- *Larger tenants have continued to pre-commit to new developments*
- *No new supply until late 2024 will assist to bring vacancy lower*
- *Sales volume has dropped as investors adjust to changed cost of funds*

Knight Frank

knightfrank.com/research

Brisbane CBD Office

Market Report, September 2022

CAPITAL MARKET SLOWS

While tenant confidence has continued to improve and pre-commitment activity by major professional firms increased, the investment market has slowed in response to higher funding costs

14.0% VACANCY

42k sqm of private sector pre-commitments announced in 2022 ytd

3.6% Gross prime face rental growth (YoY)

"The sustained trend to upgraded or fresh space as employers fully embrace the evolution of the workplace to attract and retain knowledge workers is likely to continue to trigger new developments and major refurbishment in the medium term."

The Key Insights

As with many advanced economies, the focus in Australia has shifted from how to keep economic growth stable through the disruptions of the COVID-19 pandemic to how to control inflation and normalise monetary policy settings, with a soft landing.

Total vacancy decreased from 15.4% to 14.0% in July 22, largely due to the withdrawal of stock, as the supply additions were matched by a strong net absorption figure.

Triggered by recent tenant pre-commitments the next phase of development is under construction and due for delivery from late 2024. Between now and 2024 supply will be limited to refurbished space and backfill stock.

Prime face rent growth accelerated in Q2 2022 despite the stubbornly high prime vacancy. Prime gross face rent increased by 3.6% yoy to $816/sqm. Incentives increased slightly to average 41.5% meaning effective rents grew 1.8% yoy. Anecdotally prime face rents continue to accelerate, indicating annual growth rates in the short term of c5% p.a.

The changing cost of funds has slowed capital market activity with yields softer by 10-15bps to July.

City CBD Office Market Indicators—1 July 2022

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	1,352,913	14.3%	30,814	72,707	816	41.5%	1.8%	5.45
Secondary	984,884	13.5%	15,226	-7,937	660	42.0%	7.1%	6.55
Total	**2,337,797**	**14.0%**	**46,040**	**64,770**				

Source: Knight Frank Research/PCA *assuming WALE 5.0 years

QUEENSLAND EXPERIENCING STRONG GROWTH

Monetary policy response to inflation may dampen the recently strong economic indicators

As with many advanced economies the focus in Australia has shifted from how to keep economic growth stable through the disruptions of the COVID-19 pandemic to how to control inflation and normalise monetary policy settings with a soft landing. The stimulus-supported demand, combined with supply chain disruption and surging energy costs, saw inflation become entrenched locally and globally in Q2 2022.

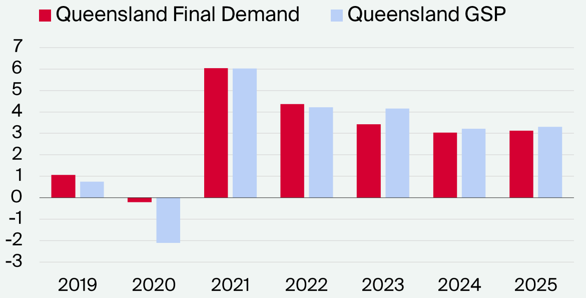
The target cash rate now sits at 2.35% with further increases likely. The pace of increase, most recently through four +50bps changes, is expected to slow over coming months. The cash rate target is expected to top out mid-2023 at 2.6-3.4%, depending on how well the economy reacts to the increases.

The Q2 2022 Australian GDP quarterly growth was +0.9%, consolidating the strong end to 2021 and Q1 2022 after the economy bounced back from the Q3 lockdowns in NSW and Victoria. This took the annual Australian GDP Q2 figure to 3.9% growth. Forecasts from Oxford Economics indicate that Queensland will show 2021 GDP growth of 6.02% as the economic rebound continued to outstrip initial expectations. For 2022 their forecast shows an expected moderation of 4.2% for Queensland followed by 4.15% in 2023

Employment conditions have remained strong, surpassing pre-COVID-19 levels by the end of 2020. There are now 205,740 more jobs than at the start of the pandemic (July 2022). After consistent falls in recent months the unemployment rate is sitting at a 13+ year low of 3.8% (July 2022).

Economic Growth - the bounce back

% p.a growth



Source: Knight Frank Research, Oxford Economics (August 2022)

Population inflows and infrastructure investment are setting the city up for the future

Queensland and Brisbane benefited from strong migration inflows through 2021, despite restrictions on movement for much of that time. Net interstate migration of 50,162 persons during CY21 is the highest annual figure seen since the series began in 1982. Anecdotally this strong migration has continued into 2022. In contrast to public perception the majority of interstate migrants are families, with 71% of net inflow under 50 years old.

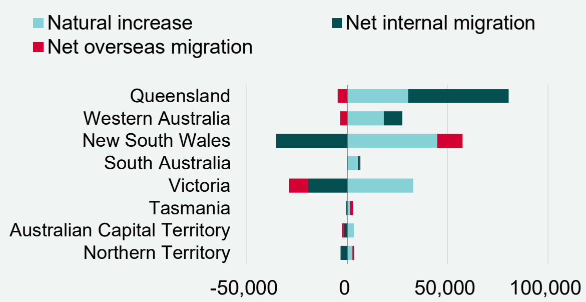
There is also significant ongoing infrastructure investment with the Cross River Rail now laying track in the completed tunnels. The project will boost commuter rail capacity and add a new station in the central CBD from 2025. The recently announced City Deal, an agreement across local, state and federal governments, has also ensured funding for the Brisbane Metro project—a network of high capacity busses also improving accessibility for the CBD.

Global economic headwinds cannot be ignored

While domestic factors have to date remained strong, there are more obvious signs of economic distress emerging overseas. Inflation across the UK (9.9%), EU (8.9%) and US (8.3%) remained high in August, boosted by higher energy costs and ongoing supply chain issues. As in Australia, central banks have been lifting target rates in response. The US has lifted target cash rates 225bps in four hikes to 2.50%, the with the UK rates up by 165 bps to 1.75% over 2022, further substantial increases likely.

Sources of Population Growth by State

Increase during 2021



Source: Knight Frank Research, ABS

ROBUST TENANT DEMAND LED BY PRE-COMMITS

Leasing activity remains solid with greater focus on long term decisions

While smaller tenants still dominate market activity, accounting for 69% of deals tracked during 2022, this is lower than the 2021 figure of 75%. As greater certainty and confidence emerges more tenants of 2,500sqm+ have taken decisions to relocate over the course of 2022. In 2022 ytd 58% of total space leased has been by tenants in excess of 5,000sqm, a significantly higher proportion than was seen in 2021 at 39%.

Take-up by tenant type showed the broad strength of the professional services sector in Brisbane with 53% of take-up (by area). This was dominated by legal services and accounting services—each with 24%. This renewed activity, including the larger players, saw professional services well ahead of Manufacturing (13%) led by Boeing Defence. The Government sector was third at 11% down from a particularly active 2021 when they accounted for 33% of leasing activity thanks to a single Federal Government 44,700sqm pre-commitment.

While the Federal Government pre-commitment was a significant move last year, the level of pre-commits announced in 2022 to date has almost exceeded this level. Two tenants have pre-committed to the 360 Queen St development covering 15,480sqm and three tenants have pre-committed to the Waterfront Brisbane North tower for a total of 26,500sqm. These were exclusively legal or accounting tenants making decisive moves to ensure their future accommodation needs will be met.

More pre-commitment announcements expected

Further significant pre-commitment activity is expected in 2022 with BCC (30,000—36,000sqm) and BHP (18,000-20,000sqm) both close confirming their next moves, potentially to new space. Other tenants active in the market include ANZ (4,000sqm), Allens (4,000sqm), Hatch (6,000—8,000sqm) and Clayton Utz (6,500sqm). Other professional services firms have quietly activated their long term searches given the focus on providing new workplaces.

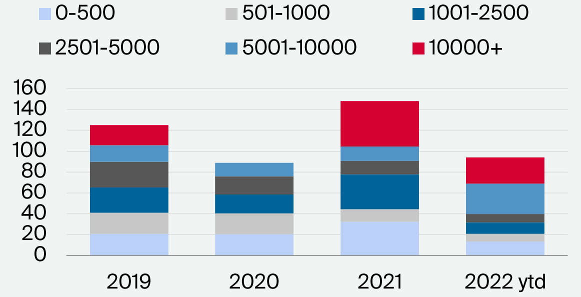
Net absorption to remain positive but risks from corporate downsizing remain

Net absorption is forecast to remain positive in line with long term average levels, but below the one off high of H1 2022. This will be supported by ongoing SME activity and resources sector expansion. The current high energy prices are supportive of expansion in the coal and LNG sectors short term—with Santos having recently taken two additional floors in 32 Turbot St. The upside is not expected to reach the levels seen during 2011-12 with rapid upscaling more likely to be undertaken in co-working or serviced office spaces first before engineers or companies take additional direct space.

Forecast absorption of c18,400sqm in H2 2022 is reliant on continued SME uptake with few 'needle moving' relocations expected. In the medium term net absorption is expected to remain positive, but at more modest levels of 6,000—19,000sqm per six month period for the next three years. 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.

Brisbane CBD take-up by deal size

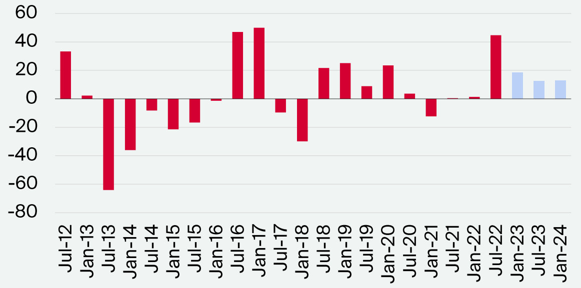
'000 square metres



Source: Knight Frank Research

Brisbane CBD Net Absorption

'000 square metres



Source: Knight Frank Research/PCA

VACANCY FORECAST TO FALL

Focus increasing on 2025+ new supply as tenants pursue new workplace design

The H1 2022 CBD supply was 46,278sqm with 44,287sqm of that premium space from the completion of Heritage Lanes, 80 Ann St, in March 2022. The initial tranche of the building was brought on line in October 2021.

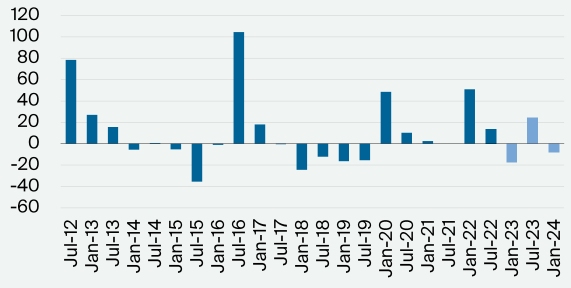
Despite this substantial new supply, net additions for the CBD was only 13,809sqm due to the withdrawal of 123 Albert Street from the PCA survey. 123 Albert St is largely vacant with major tenant Rio Tinto leaving in 2021. Initial lobby works are completed with refurbishment of the upper levels underway. Boeing have committed to 12,393sqm from 2024 with the asset expected to come back on line in mid-2023.

Triggered by recent tenant pre-commitments the next phase of development is under construction and due for delivery from late 2024. Between now and 2024 supply will be limited to refurbished space and backfill stock.

Works at 205 North Quay are at basement levels with the building fully leased by the Federal Government. Site works are continuing at 360 Queen St with the project 34% pre-committed. Following Gadens' recent commitment Waterfront Brisbane North Tower is 35% pre-leased with demolition of the existing Eagle Street Pier imminent and the first tower to be completed in 2027.

Further projects will commence subject to pre-commitment with the BCC requirement having the potential to trigger a new building of c40,000-50,000sqm for 2026. Given demand for new space to implement updated workplace practices there is the potential for another building 2026-2028.

Brisbane CBD - Net Additions
'000sqm net supply



Source: Knight Frank Research, PCA

Vacancy supported by low net additions through to late 2024

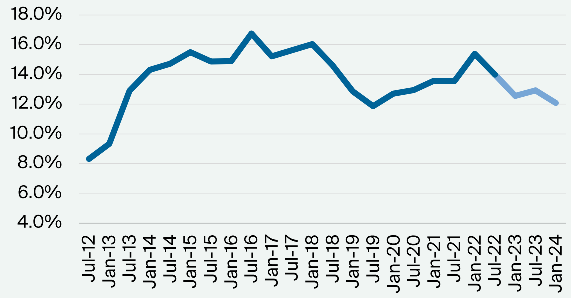
Total vacancy decreased from 15.4% to 14.0% in July 22, aided by the withdrawal of stock, as the supply additions were matched by a strong net absorption figure. The net absorption of 44,690sqm for H1 2022 was boosted by Suncorp's taking up their final tenancy in Heritage Lanes, after earlier contracting into temporary space. This had understated H2 2021 net absorption and overstated the H1 22 result, so conceptionally a better reflection of underlying demand is to spread this take-up over the 12 months.

This still reflects strong levels of underlying demand, mostly from smaller tenants taking space but also from co-working users such as Spaces (6,000sqm) and Christie (1,580sqm) with new demand. With the return of the refurbished 123 Albert St the only supply for the next two years, plus steady withdrawals, the market is primed for a sustained reduction in the vacancy rate, dipping to c10.5% mid-24.

Demand for upgraded or fresh space, as employers fully embrace the evolution of the workplace to attract and retain knowledge workers, is likely to continue to trigger new development and major refurbishment in the medium term. The higher benchmarks for data capture and real-time technology, building services, environmental concerns and amenity will support investment across all grades.

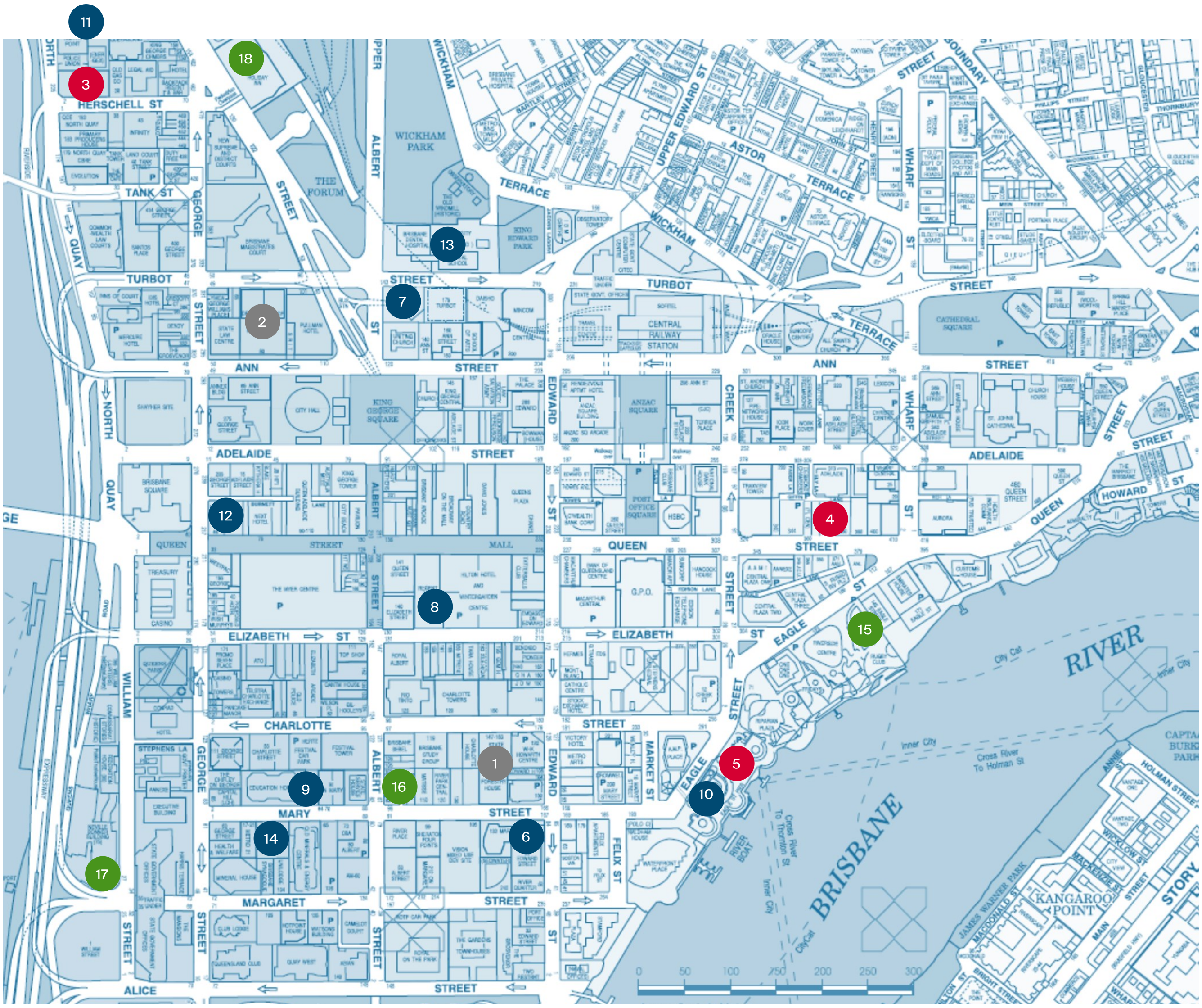
Premium grade remains the tightest with 7.2% vacancy despite significant recent supply, upgrading tenants have impacted the A grade market which sits at 17.2%. Supported by sustained SME demand the secondary vacancy sits at 13.5%, having improved over the COVID-19 period.

Brisbane CBD Vacancy
total vacancy rate



Source: Knight Frank Research/PCA

MAJOR OFFICE SUPPLY



RECENTLY COMPLETED

1. MIDTOWN CENTRE 155 CHARLOTTE ST & 150 MARY ST—45,000 SQM [RIO TINTO]
   DMC PROJECTS/ASHE MORGAN– 47% LEASED. COMPLETED JULY 2021
2. 80 ANN ST—60,243 SQM [SUNCORP, APA, KPMG]
   MIRVAC/M&G– 98% COMMITTED. 15,500SQM OCT 21, 44,743SQM MAR 22

UNDER CONSTRUCTION/ MAJOR PRE-COMMITMENT

3. 205 NORTH QUAY—43,700 SQM [SERVICES AUSTRALIA]
   CBUS/NIELSON PROP. 100% COMMITTED H2 2024
4. 360 QUEEN ST—38,000 SQM [BDO,HOPGOODGANIM]
   CHARTER HALL POF/ICPF – 34% - 2025
5. WATERFRONT PRECINCT NORTH TOWER–70,000SQM [DELOITTE, MINTERELLISON] DEXUS - 35% COMMITTED. 2027

DEVELOPMENT APPROVED

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

DEVELOPMENT APPLICATION/MOOTED/ EARLY FEASIBILITY

15. 141 EAGLE ST– C27,000 SQM
    GPT. MOOTED
16. ALBERT STREET CROSS RIVER RAIL STATION AIRSPACE—MOOTED
17. 2 ALICE ST C20,000SQM
    DESINATION BRISBANE – MOOTED
18. ROMA STREET CROSS RIVER RAIL STATION AIRSPACE—MOOTED

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

FACE RENTS CONTINUE TO INCREASE

Greater stratification evident in rents as competition for space re-emerges at the top end

Prime face rent growth accelerated in Q2 2022 despite the stubbornly high prime vacancy. The prime vacancy rate of 14.3% is mostly driven by the high A grade vacancy plus backfill space off the market for refurbishment. Over the year prime gross face rent has increased by 3.6% to $816/sqm. Incentives increased slightly to average 41.5% meaning effective rents grew 1.8% yoy.

Premium rents had lagged A grade growth through 2020 and 2021 while top level professional firms and corporates were hanging back from making office space decisions. However this has turned around and premium rents have accelerated by 3.3% in the past quarter alone (+3.8% yoy). This outperformance will continue in the short term with limited contiguous options and relatively low expiry-driven relocations for the next 2-3 years.

A grade rents have also increased by 1.6% in the quarter and 3.7% yoy and while most assets are achieving higher rents this has not been uniform. Assets with recent or demonstrated upgrading works appear to have been able to push face rents at a higher pace than more passively managed assets. As tenant expectations for amenity and design continue to increase this is likely to continue, leading to greater stratification in rents across A grade assets.

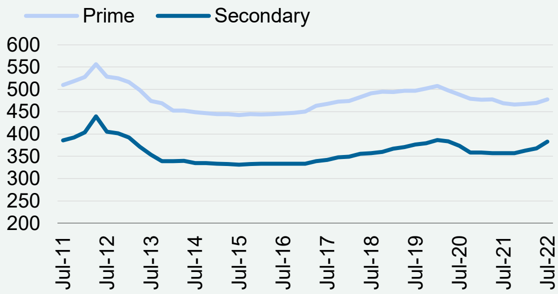
Anecdotally face rents are continuing accelerate which indicates higher annual growth rates in the short term of c5% p.a. Incentives will remain elevated, driven by A grade deals.

Secondary face rent growth strong even as incentives remain high

Sustained solid secondary take-up has continued to push face rents higher reaching $660/sqm as at July 2022. This represents an increase of 7.1% over the year after secondary rents dipped through 2021. Incentives remain elevated at an average of 42%. While inherently it is natural to expect 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 2022 before moderating in early 2023 to the more normal range of 3.0—4.5% 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
Boeing	123 Albert St	Midtown	12,393	850 g	40+	10	Jul 24
Affinity Education Group	295 Ann St	Uptown	1,368	770 g	40+	5	Oct 22
Clean Energy Finance	111 Eagle St	Financial	1,000	995 g	35-40	8	Oct 22
ARTC^	179 Turbot St	Nth Qtr	4,000	375 g	Nil	5	Feb 22
AGS	145 Ann St	Uptown	1,470	850 g	40+	u/d	u/d
AgTrade	175 Eagle St	Financial	1,150	800 g	40+	5	u/d
Korean Consulate	102 Adelaide St	Uptown	1,139	610 g	40+	10	Feb 22

u/d—undisclosed ^sublease done on an effective basis

CHANGING INVESTMENT CLIMATE

Sales activity slows as the market adjusts to higher cost of funds

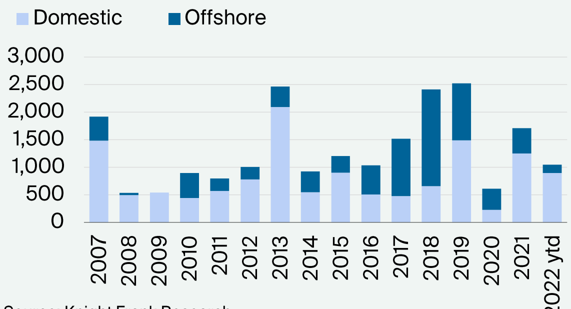
Sales activity in the Brisbane CBD rebounded strongly in 2021 at $1.71 billion and this activity carried over to more than $500 million in settlements in the first two months of 2022. However since that time the pace of sales has slowed as the market factors in changes to the cost of funds environment.

Purchasers have taken a more wait and see attitude with volatility across the bond markets giving rise to less certainty on funding costs and the economic outlook. The bond market volatility has been aligned with inflation data and expectations of where this may peak as inflation triggered by supply chain issues and highly supportive fiscal polity has since been compounded, particularly overseas, with surging energy costs. Initially 10 year bonds increased from 1.7% at the start of 2022 to a peak of 4.2% mid-June and have moderated back to a range of low-mid 3% through July and August. In recent weeks the yield had been sustained above 3.5% as further inflationary peaks emerged. While it is expected that the 4.2% of mid-June was an overreaction from the market, bond yields above 3.5% may be sustained in the short term.

Acquisition activity has remained overwhelmingly skewed to domestic buyers during 2022. Offshore buyers are understood to be keen to move in the Australian market but have been more cautious as they also face higher hedging costs while relativities between cash rates, currencies and long term money markets rebalance globally. The relatively stronger economic growth remains a draw for funds to flow into Australia.

Brisbane CBD Office Sales $10m+

$m by purchaser location



Source: Knight Frank Research

Both core and value add assets have traded

The most significant recent sale has been Cbus purchasing the remaining 50% interest in the 205 North Quay development, acquiring the stake from JV partner Nielson Properties. While the metrics have not been made public the 50% interest is understood to have sold for c$330 million, reflecting a yield of 4.50—4.75% on the fully leased asset. This also reflected the benefits of acquisition on a fund through basis with building completion in late 2024.

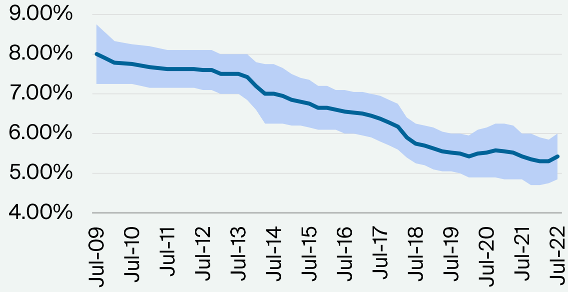
The B-grade but well located 200 Mary Street sold after a long due diligence period for $108.5 million (5.68%) settling in June. Smaller sales include 193 North Quay, purchased by Aviator Capital for $48.68 million (6.44%) and 283 Elizabeth St which was acquired by Silverstone Development for $17.85 million.

During August 500 Queen Street transacted for $66 million which is understood to reflect a core market yield of 6.1%. The asset was sold fully leased and the relatively smaller, triangular floor plates suits a more boutique style of tenant.

Offered to the market during or with active negotiations in place are 53 Albert St (long state Govt lease), and value-add assets 116 Adelaide St, 157 Ann St and 41 George St. With relatively few campaigns run this year an increase in activity is expected into Q4 2022. In Sydney and Melbourne core assets have traded which indicates a return of confidence to place significant funds in the Australian commercial markets. This is expected to flow through into Brisbane with both core and value-add product sought.

Brisbane CBD Prime Yield Range

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



Source: Knight Frank Research

Yields soften but more market evidence is needed to determine the long term quantum

There is no doubt that the changing interest rate environment has had an impact on the investment market. Initially this has largely been expressed via a pause in the market and also those sales which have progressed taking longer to reach fruition. Both vendors and purchasers have been hesitant to act since the end of Q1 2022 because of a sense of uncertainty.

Since interest rates began to move the only prime sale has been the pure-core sale between JV partners at 205 North Quay with the fund-through new build and 10 year WALE over the entire building to represent the very bottom range of yields and crisper than the KF series which assumes a WALE of 5 years. With little direction from the market it is estimated that prime yields have softened by 10-15bps to range from 4.85% - 6.0%. With few prime assets actively currently marketed the weight of evidence may remain lacking in the short term.

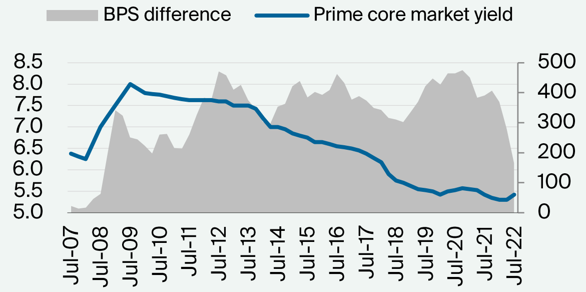
Median core market secondary yields have also softened slightly to range 6.0% —7.0% as at July. The leasing traction in the secondary market and associated stronger face rental growth has supported the fundamentals for secondary assets, particularly those well-located in precincts of renewal or infrastructure investment.

It should also be noted that current market pricing and buyer appetite for long WALE assets is variable depending on access to CPI or market reviews as opposed to all fixed increases. This is in contrast to recent investor preferences.

"Impact of the changing interest rate environment has initially been expressed via a pause in the market."

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
500 Queen St	66 00	6.07	7,017	9,406	2.4	Prime Value	GWC Properties	Aug 22
193 North Quay	48.68	6.44	7,604	6,402	2.5	Aviator Capital	Kyko Group	Jul 22
205 North Quay (50%)	c330.0	c4.50	43,700	15,102	10	Cbus	Nielson Properties	Jul 22
200 Mary St	108.5	5.68	13,172	8,557	2.1	Wingate Group	Cromwell Property Group	May 22
12 Creek St complex	420.0*	5.75	38,615	10,123	3.3	Marquette Properties	Dexus Property Gp/DWPF	Feb 22
179 Turbot St	150.9	6.62	24,904	6,059	1.4	Mercer Australia Property Fund	Kumpulan Wang Persaraan	Feb 22

*gross price c$390.9 net

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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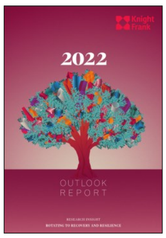

Outlook Report 2022

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