Brisbane CBD Office Market

September 2024

Brisbane CBD market has seen significant rental growth in the past year with the vacancy falling to 10+ year lows.

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Key Insights

Strong face rental growth has continued with further improvement to vacancy and increasing buyer activity

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9.5%

Total vacancy sub-10%

Total vacancy decreased to 9.5% as at July 2024, the first time under 10% in more than 10 years. Prime vacancy is now 7.2% following strong net absorption. (PCA)

26,552

Sqm net absorption H1-24

Net absorption returned to a strong positive result in H1 2024. Prime net absorption at 42,036sqm was well ahead of secondary at -15,484sqm which has turned negative only over the past year.

-27k

Net supply for H1-24

Withdrawal of secondary stock in 41 George St and 150 Charlotte St outweighed the return of 13,093sqm of refurbished space. There are no major changes to stock expected in H2-24.

9.3%

Total vacancy forecast July 2025

Continued net absorption and little new supply until Q2-25 will deliver further falls to the vacancy rate.

6.2%

Prime gross effective rent growth forecast for 2024

Despite some slowing to rental growth during the second half of 2024, annual growth for CY 2024 will remain significant.

7.25%

Average prime yield

Yield softening has continued for the CBD market to mid-2024, prompting improved buyer activity. Prime yields have softened by 20bps in the quarter and 195 bps in this cycle.

Brisbane CBD Office Market Indicators – 1 July 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	7.2%	73,960	-	934	39%	10.7%	7.25%
Secondary	930,933	12.9%	-60,090	-27,245	750	40.5%	6.1%	8.50%
Total	2,316,324	9.5%	13,870	-27,245				

Source: Knight Frank Research/PCA * assuming WALE 5 years

Tightening cycle at an end

Economic growth is slowing, despite the population boost

INFLATIONARY CONCERNS ARE ABATING AS MONETARY POLICY BEGINS TO EASE GLOBALLY

The latest quarterly inflation data shows uplift of 3.8% (Q2-24) over the past year, up from 3.6% the quarter prior, as the campaign to reduce inflation enters the final phase. Despite the recent increase in quarterly inflation, there is greater certainty that the overall trend is on track to have inflation back within the RBA target zone by the end of 2026. While the cash rate is considered to be at the peak for this cycle, monetary policy easing is not expected until Q1 2025. With many other advanced economies already beginning to drop rates, Australia is likely to lag slightly but remain in sync with the general direction.

The quarterly GDP growth of 0.2% and annual growth of 1.0% to Q2 -24 reflected the slowing expected in the economy as a result of tighter monetary policy. With a recently downwardly revised 1.1% annual forecast to the end of 2024 the expectation remains of steady but slow economic growth with some improvement into 2025 (+2.1%).

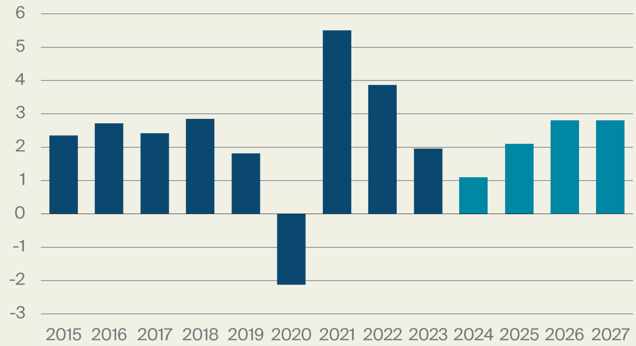
ECONOMY HAS BEEN SUPPORTED BY POPULATION GROWTH

Although beginning to slow, the Australian economy has been supported by strong population growth with almost 1.2 million new residents in the past two years. Much of this was from the offshore migration surge which replenished the offshore student cohort and pent up migration demand. Peaking at an annual growth rate of 2.6% in Q3-23, population growth has begun to ease, falling back to 2.5% at the end of 2023. Queensland recorded 2.6% annual population growth to December 2023. While Queensland has a long history of accelerated population growth due to interstate migration, the offshore surge also boosted the state's population growth. Sixty-two percent of Queensland's population growth came from offshore migration during the year, compared to 84% for Australia.

EMPLOYMENT GROWTH SUPPORTED BY PUBLIC SECTOR IN THE SHORT TERM

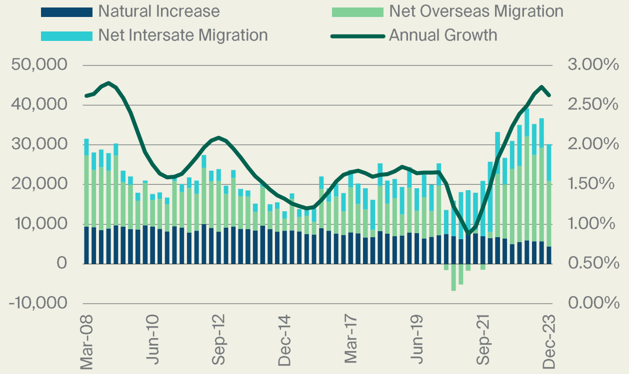
The unemployment rate was still low at 4.2% in July 2024 with increasing participation rates and gradual easing in labour market conditions. The jobs market, and overall economy, has been supported by public sector spending with half of all jobs filled in H1 2024 within the public sector. Generally, the public sector only accounts for 15% of total employment. Forecast office workforce growth in Brisbane is expected to recover in 2025 to 2.7% annual uplift after a slower 2024. Longer term the growth forecasts are stabilising between 2.0 – 2.5% per annum and growing at a faster pace than other major markets over the next five years.

GDP Growth Outlook
% annual change



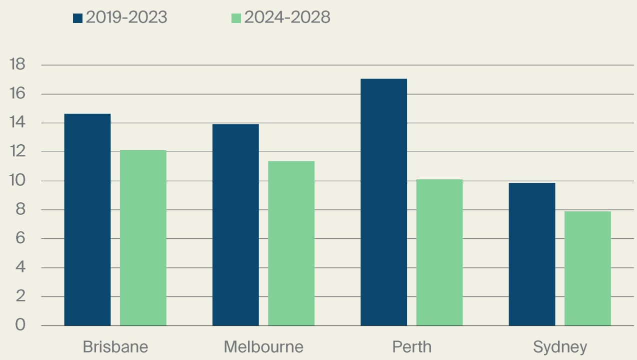
Source: Knight Frank Research, Oxford Economics

Population Growth Queensland
Quarterly Increase by component & annual growth rate



Source: Knight Frank Research, ABS

Office Workforce Growth
% change - past 5 years, forecast 5 years



Source: Knight Frank Research, Oxford Economics

Tenant mobility is easing

LEASING ACTIVITY REMAINS BROAD BASED BUT MORE TENANTS ARE DEFERRING DECISIONS

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. The State Government was highly active during 2023 but this has slowed into 2024 which is an election year. Federal Government activity is expected to somewhat fill this gap in 2024 with new leases in the final stages of documentation.

While several major professional services firms in the CBD have taken the decision to relocate and upgrade to new accommodation, in recent months there has been a growing trend towards tenants choosing to re-sign where they are and not undertake the major capital works of a relocation. During 2024, EY (contracting one floor to c6,000sqm), BHP (expanding to c20,000sqm), Clayton Utz (6,200sqm) and Santos (c15,000sqm) have all made the decision to re-commit to their existing office premises. These decisions at the upper end of the market are symptomatic of the wider mood with greater conservatism, preservation of capital and elevated fitout costs now translating into slower decisions and a greater likelihood of remaining in place.

NET ABSORPTION LIKELY TO BE MODEST IN 2025 WHILE ECONOMIC GROWTH REMAINS SLOW

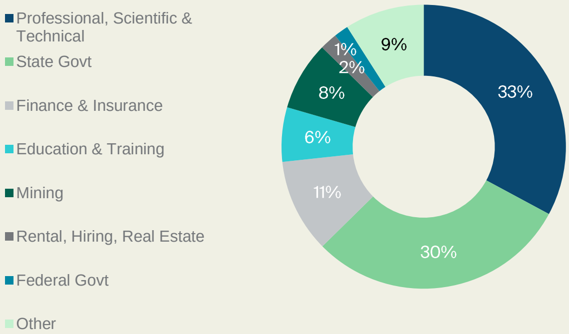
Net absorption for H1 2024 was 26,552sqm, reversing the fall of the previous period. A blend of the past two periods better reflects market conditions, rather than a fall and a fast rebound. Net absorption during H1 2024 was dominated by expansion within the Government sector.

The A grade market has now recorded 82,488sqm of net absorption in a year with two six-monthly periods of 40,000sqm+ levels of absorption. A grade has taken the place of Premium as the best performing market, which has slipped into negative net absorption (-381sqm q/q, -8,528sqm y/y) with sub-lease lifting as corporates consolidate.

Upgrading tenants, such as Boeing moving from 150 Charlotte St to 123 Albert St, were a driver of negative net absorption in B grade. After recording steady positive net absorption with strong SME activity 2021 – 2023, the B grade market has now seen three consecutive 6-month periods of negative net absorption. H1 2024 negative net absorption of -14,976sqm was the worst performing sub-market. Overall though, secondary net absorption is only mildly negative, when compared to other major cities.

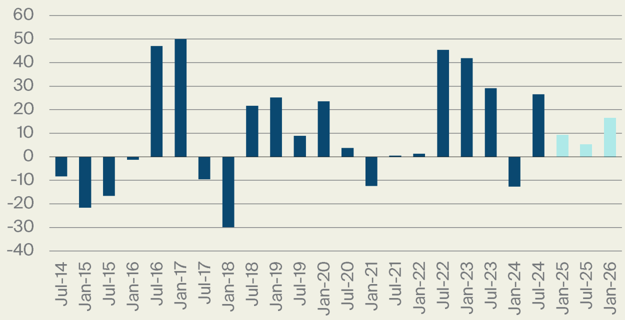
Net absorption is forecast to remain positive but subdued in the short term until the economy re-accelerates in 2025. Expanding industries, ongoing government expansion and organic growth will counteract any corporate conservatism.

Brisbane CBD Tenant Activity
2023 & H1 2024



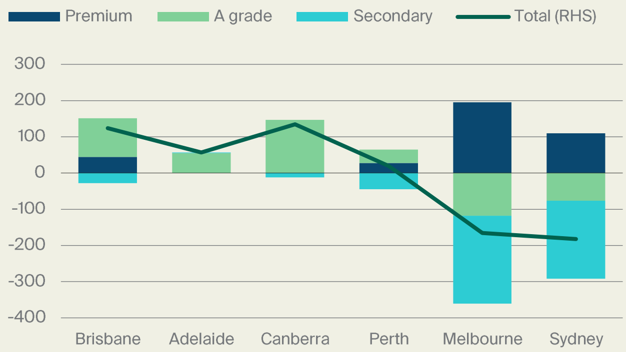
Source: Knight Frank Research

Brisbane CBD Net Absorption
'000 square metres



Source: Knight Frank Research/PCA

Cumulative net absorption 2020 – H1 2024
'000 sqm selected CBD markets



Source: Knight Frank Research, PCA

Vacancy still trending down

REFURBISHED STOCK REMAINS THE ONLY SHORT-TERM OPTION FOR TENANTS

The only addition to stock in H1 2024 was the return of the refurbished 320 Adelaide St (13,093sqm) which came back on-line partially leased. Withdrawals were the secondary 41 George St (29,381sqm) and the un-occupied portion of 150 Charlotte St (10,957sqm) with both buildings having active proposals to be converted into student accommodation. There was no change to prime stock levels during H1 2024.

Refreshed prime stock should come to the market in mid 2025 from refurbishment at 70 Eagle St (11,476sqm) and also from 140 Elizabeth St (9,908sqm), subject to the timing of the sitting tenant relocation. New construction projects remain subject to delays which continues to push completion dates and tenant relocations out further.

Completion at the fully pre-committed 205 North Quay is now expected from March 2025 with tenant relocation staged over the following six months. The development at 360 Queen Street is 62% pre-committed with completion scheduled in H2 2025 for joint venture partners Investa & Charter Hall. Waterfront North is targeting 2028 completion and remains just over 50% pre-committed.

FEASIBILITY HURDLES CONTINUE TO HAMPER ANY ADDITIONAL CONSTRUCTION STARTS

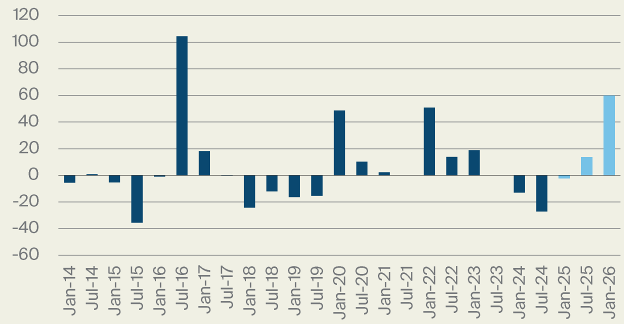
Financial feasibility remains difficult for new commercial developments to achieve with construction costs, extended development timeframes and elevated yield expectations all still prevalent. While demand for new stock within such a strongly growing CBD is likely to remain strong, the timeframe for additional building construction commencements remains unclear. Most CBD sites will require 3-4 years of construction, making large-scale commercial development, outside of the assets already under construction, unlikely to be delivered until 2028-2029.

VACANCY TO REMAIN BELOW 10% UNTIL H2 2025

Total vacancy was 9.5% in July 2024, down from 11.7% at the start of the year. Vacancy has now fallen significantly from the recent peak of 15.4% in January 2022, due to sustained demand and limited new supply. While the quantum of net absorption is likely to reduce in the short term, it is forecast to remain positive and combined with no supply this directly translates into further falls in the vacancy rate.

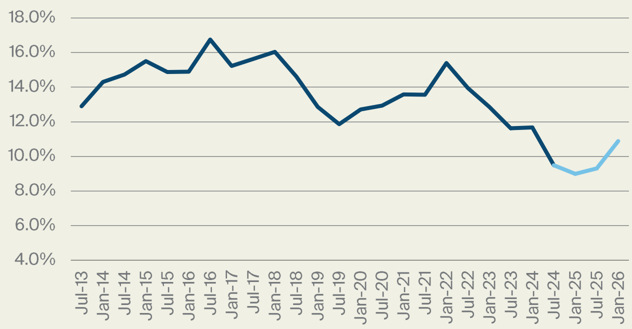
Total vacancy is forecast to dip to 9.0% by the end of 2024 before increasing again in response to the new supply through 2025. The lack of new supply 2026-2028 will support vacancy falling again to a lowpoint of c8% in early 2028 before supply flows through the market in 2028.

Net Additions - Brisbane CBD
'000sqm additions and withdrawals



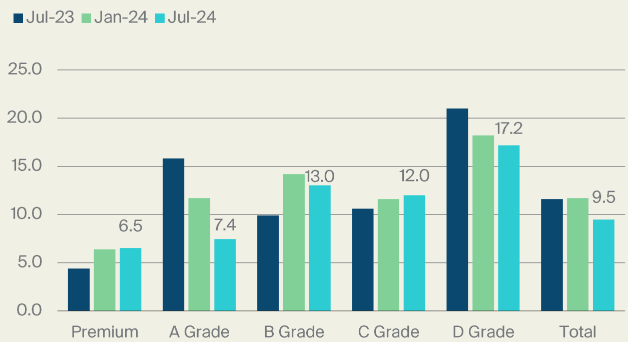
Source: Knight Frank Research, PCA

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 (c50% committed)	Mid-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)	Staged from H1 2025
4	360 Queen St	46,700 (62% 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	One Queen St	27,000	STC
10	Roma Street Airspace	50,000+	Mooted
11	343 Albert St	c20,000	Potential Refurbishment
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

Effective prime rents lift

TENANTS HAVE CONTINUED TO ACCEPT HIGHER FACE RENTS THROUGH TO MID-2024

Solid demand from tenants combined with owners keen to push higher face rents to support valuations have created an environment of strong face rental growth, particularly for the prime market. The lack of recent or imminent development has seen tenants consider their options quite early, with multi-floor tenants having fewer options than they may have expected.

Average prime gross face rent increased by 7.1% to $934/sqm in the 12 months to July 24. Prime incentives average 39%, stable over the past six months, but lower y/y, lifting effective rents by 10.7% over the 12 months.

Premium rents (+11.7% p.a) are still growing faster than A grade (5.9% p.a), on average, with the top end of the market frequently seeing rents of $1,150-$1,250/sqm. The tight premium market did ease slightly over the past six months, with some sub-lease space available and backfill space/new stock to come online in 2025/26. In contrast, A grade vacancy has continued to fall sharply.

SECONDARY FACE RENTS FLATTENING

Secondary face rents have grown strongly over the past two years, up by more than 15%. Slight softening across the B grade market, with negative net absorption and vacancy now back to 13.0%, has seen some easing to this rental growth in the past quarter. Gross face average rent is $750/sqm as at July 2024. This represents an annual increase of 4.3% over the year. Incentives have fallen slightly to 40.5%, down from 42% a year ago, but remain sticky. Fitted space remains key to get tenants to convert intention into action with speculative and recycled fitouts central to attracting tenants to secondary space.

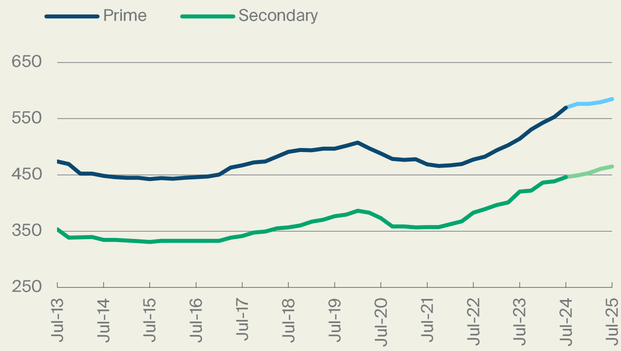
PRIME RENTAL GROWTH TO BECOME MORE DIFFICULT OVER THE NEXT YEAR

Despite falling prime vacancy, the pace of rental growth is expected to slow over the coming year. The fall in tenant enquiry and urgency levels will make further significant steps in face rents difficult to achieve. Many institutional owners have removed or capped the incentive available as a capital amount, instead focusing on rental abatement. This has also reduced tenant mobility, reducing competition for vacant space, especially cold shell. The uplift of tenants renewing in place is still providing strong reversions for owners, and this will continue through 2025.

Prime effective rents are forecast to grow by 2.7% over FY25. This conservatism is not expected to become entrenched, lifting as the economy recovers. The inherent lack of new supply will see rents accelerate again 2026-2029. Prime face rents are forecast to grow by an average of 5.7% p.a in the five years to mid-2029. Incentives will fall to 38% over the next two years before stabilising.

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
Allianz Australia	345 Queen St	Financial	3,328	825 g	35-40	10	Jul 24
Norton Rose Fullbright	111 Eagle St	Financial	2,864	1,050 n	35-40	10	Apr 25
Ashurst	111 Eagle St	Financial	2,769	1,050 n	35-40	10	Jul 25
Brisbane Olympic Committee	123 Eagle St	Financial	1,603	1,000 g	40+	6.5	Jun 24
Sentinel Property^	360 Queen St	Financial	1,475	1,050 g	35-40	7	Mar 26
O'Neils Architecture	345 Queen St	Financial	692	895 g	35-40	5	Sep 24

Source: Knight Frank Research/PCA n net g gross ^pre-commitment

Investment activity lifting

INVESTMENT TRANSACTIONS STARTING TO INCREASE

Transaction activity has slowly built through 2024 after a slow start to the year. In the past two months there have been two sales above $100 million, the first high value transactions since late 2023. For 2024 ytd there has been total turnover of $610.5 million, on track to beat the $762.9 million from 2023 but still well below the long-term annual average of $1.3 billion.

The gap between purchasers' offers and the vendors' expectation/book value has narrowed and vendors with a true need to are sell more amenable to meeting the market. Nevertheless, not all active campaigns result in a sale and the process is still far longer than normal, especially where a contract is subject to capital raising. This has not been isolated to Brisbane and is reflective of the difficulties which have been experienced across capital markets.

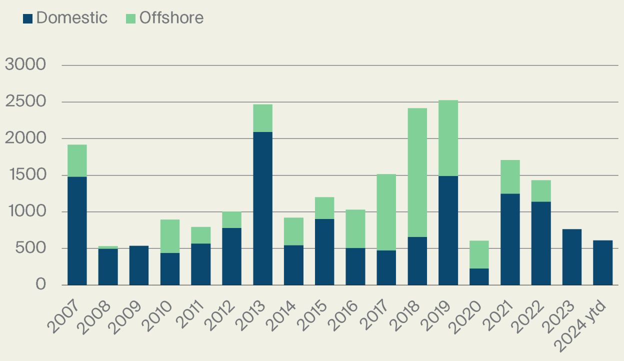
BUYER DEPTH AND BREADTH IMPROVING

Since the middle of the year there has been a noticeable increase in the level of interest in Brisbane CBD assets, although new buyers have remained on the sidelines. Sustained rental growth and falling vacancy has seen Brisbane move up in purchasers' focus. While the transaction process is by no means easy this increased focus on Brisbane and steady book value readjustment has improved liquidity within the market. Purchasers have remained domestic, despite the growing focus on Brisbane from offshore funds.

Recent transactions or assets under contract have also seen the sale of secondary office assets with likely conversion to alternative uses. 150 Charlotte St is under unconditional contract for $64.5 million, with settlement in April 2025 and an active development application for conversion to student accommodation. 41 George St remains under contract to a local party also with a proposal to convert to student accommodation. This reflects both the weight of capital seeking living sector assets and a growing number of office assets reaching functional obsolescence.

Office investment assets understood to be under contract and subject to ongoing DD include 41 George St and 60 Edward St, which is expected to settle shortly.

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
120 Edward St	119.0	8.05	15,133	7,864	2.9	Clarence Property	DWS Group	Aug-24
240 Queen St	250.0	7.55	27,627	9,049	4.2	Quintessential	Brookfield AM	Jun-24
116 Adelaide Street	35.1	8.44	6,756	5,192	3.3	Private Investor	Keppel Capital	Jun-24
343 Albert St^	55.0	n/a	19,990	2,751	n/a	Private Investor	GIC/Charter Hall	May-24
119 Charlotte Street	48.0	8.62	8,319	5,770	3.0	Private Investor	Uniting Church Super Fund	Apr-24
150 Charlotte Street	64.5	VP	11,011	5,858	4.8	Sumner Innovate	Australian Unity Investment RE	Unconditional (Settlement Apr-25)

Source: Knight Frank Research ^ sold largely vacant with largest tenant in place to relocate to 205 North Quay during 2025 and potential refurbishment

Yield softening is ongoing

INFLATION IS SLOWING BUT LITTLE EXPECTATION OF A FALL IN THE CASH RATE DURING 2024

With the progress in controlling inflation, noted above, and the introduction of many public sector cost of living initiatives, such as energy rebates and lower public transport fares, headline inflation decline will accelerate. The RBA key measure of core (trimmed mean) inflation will look through these temporary factors and the final stretch to bring the inflation rate back into the target band is likely to still take time, with their economic forecasts not having inflation back below 3% until late 2025. The RBA has continued to distance itself from market pricing which shows the potential for reductions in the cash rate during 2024, frequently communicating that rates need to stay elevated for some time to be sure that inflation is contained.

While many offshore trading partners have now begun to ease their monetary policy, Australian cash rate reduction is not expected until Q1 2025 and only limited falls through until 2026. Greater global certainty on the direction and timing of rate cuts, with the US having just reduced rates at the September meeting, has transferred through to the bond markets with the 2-year and 10-year treasury bonds now stabilised below 4.0% in both the US and Australia. The 10-year bond rate is forecast to return towards the neutral long-term expectation of c3.6% in mid-2026.

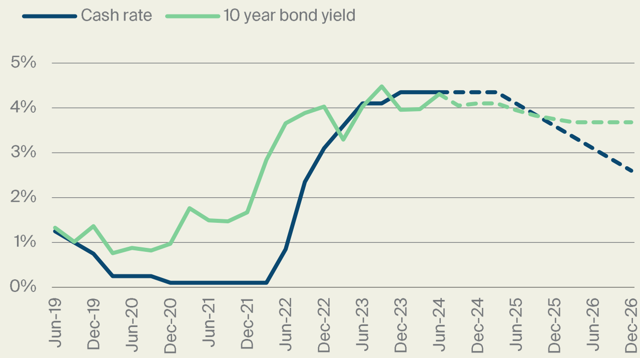
YIELDS SOFTENED FURTHER IN Q2 BUT STABILISATION IS EXPECTED IN THE SHORT TERM

Although transaction evidence remains thin for the Brisbane CBD with only one significant prime sale this year, yields are considered to have softened further during Q2. Prime yields are considered to range 6.0%– 8.25% with a median of 7.25%. This represents a further 20bps softening from Q1 and 195bps for this cycle. The sale of 240 Queen St was seen to provide major direction for prime yields in Brisbane. This sale reflected an initial yield of 8.3% and a core market yield of 7.55%. More recently the A/B grade 120 Edward St sale reflected a core market yield of 8.05%.

Secondary core market yields have followed suit with a current range 7.75% - 9.00% and a median of 8.50%. This is a softening of 25bps over the quarter and 205bps for this cycle. Passing yields for secondary assets can vary quite widely given the recent strong rental growth and vacancy exposure.

Increasing transactions and capital flow, particularly in Sydney, has resulted in an uplift in sentiment for the office market sector and greater expectation that the easing cycle for yields has now largely played out. Yields are expected to stabilise across the Brisbane office sector for the remainder of 2024.

Interest rate outlook
Cash rate and 10 year bond outlook



Source: Knight Frank Research, Oxford Economics

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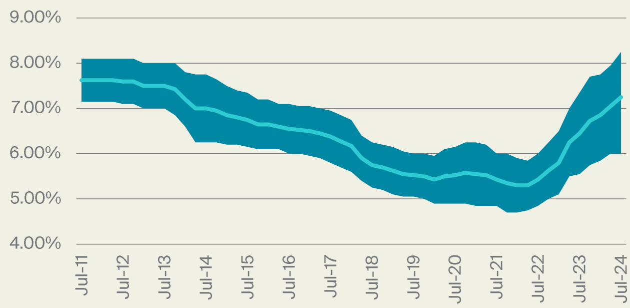
Bps softening for prime yields since the low of Q1-2022

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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