

FIGURES | BRISBANE CBD OFFICE | Q1 2024

# Prime vacancy tightens significantly off the back of Government moves

▲ 11.7%

Vacancy Rate in Jan 24

▲ +14.0%

Prime Net Effective Rent Growth (y-o-y)

▼ -12,682 sqm

Net Absorption in H2 2023

▲ 6.39%

Prime Yield

Note: Arrows indicate change from previous quarter / year.

## Key Points

- The leasing market remains buoyant, particularly amongst larger tenants given the impending tightening of the market.
- Only the refurbishment of the Christie Centre is due to be delivered in 2024.
- Prime vacancy is expected to tighten below 8% in 2024 as the market continues to tighten.
- Prime effective rental growth in Brisbane is leading the country as the market continues to tighten and landlords are able to raise rents.
- Transaction activity continues to be subdued, off the back of a slow 2023. There is likely to be at least one interest rate cut by the end of 2024, which should improve sentiment.
- Office prime yields softened 6bps q-o-q to 6.39%

FIGURE 1: Total CBD Vacancy

Brisbane CBD	January 2023	July 2023	January 2024	H-o-H Change	Y-o-Y Change
Vacancy	12.9%	11.6%	11.7%	+10bps	-120bps

FIGURE 1: Summary of Prime CBD Market Indicators

Brisbane CBD	Q1 2022	Q1 2023	Q1 2024	Q-o-Q Change	Y-o-Y Change
GFR	\$843/sqm	\$881/sqm	\$958/sqm	+2.4%	+8.7%
Incentives	43.2%	41.3%	40.6%	-18bps	-78bps
NER	\$309/sqm	\$339/sqm	\$387/sqm	+4.0%	+14.0%
Yield	5.31%	5.89%	6.39%	+6bps	+50bps

Source: CBRE Research, PCA

## Economic Overview

### **Population growth remains elevated, although higher interest rates are impacting on consumer spending**

Global economic uncertainty is impacting Australia, causing weakened consumer spending and dwelling investment due to higher interest rates combating inflation. Despite these challenges, the Australian economy is supported by international demand for exports and robust population growth, especially benefiting Queensland.

In Q4 2023, Queensland's State Final Demand increased by 0.6% q-o-q. Household spending returned to positive growth in the quarter at 0.2% q-o-q, although that result remains weak given the population growth that Queensland continues to generate. Public sector spending continues to be a major driver of the economy, particularly major transport projects as well as the investment in health infrastructure being undertaken across the state. However, capacity concerns remain for the construction sector with elevated public spending making it difficult for the private sector to undertake projects, particularly for residential.

Population growth remains solid in Queensland, although has stabilised as interstate migration returns to more normalised levels. Deloitte Access Economics estimates that the population of Queensland grew by 2.3% in 2023, behind only Victoria and Western Australia.

Queensland's labour market has observed a recent softening along with the national trend, with the unemployment rate rising to 4.0% in February 2024. However, this remains very low by historical standards. Notably, Queensland's tourism sector has observed a robust rebound as the weaker Australian dollar has made travelling to the state competitive for both domestic and offshore tourists.

## Office Demand

### Prime absorption accelerates off the back of Government upgrades

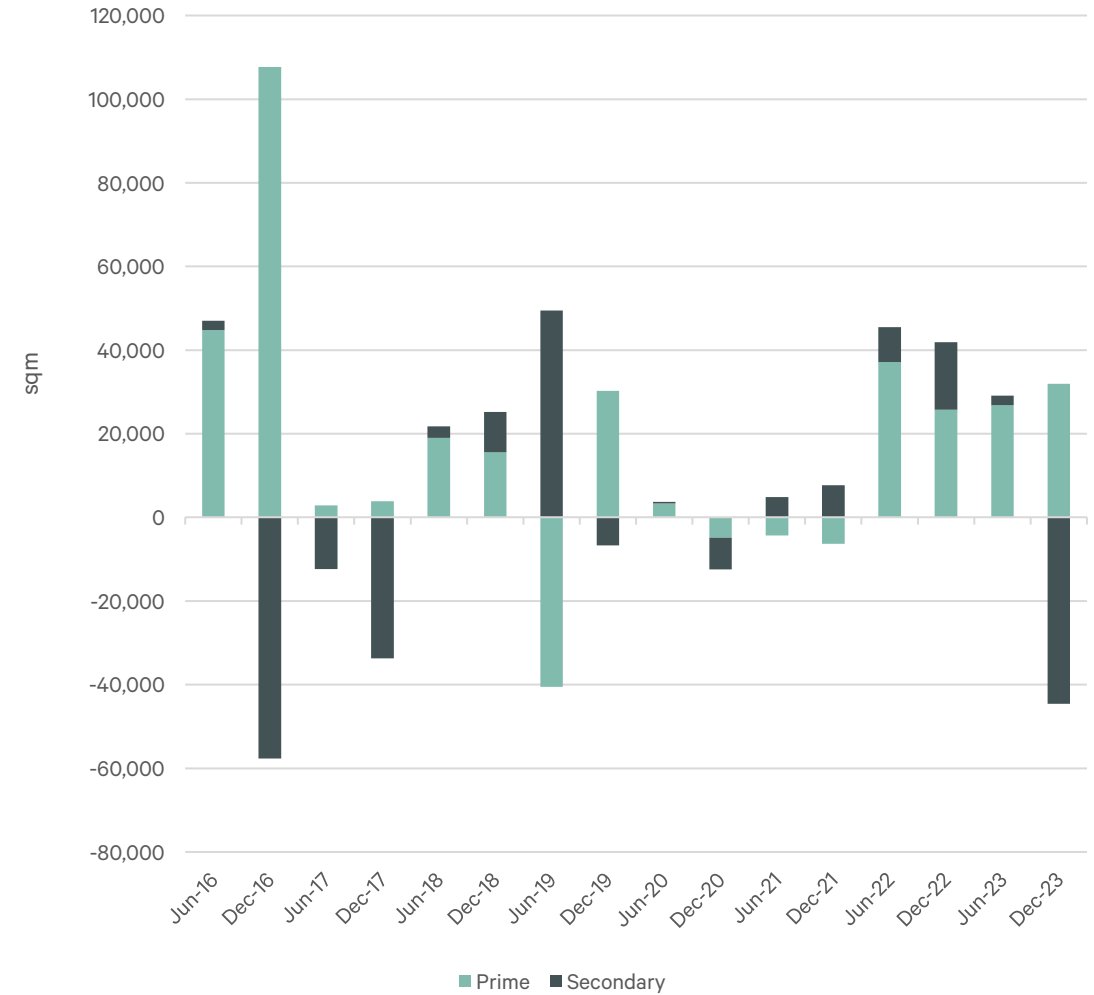
Leasing activity has remained buoyant in early 2024, with tenants bringing forward decision making given the market continues to tighten. The Federal and State Government have been very active over the past 12 months, which is underpinning deal volumes. Interestingly, the smaller end of the market has quietened down over the past 6 months, potentially due to challenges such as rising interest rates and higher wages.

Total net absorption turned negative in H2 2023 in the CBD at -12,700 sqm. However, this was largely due to the withdrawal for refurbishment of the Christie Centre, which was fully occupied by Christie Spaces. Ignoring this move, total net absorption was largely neutral.

The major trend in H2 was the solid absorption of prime stock of 31,900 sqm. This was largely the State Government moving from secondary buildings into A-Grade stock such as Midtown Centre, 123 Albert Street and 275 George Street. These moves are likely to result in withdrawals of some secondary stock in the future.

Full-year absorption for the CBD was 16,400 sqm, a significant drop from the 87,400 sqm recorded in 2022. The expectation is that absorption will continue at more normalised levels moving forward. There are very few contractionary tenant moves occurring in the Brisbane market, with sublease availability at negligible levels. Anecdotally, smaller tenants have become more cost conscious and are less active in the past 12 months given reasonably tough business conditions. However, office occupancy remains solid in Brisbane, above the national average, meaning that demand should still be decent throughout 2024.

FIGURE 2: 6-Month Office Net Absorption – Brisbane CBD



Source: CBRE Research

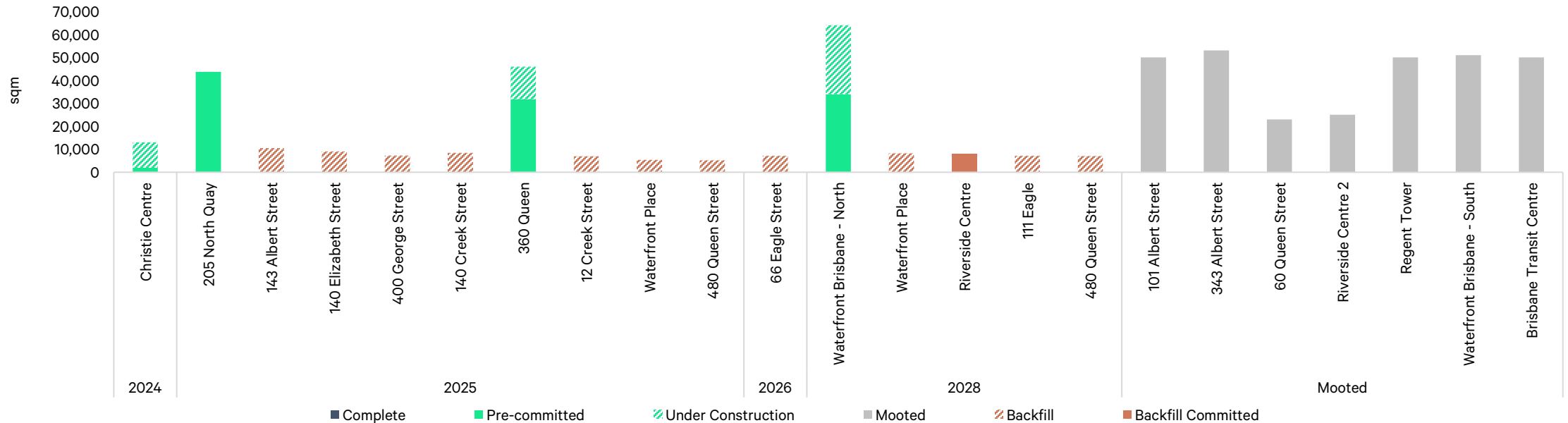
# Supply

## Supply under control with only a refurbished building to be delivered in 2024

Unlike previous cycles, the supply outlook for the Brisbane CBD is quite manageable, given the strong underlying tenant demand. The Christie Centre at 320 Adelaide Street is currently undergoing a major refurbishment, with delivery of the 13,000 sqm building due by mid-2024. Two buildings are expected to complete in 2025. Services Australia has pre-committed the entire building at 205 North Quay, with the amalgamation of the government entity resulting in backfill from four separate CBD properties (143 Turbot St, 140 Elizabeth St, 400 George St and 140 Creek St). Charter Hall and Investa will also deliver 360 Queen Street in 2025, with pre-commitment of approximately 66%. The only other committed project in the pipeline is Dexus' Waterfront Brisbane being delivered in early 2028 with pre-commitments for about 53% of the building. There are a range of mooted projects in the pipeline such as QIC's 101 Albert Street and ISPT's Regent Tower. However, these projects are yet to commence construction and are unlikely to be delivered prior to 2028.

There are also the potential for further withdrawals from the market with both 150 Charlotte Street and 41 George Street in due diligence to buyers looking at conversion to other uses. This will put further downward pressure on vacancy.

FIGURE 3: Brisbane CBD Development Supply Pipeline



Source: CBRE Research

# Vacancy

## Prime vacancy drops significantly at the expense of secondary

Total vacancy in H2 2023 was relatively stable across the CBD, rising to 11.7% from 11.6%. However, there was significant movement between the prime and secondary vacancy rates over the same period, largely due to the major Government moves to better quality space. Prime vacancy improved from 12.5% in June 2023 to 10.2% in December, as a significant amount of A-Grade stock was absorbed. Premium vacancy remains tight at 6.4%, while A-Grade dropped to 11.7% in December.

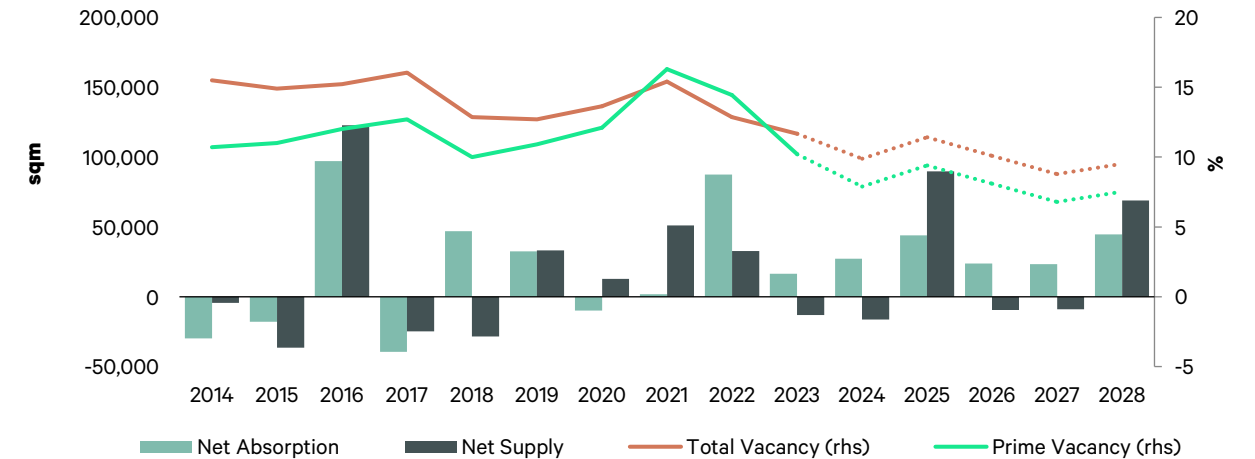
The secondary market has been impacted by these Government moves to better quality space in 2023. Over the course of the year, vacancy in secondary stock has increased from 10.6% to 13.8%. It should be noted that this increase in vacancy is concentrated in a few buildings, and there are many secondary buildings that have leased well throughout this period. It is likely that Brisbane will see some stock withdrawals over the next 6-12 months, with some buildings structurally vacant and unable to attract new tenants.

The outlook for vacancy remains strong, with negative net supply expected in 2024. Assuming normal levels of tenant demand, CBRE research expects that total vacancy will reach just below 10% by the end of 2024, with prime vacancy at just below 8%. The vacancy rate will likely rise in 2025 off the back of supply and the subsequent backfill that will be available to the market. However, in 2026 and 2027, there is no committed supply, which means that vacancy is likely to tighten further.

FIGURE 4: Summary of Brisbane CBD Office Market

Market/Grade	Stock (sqm) - Dec 23	Net Stock Change (sqm) - 12 months	Vacant (sqm) - Dec 23	Vacancy (%) - Dec 23	Vacancy (%) - Dec 22	Net Absorption (sqm) - 6 months	Net Absorption (sqm) - 12 months
Prime	1,385,391	0	141,480	10.2%	14.4%	31,924	58,706
Secondary	958,178	-13,093	132,096	13.8%	10.6%	-44,606	-42,274
Total	2,343,569	-13,093	273,576	11.7%	12.1%	-12,682	16,432

FIGURE 5: Brisbane CBD Office Market Balance



Source: PCA, CBRE Research

## Rental Performance

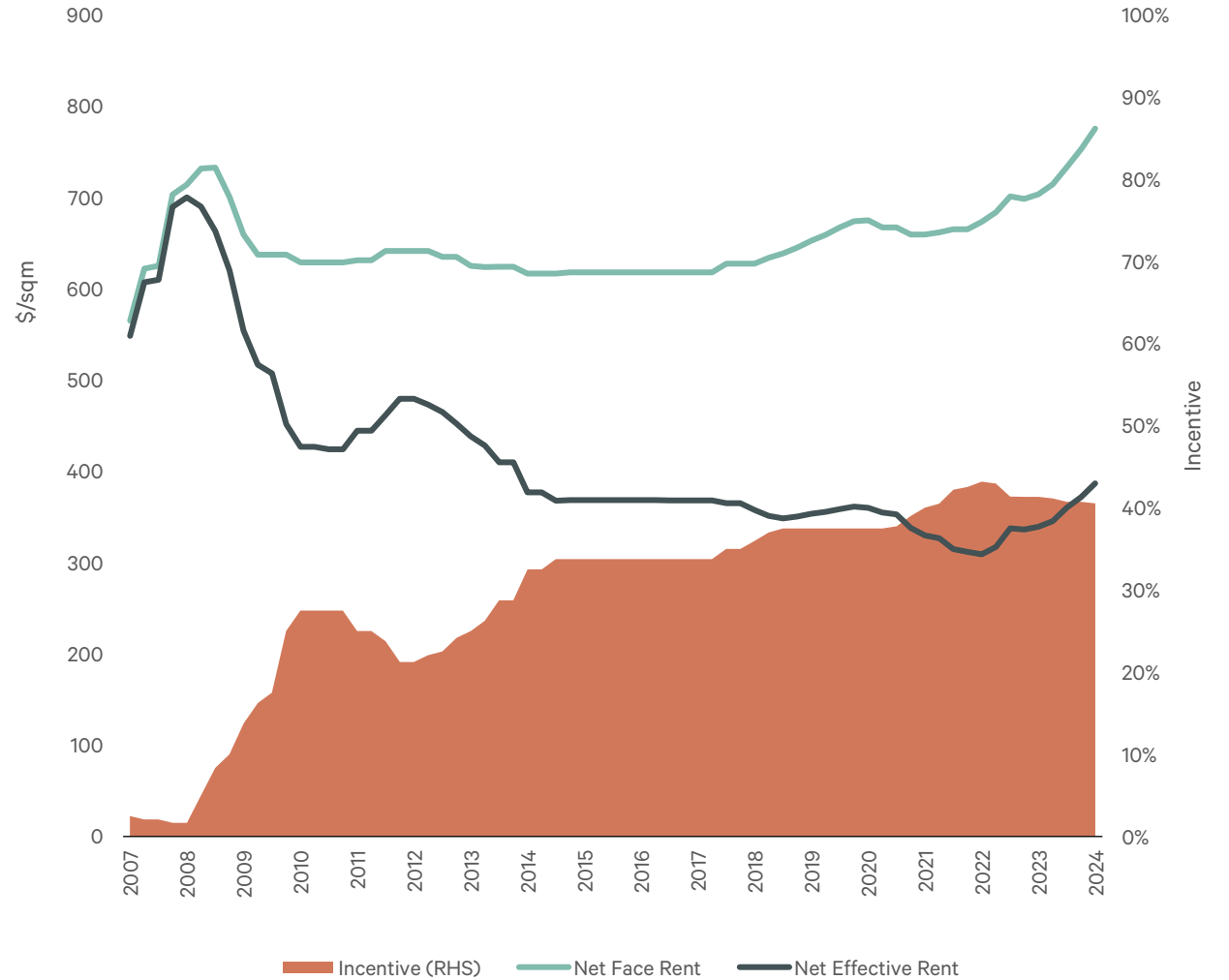
### Rents accelerate in Q1 2024 as market tightens

Rental growth continued in Q1 2024 across the Brisbane CBD as available space tightened further in the prime market. Prime gross face rents rose by 2.4% q-o-q in Q1 2024, and 8.7% y-o-y. The absorption of large amounts of A-grade office accommodation over the last 12 months is the major reason for this acceleration of rental growth. Tenants have fewer options to move to compared to a few years back, particularly in the premium market, which is causing landlords to be more aggressive on rents. In addition, the economic rents for new developments has risen significantly, which is also driving growth for existing assets. Average prime incentives were 40.6% in Q1, down from a peak 18 months ago of 43.2%. As such, prime net effective rents have accelerated by 4.0% q-o-q and 14.0% y-o-y. The expectation is the incentives will decline further as the market tightens, which will drive further effective rental growth.

Rental growth in the secondary market has also been healthy off the back of the strength of prime grade assets. Gross Face Rents were up 6.0% y-o-y and net effective rents also up 9.1% with incentives down slightly. Effective rents in the secondary market are coming off a very low base as a result of higher incentives since the start of the pandemic.

The expectation is that the current escalation in rents will continue in 2024, given that no major new supply is due to be completed this year. This will mean that vacancy will continue to tighten which will build competition for space amongst tenants. We expect there will be a combination of face rental growth as well as declining incentives. Rental growth is likely to ease in 2025 with two new buildings being delivered and subsequent backfill opportunities arising.

FIGURE 6: Brisbane CBD Office – Prime Rents



Source: CBRE Research

## Investment Market

### Investment market remains subdued

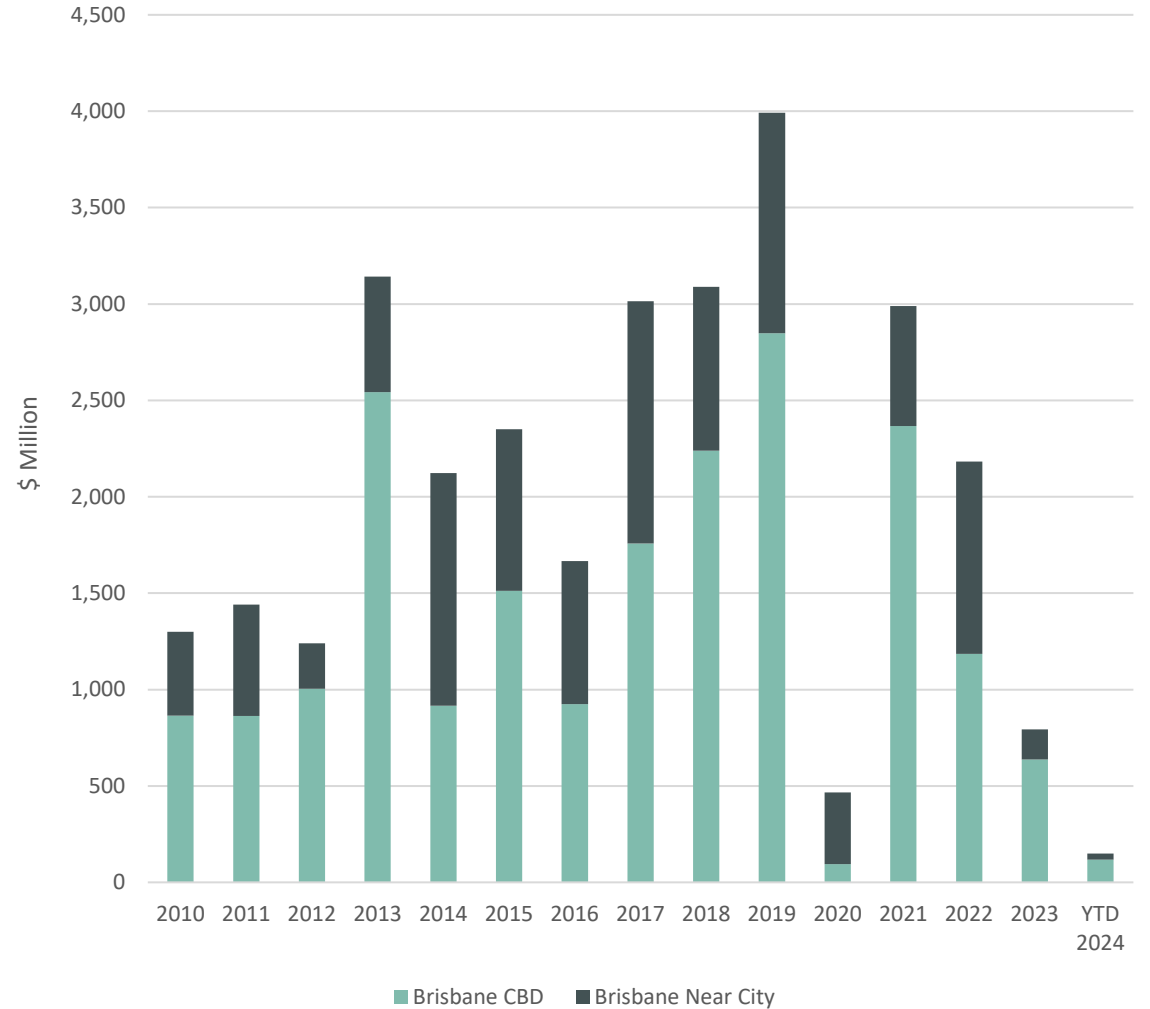
The office investment market in Brisbane remained slow in Q1 2024, as repricing continues to occur off the back of the higher interest rate environment. While concerns over the leasing market are less relevant for Brisbane, major institutional investors are generally reducing weightings towards the sector. This is slowing activity around the country. However, capital values have fallen and office assets are starting to look more attractive.

The most significant deal for the quarter was Alceon’s purchase of 40 Tank Street from Charter Hall for \$73.0 million. The asset is leased to the Queensland Police Service and also has a significant car parking component (44%) with a lease to CarePark. In addition, Charter Hall/QuadReal also sold 309 North Quay to Shayher Group for \$46.0 million. There are two assets currently in due diligence, being 41 George Street and 150 Charlotte Street, which might be confirmed over the coming months. Both are likely to be converted to alternate uses.

Prime CBD yields softened by 6 bps q-o-q in Q1 2024 to average 6.39%. This reflects about 110 bps of softening from peak pricing in early 2022. The sale of 175 Eagle Street confirmed these levels given that it is a good quality A-Grade multi-tenanted building in the Golden Triangle. While 55 Elizabeth Street is also recent evidence, the asset has a binary outcome over the medium-term given the only tenant expires in just over 4 years. The secondary market yield in Q1 2024 averaged 7.92%.

Given the improved outlook on interest rates and the strong leasing fundamentals, 2024 should see an improvement in activity. Capital values should start to stabilise during the year given that softening in yields will end and rents are likely to continue to grow. Brisbane has had one of the stronger leasing markets in APAC recently, which is likely to draw some interest from offshore groups.

FIGURE 7: Brisbane Office Sales (greater than AUD 5 million)



Source: CBRE Research

## Outlook

### **Rental growth to continue and price stabilisation expected**

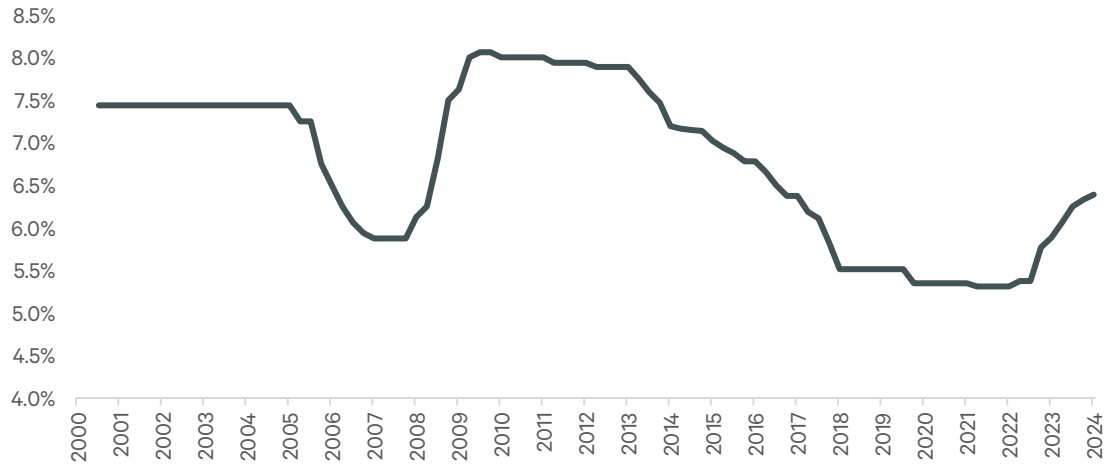
The Australian and Queensland economy is expected to experience below trend growth, given the impacts of higher interest rates on household spending and a decline in the construction activity. However, population growth is expected to continue to drive demand, with white collar migration to help the office sector in Brisbane. The State Government remains in a solid financial position which is allowing them to maintain hiring, although there is an election later in the year.

Net absorption has been elevated above historic averages over the past few years, with a combination of elevated Government leasing, growth in SME's and some corporate expansion the main drivers. This net absorption is unlikely to continue, with more normalised levels of demand expected in 2024 and beyond.

However, the supply outlook remains very limited with just the refurbishment of the Christie Centre for 13,000 sqm to be delivered in 2024, which will be offset by potential withdrawals of 41 George Street and 150 Charlotte Street. CBRE Research expects prime vacancy to drop below 8% by the end of 2024, before rising slightly in 2025 as the new supply is delivered.

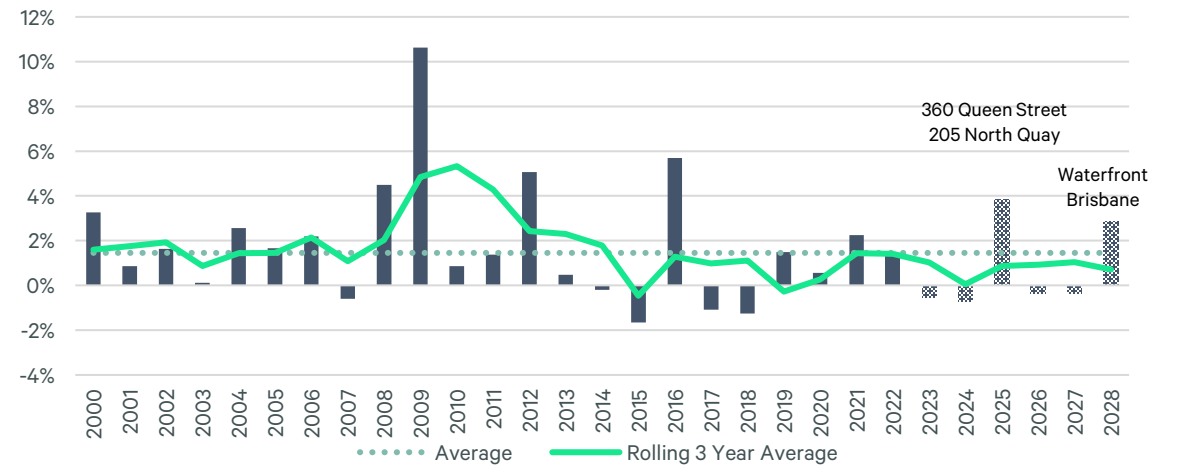
Transaction volumes are likely to improve over the coming 12 months, although this may not occur until the second half of 2024. More pricing evidence is likely to come through in Brisbane as well as other markets around the country, which might entice buyers back into the market.

FIGURE 8: Brisbane CBD Office Yield



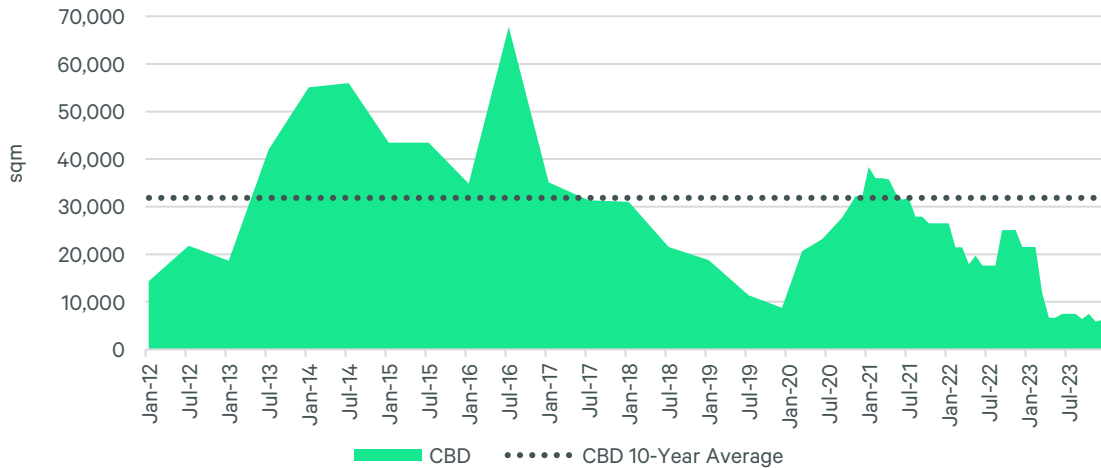
Source: CBRE Research

FIGURE 10: Brisbane CBD Future Growth in Stock



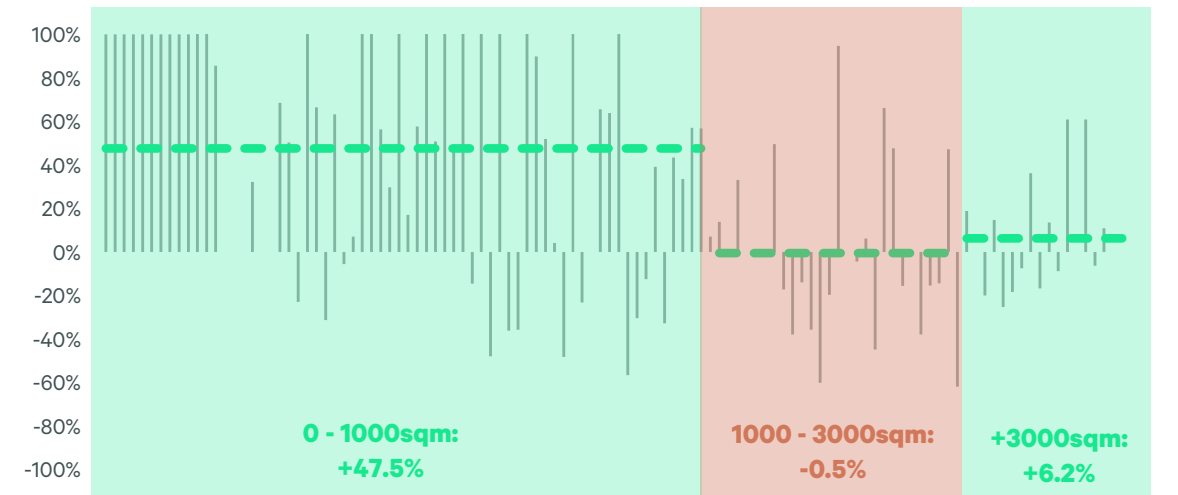
Source: CBRE Research

FIGURE 9: Brisbane CBD Sublease Availability



Source: CBRE Research

FIGURE 11: Brisbane CBD – Tenant Moves by Footprint (2021 – 2023)



Source: CBRE Research

## Contact

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