The East Coast CBD markets will see 387,927m² of office stock permanently withdrawn between 2015 and 2018. There is also a further 261,235m² of potential withdrawals identified.

The associated Fringe markets will also have strong withdrawals with 125,683m² of space to come out between 2015 and 2018; plus a further 35,057m² of currently identified potential withdrawals.

Conversion of the building accounts for 32% of withdrawals; the remaining 68% are to be demolished for redevelopment. Residential and hotel developments are the dominant uses at 80%.
KEY FINDINGS

**Permanent withdrawals of office stock will increase by 41% in 2015 and then a further 48% in 2016.**

Sydney CBD & North Shore dominates with 64% of withdrawals; driven by the extreme demand for development opportunity and the lack of available sites.

Melbourne, being further through its residential development cycle, will see peak withdrawals in 2015.

Brisbane withdrawals are driven by the soft secondary market particularly within the CBD where 4.7% of stock will be withdrawn.

---

CITIES IN REJUVENATION

The permanent withdrawal of existing, largely secondary, office stock is on the increase. Although the dominating force is the demand for residential development—each city has different sub-drivers.

Permanent withdrawals of office stock across the major East Coast markets will accelerate through 2015, increasing 41% above 2014 levels. However the peak is expected to be in 2016 when 188,000m² of office stock is projected to be withdrawn across the markets analysed by Knight Frank Research.

For the years 2015—2018, Knight Frank Research has identified 387,927m² of permanent withdrawals across the CBDs of Sydney, Melbourne and Brisbane, with a further 261,235m² identified as potential withdrawals. This is dominated by the Sydney CBD, with 66% of the total.

In the fringe CBD precincts of Sydney North Shore, Melbourne Southbank & City Fringe and the Brisbane Fringe market there are also significant levels of office stock withdrawal. For 2015—2018, 125,683m² of office stock has been identified as potential withdrawals, with a further 35,057m² of potential withdrawals. To date there has not been the same level of site scarcity in fringe locations to drive the conversion or redevelopment of significant office assets to the same extent as the CBD markets.

---

Drivers

Overwhelmingly the major demand driver for this change of use of office stock has been the upswing in residential investment demand and the associated clamour for development sites. Hotel development, student accommodation and also the creation of development sites for new office projects have also been a factor in a number of withdrawals. Across the three cities, 47% of the stock withdrawn is for a change of use to residential with a further 26% slated for a likely residential/hotel development and 7% with pure hotel proposals.

Impacts

Withdrawal of secondary office stock is expected to have a cushioning effect against relatively high supply levels, particularly in Sydney and Brisbane. For the Sydney and Brisbane CBDs permanent withdrawals in the next four years account for 4.3% and 4.7% of stock, against new construction of 8.2% and 8.6% respectively. Melbourne CBD is lower on both fronts with 1.7% stock withdrawal and 5.1% new supply.

---

JENNELLE WILSON
Senior Director — Research QLD

MATT WHITBY
Head of Research and Consulting

“The withdrawal of obsolete office stock supports office market metrics and provides the opportunity for redevelopment to rejuvenate core commercial areas.”
The Sydney CBD and North Shore markets are not expected to have significant permanent office market withdrawals during 2015, with 13,451m² forecast across both markets, following 43,970m² withdrawn during 2014. This is expected to change markedly in 2016 and 2017 with permanent withdrawals of 86,737m² and 93,293m² respectively.

Withdrawals in the Sydney CBD are seen by many as a welcome antidote to the strong supply additions which are to enter the market, particularly in 2015 and 2016 (361,755m²) to keep the vacancy rate sub-8.5%. At this stage the expected withdrawals in the years 2015-2018 total 212,531m², which is 4.3% of the current stock base. In contrast, the forecast new supply over the same period is 404,755m² or an 8.2% uplift on current stock.

Knight Frank is also tracking additional significant potential withdrawals, where office stock is considered to be a likely withdrawal, however there is no formal date for withdrawal at this time. The potential withdrawals within the CBD total 218,062m², which represents an additional 4.4% of current stock and this may further offset the current supply cycle. The Sydney CBD is also expected to see the continuation of the current strong refurbishment market, triggered by relocation of large tenants, where office assets are temporarily withdrawn for major works, before being returned to the market.

Drivers

The primary driver for the withdrawal of office stock in the Sydney market has been the upsurge in underlying demand for development options and limited greenfield sites. This has primarily been driven by the surging residential development demand, however hotel and new commercial development has also been a factor in some withdrawals of stock. As shown in Figure 4, residential development accounts for 48% of the stock to be withdrawn, residential/hotel accounts for 16% and pure hotel use is a further 10%.

Sydney Office Stock Withdrawal

(‘000m²) CBD & North Shore—Permanent

<table>
<thead>
<tr>
<th>Address</th>
<th>Precinct</th>
<th>Price $ mil</th>
<th>Bld NLA m²</th>
<th>S/m² NLA</th>
<th>Site m²</th>
<th>S/m² Site</th>
<th>WALE yrs</th>
<th>Vendor</th>
<th>Purchaser</th>
<th>Sale Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>472-486 Pacific Hwy</td>
<td>North Shore</td>
<td>121.00#</td>
<td>10,510</td>
<td>11,513</td>
<td>5,133</td>
<td>23,573</td>
<td>1.5</td>
<td>Leighton</td>
<td>Mirvac Group</td>
<td>Jun 15</td>
</tr>
<tr>
<td>53-55 Liverpool St</td>
<td>CBD</td>
<td>19.10^</td>
<td>3,360</td>
<td>5,685</td>
<td>791</td>
<td>24,147</td>
<td>1.3</td>
<td>Private Investors</td>
<td>Undisclosed Developer</td>
<td>May 15</td>
</tr>
<tr>
<td>619-621 Pacific Hwy</td>
<td>North Shore</td>
<td>39.18#</td>
<td>5,317</td>
<td>7,369</td>
<td>1,042</td>
<td>37,601</td>
<td>n/a</td>
<td>Legacy Property Gp</td>
<td>Private Developer</td>
<td>Feb 15</td>
</tr>
<tr>
<td>130 Elizabeth St</td>
<td>CBD</td>
<td>121.00^</td>
<td>10,308</td>
<td>11,738</td>
<td>973</td>
<td>124,358</td>
<td>0.9</td>
<td>Cbus Property</td>
<td>Ecowe Group &amp; China Aoyuan Property Group</td>
<td>Feb 15</td>
</tr>
<tr>
<td>173-175 Phillip St</td>
<td>CBD</td>
<td>46.00#</td>
<td>8,630</td>
<td>5,214</td>
<td>879</td>
<td>52,332</td>
<td>VP*</td>
<td>University of Sydney</td>
<td>ISPT/Galileo</td>
<td>Feb 15</td>
</tr>
<tr>
<td>168 Walker St</td>
<td>North Shore</td>
<td>157.50^</td>
<td>17,663</td>
<td>8,917</td>
<td>4,898</td>
<td>32,156</td>
<td>2.5</td>
<td>Anton Capital</td>
<td>Aqualand</td>
<td>Jan 15</td>
</tr>
<tr>
<td>338 Pitt St †</td>
<td>CBD</td>
<td>102.00#</td>
<td>18,580</td>
<td>5,490</td>
<td>1,616</td>
<td>63,119</td>
<td>1.7</td>
<td>AMP Capital Wholesale Office</td>
<td>Visionary Investment Group</td>
<td>Jan 15</td>
</tr>
<tr>
<td>19-31 Pitt St – CBD</td>
<td>73.00#</td>
<td>5,518</td>
<td>13,229</td>
<td>911</td>
<td>80,132</td>
<td>undis</td>
<td>AXF Group &amp; Ever Bright Group</td>
<td>Dalian Wanda</td>
<td>Jan 15</td>
<td></td>
</tr>
<tr>
<td>1 Alfred St – CBD</td>
<td>415.00#</td>
<td>23,456</td>
<td>17,692</td>
<td>2,677</td>
<td>155,024</td>
<td>undis</td>
<td>Blackstone (Valad)</td>
<td>Dalian Wanda</td>
<td>Dec 14</td>
<td></td>
</tr>
</tbody>
</table>

Source: Knight Frank Research  
^ likely conversion  
^ likely demolition  
*Occupants related to the Uni will be relocated; other tenants have a 12 month demolition clause  
~ likely aggregation incorporating 31A Pitt St  
† purchaser currently also owns 233 Castlereagh St so aggregation potential
While the Sydney CBD is clearly on the cusp of a major office supply cycle, withdrawal of older office stock has not been driven by poor performance of secondary assets. In fact secondary assets have recently been outperforming prime stock both in terms of vacancy (7.1% vs 7.7%) and gross effective rental growth (6.2% v 3.2% yr to April 2015). However on a broad view the commercial market has not seen the same upswing as the residential market.

Therefore purchases which have been undertaken for an expected or potential withdrawal have often been done at a premium to the underlying value for an office use. Two sales towards the end of 2014 highlighted this with 233 Castlereagh St achieving 27% above the mid-2014 valuation and 338 Pitt St which was sold at a 12% premium to book value. 1 Alfred St, purchased as part of a larger site amalgamation, was also reported to have achieved a price some 15-20% above other bidders who were planning to continue the office use.

Conversely in the core CBD region the future demand for centrally located office space has resulted in two older office buildings at 151 Clarence St and 60 Martin Place slated for demolition for the construction of new office stock, accounting for 16% of withdrawals.

Conversion versus Redevelopment

To date the majority of withdrawals across the CBD and North Shore have been for redevelopment with only three smaller conversions in the North Shore market to date. Going forward there is expected to be a more even spread between demolition and conversion. With conversion providing a faster turnaround and access to profits, assets such as 227 Elizabeth St, 50-54 Park St and 570 George St are amongst the larger buildings to be converted.

Future

With a large proportion of the withdrawn stock located in the Midtown portion of the CBD, this is expected to consolidate the migration of the major office core towards the north. The demand for residential apartment living in the inner city is expected to continue to drive both redevelopment and conversion into the medium term, with premiums to continue to be paid over and above a long term office use. With the North Shore already having a strong mix of residential and office uses, the withdrawal of older office stock is expected to facilitate a greater blending of these activities.

### TABLE 2

**Major Office Withdrawals—Sydney North Shore**

<table>
<thead>
<tr>
<th>Address</th>
<th>Precinct</th>
<th>NLA (m²)</th>
<th>Owner/Developer</th>
<th>Reason/Expected Reason for Withdrawal</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>177 Pacific Hwy</td>
<td>North Sydney</td>
<td>4,303</td>
<td>Suntec REIT</td>
<td>Office Redevelopment</td>
<td>Apr 14</td>
</tr>
<tr>
<td>80 Arthur St</td>
<td>North Sydney</td>
<td>6,510</td>
<td>Meriton</td>
<td>Residential Redevelopment</td>
<td>Nov 14</td>
</tr>
<tr>
<td>18 Berry St, 148 &amp; 154 Pacific Hwy</td>
<td>North Sydney</td>
<td>6,596</td>
<td>Private Developer</td>
<td>Residential Redevelopment</td>
<td>Nov 14</td>
</tr>
<tr>
<td>30 Alfred St</td>
<td>North Sydney</td>
<td>3,952</td>
<td>Private Developer</td>
<td>Residential Redevelopment</td>
<td>H2 2015</td>
</tr>
<tr>
<td>619-621 Pacific Hwy</td>
<td>St Leonards/CN</td>
<td>5,317</td>
<td>Private Developer</td>
<td>Mixed Use Redevelopment</td>
<td>H1 2016</td>
</tr>
<tr>
<td>221 Miller St</td>
<td>North Sydney</td>
<td>7,015</td>
<td>Yuhu Group</td>
<td>Office/Residential Redevelopment</td>
<td>H2 2016</td>
</tr>
<tr>
<td>472 &amp; 486 Pacific Hwy</td>
<td>St Leonards/CN</td>
<td>10,510</td>
<td>Mirvac</td>
<td>Office/Residential Redevelopment</td>
<td>H2 2016</td>
</tr>
<tr>
<td>100 Christie St</td>
<td>St Leonards/CN</td>
<td>9,631</td>
<td>Altis Real Estate Equity Partnership</td>
<td>Residential Conversion</td>
<td>2016+</td>
</tr>
<tr>
<td>52 Alfred St</td>
<td>North Sydney</td>
<td>10,031</td>
<td>Bridgehill</td>
<td>Residential Conversion</td>
<td>2017</td>
</tr>
<tr>
<td>168 Walker St</td>
<td>North Sydney</td>
<td>17,663</td>
<td>Aqualand</td>
<td>Residential Conversion</td>
<td>tba</td>
</tr>
<tr>
<td>504 Pacific Hwy</td>
<td>St Leonards/CN</td>
<td>9,605</td>
<td>Charter Hall</td>
<td>Residential Conversion</td>
<td>tba</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research
In the longer term, particularly in the CBD, the current levels of residential construction in Melbourne has resulted in an increasing level of conservatism regarding future residential development or conversion opportunities which have a delivery window beyond 2016. For the period covering 2015—2018 there is anticipated to be 72,639m² of office space permanently withdrawn from the CBD market, representing 1.7% of the current stock base. Over the same period there is forecast to be 223,700m² of new office supply completed, which represents 5.1% of the current stock base. Therefore while permanent withdrawals will provide a mitigating factor for the total vacancy, the market will be reliant on the forecast strong net absorption, boosted by strong migration into the CBD by fringe and suburban tenants, and a growing level of temporary withdrawals for refurbishment, to keep the total vacancy in check.

The Melbourne CBD Fringe areas and also Southbank have also seen significant residential development of late, however a relatively low proportion of these developments have displaced significant office assets. The greatest level of withdrawal in these fringe CBD markets is expected to come in 2016 when 28,038m² of stock will be withdrawn.

In the longer term, particularly in the CBD, the current levels of residential construction in Melbourne has resulted in an increasing level of conservatism regarding future residential development or conversion opportunities which have a delivery window beyond 2016. For the period covering 2015—2018 there is anticipated to be 72,639m² of office space permanently withdrawn from the CBD market, representing 1.7% of the current stock base. Over the same period there is forecast to be 223,700m² of new office supply completed, which represents 5.1% of the current stock base. Therefore while permanent withdrawals will provide a mitigating factor for the total vacancy, the market will be reliant on the forecast strong net absorption, boosted by strong migration into the CBD by fringe and suburban tenants, and a growing level of temporary withdrawals for refurbishment, to keep the total vacancy in check.

Table 3

<table>
<thead>
<tr>
<th>Address</th>
<th>Precinct</th>
<th>Price $ mil</th>
<th>Bld NLA m²</th>
<th>$/m² NLA</th>
<th>Site m²</th>
<th>$/m² Site</th>
<th>WALE yrs</th>
<th>Vendor</th>
<th>Purchaser</th>
<th>Sale Date</th>
</tr>
</thead>
</table>
| 23-31 Lincoln Square St, Carlton Fringe 12.52^ 3,745 3,343 906 13,819 VP Private Investor KLW Holdings Mar 15
| 185 Rosslyn St, West Melbourne Fringe 40.00# 9,333 4,286 9,206 4,345 VP Australia Post Trenerry Property Group Mar 15
| 383 King St CBD 52.00^ 12,975 4,008 2,200 23,636 VP Aspial Group Haileybury College Feb 15
| 71-87 City Rd Southbank ~40.00# 3,479 11,613 2,327 17,361 n/a Various Central Equity Dec 14
| 85 Coventry St Southbank 15.20# 2,006 7,577 976 15,574 n/a Private Investor Offshore Developer Dec 14
| 600 Collins St CBD 60.00# 7,995 7,505 2,428 24,712 n/a Henkell Brothers Investment Mgt Offshore Developer Aug 14
| 555 Collins St CBD 78.00^ 23,579 3,308 2,241 34,806 VP Private Investor Fragrance Group Jun 14
| 393 Swanston St CBD 35.00^ 4,738 7,387 786 44,529 VP PGA Group Scape Student Living May 14

Source: Knight Frank Research  ^ likely conversion  # likely demolition

Figure 5

Melbourne Office Stock Withdrawal ('000m²) CBD, Southbank & Fringe—Permanent

Source: Knight Frank Research

383 King St in the Melbourne CBD was purchased by Haileybury College from residential developer Aspial Corporation for $52 million. The building will be converted into an educational facility.
MELBOURNE MAJOR WITHDRAWALS

1. 54-68 Kavanagh St, Southbank—3,137m²
   Central Equity—H1 2014
   Residential Redevelopment

2. 85 Spring St, CBD—10,700m²
   Grocon—H2 2014
   Residential Redevelopment

3. 1-23 Queensbridge St, Southbank—4,066m²
   Schiavello/Crown Holdings—H2 2014
   Residential/Hotel Redevelopment

4. 383 King St, CBD—12,975m²
   Haileybury College—H1 2015
   Educational Use Conversion

5. 555 Collins St, CBD—23,579m²
   Fragrance Group—H1 2015
   Residential Conversion

6. 380 Lonsdale St, CBD—4,890m²
   Hiap Hoe—H1 2015
   Residential Redevelopment

7. 393 Swanston St, CBD—4,738m²
   Scape Student Living—H2 2015
   Student Accommodation Redevelopment

8. 280 Queen St, CBD—3,130m²
   Offshore Developer—H2 2015
   Residential Redevelopment

9. 63 Exhibition St, CBD—6,048m²
   Asia One—H2 2015
   Residential Redevelopment

10. 227-279 Flinders Lane, CBD—3,826m²
    Wake Up Hostels—H2 2015
    Hotel Conversion

11. 158 City Rd, Southbank—4,014m²
    Offshore Developer—H1 2016
    Residential Redevelopment

12. 600 Collins St, CBD—7,995m²
    Offshore Developer—H2 2016
    Residential Redevelopment

13. 12 William St, CBD—5,700m²
    Orion Homes Australia Pty Ltd
    Potential Residential Conversion

14. 38 Freshwater Place—approved 42,000m²
    GL Investment Co Melbourne Pty Ltd
    Proposed Residential/Hotel

Office Stock Withdrawn

Expected Withdrawals

Potential Withdrawal Targets

Development site converted from an office scheme to alternate use

Source of Map: Knight Frank
As at June 2015
Office NLA quoted.
Drivers

The predominant driver for withdrawal of office stock in the Melbourne market has been the residential development upswing. As seen in Figure 6, residential development clearly dominates the reasons for the withdrawal of office space, accounting for 79% of the office area to be withdrawn 2015-2018.

Outside of residential development uses there has been one asset purchased for hotel conversion with 277 Flinders Lane, Melbourne to be converted into backpacker accommodation. Education users account for the remaining withdrawals with Haileybury College purchasing 383 King St, Melbourne for conversion into a school and 393 Swanson St, Melbourne has been purchased for redevelopment into purpose built student accommodation.

In the Southbank and Fringe markets the withdrawals are predominantly for residential development. The level of residential demand in these areas has been far stronger than the withdrawal of office stock suggests, as there has been many additional cleared or lower density sites available for development.

There is an increasing level of caution from residential developers on large-scale, longer term projects in Melbourne and this has somewhat curtailed the expected levels of office stock withdrawal beyond 2016. With more than 11,600 apartments currently under construction in the Inner Melbourne precinct, four times the average supply total of the past 10 years, there is an increased reluctance to acquire a new asset for redevelopment with the expectation of progressing in the short term.

There has been sustained strong demand across the Melbourne market for commercial assets, particularly from off-shore purchasers. As prime investment opportunities became limited the market attention turned to the secondary market, with many offshore investors seeking to gain a presence in Melbourne. In the main, secondary assets which transacted since mid-2014 have been purchased with a value-add focus, rather than for short-term redevelopment.

Conversion versus Redevelopment

Within the CBD market more office space is being withdrawn for conversion (56%) than for redevelopment (44%). This reflects the ready availability of development sites within the central Melbourne grid area, with new developments likely to be sited on an existing development site or low rise non-office uses.

In the Fringe and Southbank precincts there are no conversions with all withdrawals being for redevelopment. This is indicative of the underlying office stock which is being withdrawn, largely older low rise buildings without character or heritage attributes.

Future

As Melbourne experienced a strong cycle of withdrawals and conversions during the Postcode 3000 planning incentive scheme during the mid-late 1990s, the current levels of office withdrawal are not as pronounced as in other cities. Even though the secondary office market vacancy is currently 11.3%, sentiment in that market is relatively robust, with a number of education tenants seeking secondary space and forecast rental growth above 5%p.a for the next three years. Following a spate of withdrawals in 2015 and 2016, the medium term is expected to see lower levels of permanent withdrawal with owners likely to favour short term refurbishment for office use whilst awaiting the next major residential development cycle.

TABLE 4

Major Office Withdrawals— Melbourne Southbank & Fringe

<table>
<thead>
<tr>
<th>Address</th>
<th>Precinct</th>
<th>NLA (m²)</th>
<th>Owner/Developer</th>
<th>Reason/Expected Reason for Withdrawal</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>54-68 Kavanagh St</td>
<td>Southbank</td>
<td>3,137</td>
<td>Central Equity</td>
<td>Residential Redevelopment</td>
<td>Jun 14</td>
</tr>
<tr>
<td>1-23 Queensbridge St</td>
<td>Southbank</td>
<td>4,066</td>
<td>Schiavello/ Crown Holdings</td>
<td>Residential/Hotel Redevelopment</td>
<td>Dec 14</td>
</tr>
<tr>
<td>1 Rathdowne St, Carlton</td>
<td>Fringe</td>
<td>4,071</td>
<td>Offshore Developer</td>
<td>Residential Redevelopment</td>
<td>Dec 15</td>
</tr>
<tr>
<td>158 City Rd</td>
<td>Southbank</td>
<td>4,014</td>
<td>Offshore Developer</td>
<td>Residential Redevelopment</td>
<td>Jun 16</td>
</tr>
<tr>
<td>71-87 City Rd</td>
<td>Southbank</td>
<td>3,479</td>
<td>Central Equity</td>
<td>Residential Redevelopment</td>
<td>Jun 16</td>
</tr>
<tr>
<td>23-31 Lincoln Square Sth, Carlton</td>
<td>Fringe</td>
<td>3,745</td>
<td>KWL Holdings</td>
<td>Residential Redevelopment</td>
<td>Dec 16</td>
</tr>
<tr>
<td>185 Rosslyn St, West Melbourne</td>
<td>Fringe</td>
<td>9,333</td>
<td>Trenerry Property Group</td>
<td>Residential Redevelopment</td>
<td>Dec 16</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research
The Brisbane CBD and Fringe markets are expected to experience significant withdrawal of obsolete stock over the next three years, after the withdrawal of 25,772m² during 2014.

It is forecast that between 2015-2018 the CBD will see some 102,757m² of stock withdrawn from the market, representing 4.7% of the current stock base. Knight Frank is also tracking an additional 37,473m² of stock which has the potential to be withdrawn from the CBD in the medium term. This withdrawal is anticipated to somewhat mitigate the impact of the delivery of 188,000m² (8.8% of the current stock base) of new supply over a 12 month period from late 2015.

As seen in Figure 7, the majority of the CBD stock withdrawal is expected to occur within the 2016 calendar year and is tied to the demolition of older State Government owned buildings to create the Queens Wharf development site. The majority, if not all, of the occupants within the buildings to be demolished in 2016 are expected to relocate into the newly completed 1 William Street in mid-2016.

Within the Fringe market, for the period 2015-2018, there is expected to be 33,994m² of office stock withdrawn (2.8% of current stock). The Fringe market is presently seeing high demand for residential development sites, however the majority of this demand is being satisfied by existing sites or low-rise service retail or semi-industrial premises. Therefore existing office assets are only being redeveloped in a small proportion of the residential developments. Much of the Fringe stock to be withdrawn is within smaller, low rise, assets with an average NLA per withdrawn building of 3,574m².

### TABLE 5
Recent Sales Activity Brisbane - Conversion or Demolition Assets

<table>
<thead>
<tr>
<th>Address</th>
<th>Precinct</th>
<th>Price $ mil</th>
<th>Bld NLA m²</th>
<th>NLA NLA</th>
<th>Site m²</th>
<th>Site $/m²</th>
<th>WALE yrs</th>
<th>Vendor</th>
<th>Purchaser</th>
<th>Sale Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>185 Wharf St, Spring Hill</td>
<td>Fringe</td>
<td>14.00</td>
<td>2,824</td>
<td>4,958</td>
<td>1,835</td>
<td>7,629</td>
<td>VP</td>
<td>Silverstone Developments</td>
<td>Cbus Property~</td>
<td>Jun 15</td>
</tr>
<tr>
<td>363 Adelaide St</td>
<td>CBD</td>
<td>47.50 ^</td>
<td>14,962</td>
<td>3,175</td>
<td>2,846</td>
<td>16,690</td>
<td>VP</td>
<td>Investa Property Group</td>
<td>Valparaiso Capital</td>
<td>Dec 14</td>
</tr>
<tr>
<td>240 Margaret St</td>
<td>CBD</td>
<td>30.00</td>
<td>3,750</td>
<td>8,000</td>
<td>1,715</td>
<td>17,493</td>
<td>VP</td>
<td>Old Water Corporation</td>
<td>Aspial Corporation</td>
<td>Jul 14</td>
</tr>
<tr>
<td>171 George St</td>
<td>CBD</td>
<td>35.00 ^</td>
<td>8,700</td>
<td>4,023</td>
<td>1,378</td>
<td>25,399</td>
<td>n/a</td>
<td>Private Investor</td>
<td>Toga Far East Hotels</td>
<td>Jul 14</td>
</tr>
<tr>
<td>443 Queen St</td>
<td>CBD</td>
<td>49.00</td>
<td>5,560</td>
<td>8,909</td>
<td>2,183</td>
<td>22,446</td>
<td>1.9</td>
<td>Private Investor</td>
<td>Cbus Property</td>
<td>Jul 14</td>
</tr>
<tr>
<td>109 Melbourne St, 5th Brisbane</td>
<td>Fringe</td>
<td>10.00</td>
<td>2,100</td>
<td>4,762</td>
<td>1,347</td>
<td>7,424</td>
<td>VP</td>
<td>Heathley Keystone</td>
<td>ARIA Property Group</td>
<td>Jun 14</td>
</tr>
<tr>
<td>168-184 Wharf St, Spring Hill</td>
<td>Fringe</td>
<td>7.50</td>
<td>1,836</td>
<td>4,085</td>
<td>1,244</td>
<td>6,029</td>
<td>VP</td>
<td>Private Investor</td>
<td>Pro-Invest Australian Opportunity Pty Ltd</td>
<td>May 14</td>
</tr>
<tr>
<td>152 Wharf St, Spring Hill</td>
<td>Fringe</td>
<td>13.50</td>
<td>4,613</td>
<td>2,927</td>
<td>1,981</td>
<td>6,815</td>
<td>0.6</td>
<td>Heathley Diversified Property Fund</td>
<td>MPG Developments</td>
<td>May 14</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research

^ likely conversion  # likely demolition ~ reported contract, settlement to be confirmed
BRISBANE CBD WITHDRAWALS

80 Albert St—9,118m²
- Frasers Hospitality—Q1 2014
- Hotel Conversion

171 George St—8,260m² office NLA
- Toga Far East Hotels—Q4 2014
- Hotel Conversion

363 Adelaide St—14,700m²
- Valparaiso Capital—Q1 2015
- Student Accommodation Conversion

240 Margaret St—3,750m²
- Aspial Corporation—Q1 2015
- Residential Redevelopment

80 George St—16,150m²
- State Government—2016/2017
- Integrated Resort/Residential redevelopment (Queens Wharf)

147-163 Charlotte St—13,395m²
- Cromwell Property Group—2017
- Likely Redevelopment

146-160 Mary St—13,256m²
- Cromwell Property Group—2017
- Likely Redevelopment

126 Margaret St—5,718m²
- Investec Prop Opportunity Fund
- 10% occupied

220 George St—6,500m²
- Forza Capital
- 14% occupied

310 Ann St—16,500m²
- Pidgeon Family—Q1 2015
- Currently fully vacant

205 North Quay—3,318m²
- RNP
- Currently fully vacant

443 Queen St—5,560m²
- Cbus Property

111 Mary St—approved 35,000m²
- Sam Chong
- Seeking new DA for hotel development

30 Albert St—approved 25,000m²
- Aspial Corporation
- Residential Proposed

550 Queen St—approved 18,500m²
- Qualitas/Consolidate Properties
- Residential Development

Transit Centre Stage 2—approved 70,000m²
- GPT (GWOF)/APPF
- Likely residential if pursued

Office Stock Withdrawn

Expected Withdrawals

Potential Withdrawal Targets

Development site converted from an office scheme to alternate use

Source of Map: Knight Frank
As at June 2015
Office NLA quoted.
The relatively softer market conditions in the secondary markets has been a major factor in creating opportunities for stock withdrawal with largely vacant or imminently vacant buildings. With a current secondary vacancy of 20.5% in the CBD and 13.6% in the Fringe there are buildings with weak tenant profiles, making them ripe for redevelopment. The Brisbane City Council has stepped up planning support for the redevelopment of obsolete stock.

While only 21% of stock withdrawn is for purely residential development, 66% is for residential/hotel development, dominated by Queens Wharf which will be an integrated resort and residential precinct. Change of use such as hotel or student accommodation has been supported by a combination of increased demand and support from the City Council. The Council offered subsidies on infrastructure charges for four or five star hotels, which were approved between July 2011 and July 2015.

Demand for student accommodation has been recovering as the AUD falls and offshore student numbers increased into Brisbane. In order to assist the market to meet demand the Brisbane City Council has offered a reduction in infrastructure charges for new student accommodation which has greater than 20 rooms and formal on-site management.

Conversion versus Redevelopment

To date the majority of withdrawals across the CBD and Fringe markets have been for conversion of an existing building to a new use, rather than for demolition and redevelopment. In the CBD 80 Albert St, 171 George St and 363 Adelaide St have been the dominant withdrawals to date, for conversion into hotel and student accommodation uses. In the Fringe, 477 Boundary St (19,538m²) was withdrawn in 2013 for conversion to residential and hotel uses and this has been followed by the TC Bierne Building which is being converted into a four star hotel and backpacker accommodation.

This trend is expected to change, led by the Fringe where withdrawals for redevelopment will account for 85% of the 2015 total as the residential site demand plays out. In the CBD, 2015 withdrawals for redevelopment is expected to be limited to the smaller 3,750m² 240 Margaret St, however will accelerate in 2016 with the 57,646m² of office stock to be withdrawn for the Queens Wharf development site.

Future

Withdrawal of stock is expected to continue to be a factor in both the CBD and Fringe markets into the medium term, with the current market conditions providing the opportunity to redevelop and rejuvenate areas of the city which would otherwise be vacant.

At this stage, 2015 is expected to be the peak year for withdrawals in the Fringe market with 29,299m². In contrast, withdrawals within the CBD are not expected to have a major impact until 2016. There will be some benefit to vacancy levels even though the withdrawals 2015-2018 (accounting for 4.7% of current stock) will be well outweighed by new supply at 8.6%.

### TABLE 6

<table>
<thead>
<tr>
<th>Address</th>
<th>Precinct</th>
<th>NLA (m²)</th>
<th>Owner/Developer</th>
<th>Reason/Expected Reason for Withdrawal</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>477 Boundary St</td>
<td>Spring Hill</td>
<td>19,538</td>
<td>Asian Pacific Group</td>
<td>Residential/hotel Conversion</td>
<td>Dec 13</td>
</tr>
<tr>
<td>168-184 Wharf St</td>
<td>Spring Hill</td>
<td>1,836</td>
<td>Pro-Invest Australian Opportunity Pty Ltd</td>
<td>Hotel Redevelopment</td>
<td>Dec 14</td>
</tr>
<tr>
<td>109 Melbourne St</td>
<td>Inner South</td>
<td>2,100</td>
<td>Aria Property Group</td>
<td>Residential Redevelopment</td>
<td>Dec 14</td>
</tr>
<tr>
<td>TC Bierne Bld</td>
<td>Urban Renewal</td>
<td>4,458</td>
<td>Forwin International</td>
<td>Hotel Conversion</td>
<td>Dec 14</td>
</tr>
<tr>
<td>185 Wharf St</td>
<td>Spring Hill</td>
<td>2,824</td>
<td>Cbus Property –</td>
<td>Residential Redevelopment</td>
<td>Jun 15</td>
</tr>
<tr>
<td>152 Wharf St</td>
<td>Spring Hill</td>
<td>4,613</td>
<td>MPG Developments</td>
<td>Residential Redevelopment</td>
<td>Dec 15</td>
</tr>
<tr>
<td>25 Donkin St</td>
<td>Inner South</td>
<td>8,074</td>
<td>R &amp; F Properties</td>
<td>Residential Redevelopment</td>
<td>Dec 15</td>
</tr>
<tr>
<td>435 St Paul’s Tce</td>
<td>Urban Renewal</td>
<td>4,200</td>
<td>Abcor Group</td>
<td>Office or Residential Redevelopment</td>
<td>Dec 15</td>
</tr>
<tr>
<td>207 Wharf St</td>
<td>Spring Hill</td>
<td>4,695</td>
<td>Private Offshore (For Sale)</td>
<td>Residential or Hotel Redevelopment</td>
<td>Jul 16</td>
</tr>
<tr>
<td>301 Wickham Tce</td>
<td>Spring Hill</td>
<td>2,512</td>
<td>Cornerstone Properties</td>
<td>Residential Redevelopment</td>
<td>tba</td>
</tr>
<tr>
<td>Kings Row Bld 1</td>
<td>Milton</td>
<td>4,069</td>
<td>Investa ICPF (For Sale)</td>
<td>Residential Redevelopment</td>
<td>tba</td>
</tr>
<tr>
<td>50-56 Little Edward St</td>
<td>Spring Hill</td>
<td>2,694</td>
<td>Under Contract</td>
<td>Residential Redevelopment</td>
<td>tba</td>
</tr>
</tbody>
</table>

*Source: Knight Frank Research ~reported contract, settlement to be confirmed*
Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

Knight Frank Research Reports are available at KnightFrank.com.au/Research

© Knight Frank 2015 This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not permitted without prior consent of, and proper reference to Knight Frank Research.