incentives in the secondary market. Secondary face rental growth will remain elevated through the remainder of 2023 before moderating in early 2024 to the more normal range of 3.0—3.5% p.a .

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
Whitehaven Coal	12 Creek St	Financial	1,088	850 g	u/d	5	Mar 23
U & U Recruitment	259 Queen St	Financial	661	815 g	u/d	5	Mar 23
PKF	66 Eagle St	Financial	1,425	815 g	u/d	7.5	Jun 23
Moray & Agnew	259 Queen St	Financial	1,512	815 g	u/d	10	Jun 23
Westside Corporation	175 Eagle St	Financial	1,159	820 g	40+	7	Jul 23
Worley	123 Albert St	Midtown	2,384	835 g	40+	5	Dec 23
Boeing	123 Albert St	Midtown	12,393	850 g	40+	10	Jul 24

u/d—undisclosed

COST OF FUNDS IMPACTING ACTIVITY

Sales volume beginning to return but vendor expectations still lagging purchaser sentiment

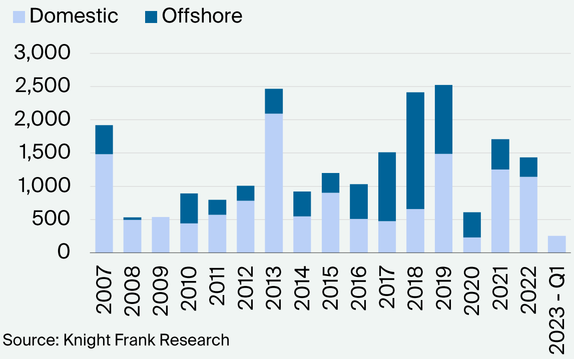
Sales activity in the Brisbane CBD rebounded in late 2022 to sit at $1.43 billion which was 16% below the $1.71 billion recorded in 2021, itself a rebound from the particularly low 2020. After a strong start to 2022, the changing cost of capital environment and uncertainty as to how far rates might increase, saw lower transactional activity through the middle of the year. There was a gap between vendor and purchaser expectations as the cost of new commercial debt was changing rapidly and this disconnect saw assets taken to the market not flow through to a sale.

Purchasers have been expecting a discount to book value to proceed with a purchase and have tended to remain on the sidelines if this is not the case. Vendors, particularly through the latter part of 2022 were willing to remove an asset from the market or carry an ongoing campaign if initial offers were not at the level expected. In recent months there has been a shift to only serious vendors choosing to undertake a full campaign.

In 2023 vendors have increasingly approached a formal marketing campaign with the expectation of meeting the market. Those testing market reception have tended to continue to operate off-market. Changing capital allocations and for some investors the pressure of redemptions has meant there increasingly has been a true mandate to follow a campaign with a completed sale even while there have been no distressed assets come to market. Despite transactions still taking longer than normal to finalise, more completed campaigns are expected over course of 2023.

Brisbane CBD Office Sales $10m+

$m by purchaser location



Source: Knight Frank Research

Majority of sales have been smaller assets over the past nine months

Acquisition activity has remained overwhelmingly skewed to domestic buyers with offshore buyers remaining keen to explore opportunities but cautious of hedging risk and potentially higher redemption demands, particularly EU originated funds. The currency play to the USD and relatively stronger economic growth remains a draw for funds to flow into Australia.

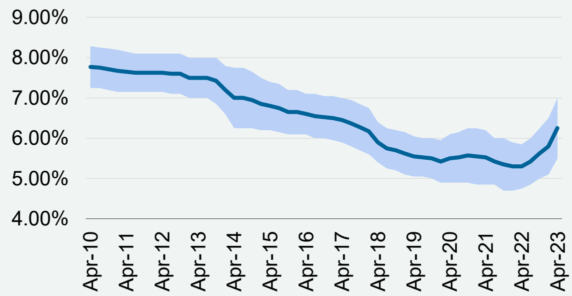
Since the transfer of a 50% interest in the 205 North Quay development between joint venture partners in July 22, CBD sales have all been less than $150 million. This reflects the generally smaller and often secondary assets which have traded as major institutions and offshore capital have remained on the sidelines.

The exception has been the sale of a 50% interest in 53 Albert St to NTT UD for $142.5 million. The asset, originally offered for sale as the whole interest, is fully leased to the State Government with a 5.8 year WALE at the time of sale. The transaction reflected a core market yield of 5.9%.

Recent transactions of scale have included 260 Queen St, purchased by a local private investor for $140.2 million, reflecting $10,560/sqm and 6.65% core market yield for the refurbished asset. The key tenant is WeWork and the podium levels have been significantly refurbished. 333 Ann St is a A/B grade asset purchased by the newly listed RAM Diversified Property Fund for $141.1 million with an equivalent yield of 6.59%. Lastly the A grade 70 Eagle St transacted early in 2023 with the building to be imminently fully vacant. Reflecting the expected leasing strength the sale reflected $9,585/sqm.

Brisbane CBD Prime Yield Range

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



Source: Knight Frank Research

Yields have softened with greater clarity to emerge as more prime assets trade

There are growing indications that the cash rate tightening cycle is coming to an end with inflation considered to have peaked both globally and locally. While this does bring a degree of comfort and certainty to purchasers, the recent financial market instability in the US and Europe has seen risk pricing in debt costs return to front of mind for major lenders. This may temporarily reverse the expectation of easier debt facilitation for commercial assets with LVRs and interest cover remaining conservative.

Long term bond rates have eased since mid-March but remain highly volatile and short term factors such as the immediate availability of funds and the depth of the active buyer pool appearing to be having a greater impact on property yields and asset pricing at this time.

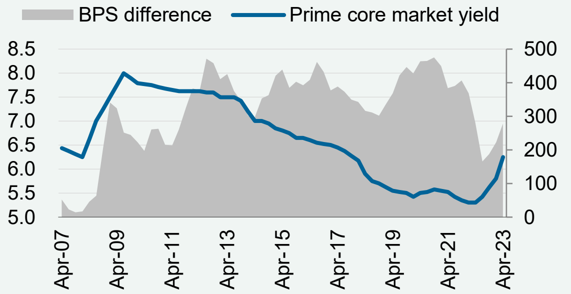
The sale of the large prime asset of 240 Queen St is expected to provide greater guidance on the movement of yields with limited other evidence of stabilised prime asset sales. Prime yields are currently ranging from 5.5% - 7.0% with a median of 6.25% for the Brisbane CBD. This reflects softening of 45bps in the past quarter, an average softening of 95 bps across the prime market since the lowpoint of early 2022.

Median core market secondary yields have also softened over the past quarter to range 6.75% —7.85% as at April. Pricing is dependent on whether the asset is value-add or stabilised and the potential for ongoing rental growth. While risk is generally being priced more harshly there remains funds seeking assets where capital works and a re-leasing campaign will provide a higher investor return.

"The expectation that the cash rate tightening cycle is coming to an end will bring a degree of comfort and certainty to purchasers."

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
70 Eagle St	110.0	5.83	11,476	9,585	0.8	Hancock Properties	Pembroke RE	Feb 23
333 Ann St	141.1	6.59	16,301	8,658	3.6	RAM Diversified Prop Fund	Growthpoint Prop Gp	Jan 23
260 Queen St	140.2*	6.65	13,258	10,460	6.0	Sam Chong	Hines Global	Dec 22
53 Albert St (50%)	142.5	5.99	19,135	14,894^	5.8	NTT/Realmont	JP Morgan Gp	Nov 22
157 Ann St	39.0	7.29	6,576	5,931	1.3	Qanta Investment	Goldman Sachs	Sep 22
500 Queen St	66 00	6.07	7,017	9,406	2.4	Prime Value	GWC Properties	Aug 22

* gross price, net price reported at $135 million. ^asset includes a 531 bay carpark component

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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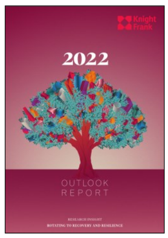

Outlook Report 2022

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