FIGURES | BRISBANE CBD OFFICE | Q2 2024

Vacancy continues to tighten in early 2024

▲ 9.5%
Vacancy Rate in July 24

▲ +15.3%
Prime Net Effective Rent Growth (y-o-y)

▲ 26,552 sqm
Net Absorption in H1 2024

▲ 6.69%
Prime Yield

Note: Arrows indicate change from previous quarter / year.

Key Points

- Leasing activity has slowed due to increased prevalence of renewals, although very few tenants are contracting. Therefore, net absorption has remained healthy in H1 2024.
- Refurbishment of the Christie Centre is delivered, with no more supply until H2 2025.
- Total vacancy tightens to 9.5%, the lowest level since 2012.
- 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 improves with two major transactions occurring in Q2 2024.
- Office prime yields softened 30bps q-o-q to 6.69%

FIGURE 1: Total CBD Vacancy

Brisbane CBD	July 2023	January 2024	July 2024	H-o-H Change	Y-o-Y Change
Vacancy	11.6%	11.7%	9.5%	-120bps	-110bps

FIGURE 1: Summary of Prime CBD Market Indicators

Brisbane CBD	Q2 2022	Q2 2023	Q2 2024	Q-o-Q Change	Y-o-Y Change
GFR	$854/sqm	$897/sqm	$979/sqm	+2.1%	+9.1%
Incentives	42.9%	41.1%	40.2%	-41bps	-99bps
NER	$317/sqm	$345/sqm	$398/sqm	+2.9%	+15.3%
Yield	5.38%	6.06%	6.69%	+30bps	+138bps

Source: CBRE Research, PCA

Economic Overview

Job growth rebounds as infrastructure boom continues

Higher interest rates and global headwinds have caused a slowing of the national economy. Queensland has not been immune to these challenges although the state's economy still remains relatively healthy.

In Q1 2024, Queensland's State Final Demand increased by 0.6% q-o-q, while growth improved to 2.8% y-o-y. Household spending grew by 1.5%, below the headline growth for the state as consumers tighten their belts. Public sector spending grew by 5.8% y-o-y and 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. Residential construction is one of the major drags on the economy, declining by 7.0% y-o-y as developers struggle with feasibility of projects.

Population growth remains solid in Queensland at 2.6% y-o-y. The significant increase in net interstate migration has returned to more normalised levels, with housing affordability compared to the southern states less compelling than a few years ago. However, net overseas migration has trended up in line with the national trend. Population growth is likely to ease over the next 12 months with the federal government looking to tighten international arrivals, particularly for students.

Queensland's labour market remains robust with the unemployment rate at 3.9% as of June 2024. Approximately 119,000 jobs have been created in the state over the past 12 months, which is a significant increase on the 71,000 jobs created in the 12 months to June 2023. The elevated infrastructure spending and population growth are the key drivers for this buoyancy in the job market.

Office Demand

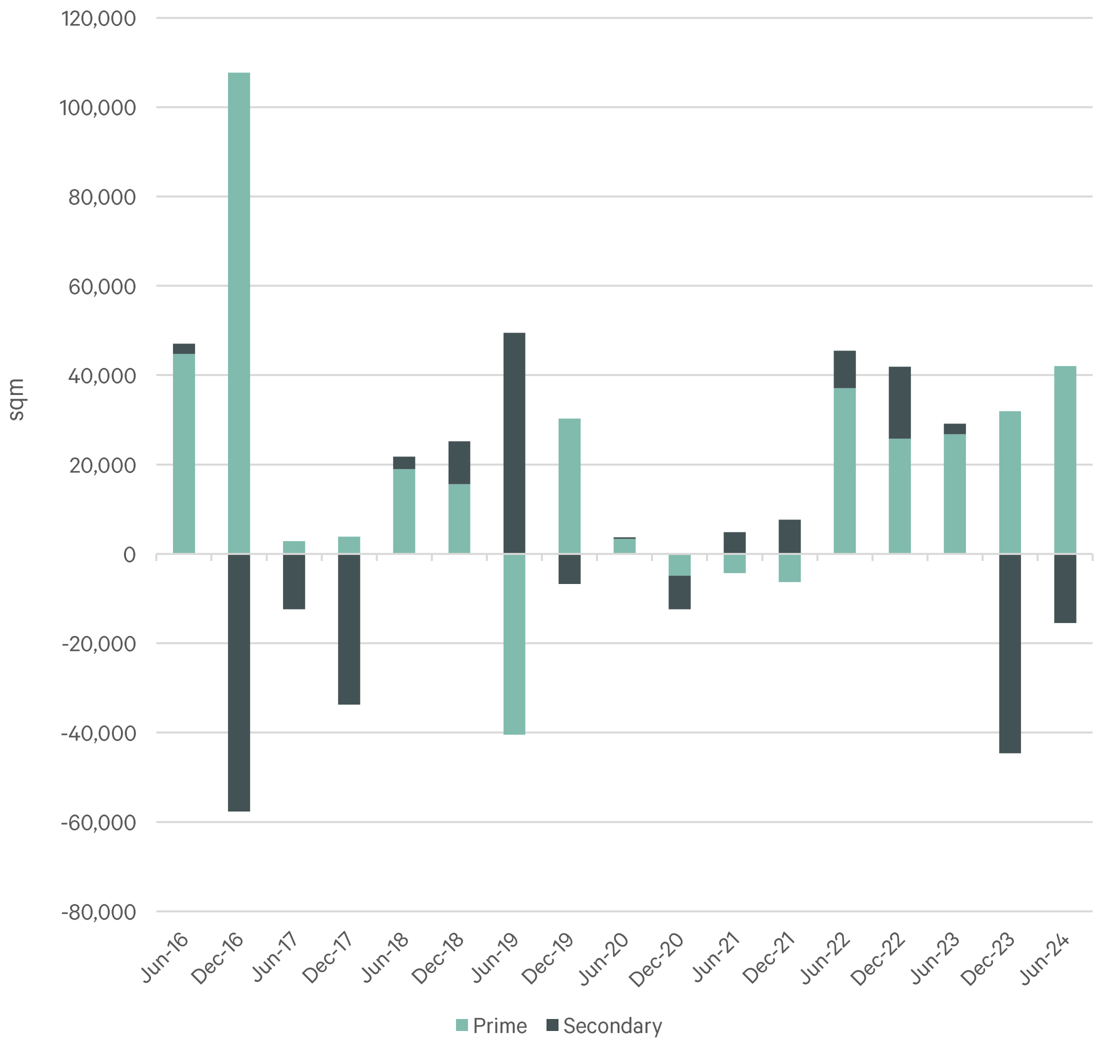
Strong net absorption continues in Brisbane, particularly in the A-grade market

Leasing activity has slowed slightly in early 2024, partly due to an increased prevalence of renewals. 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 6-12 months, potentially due to challenges such as rising interest rates and higher wages.

Total net absorption was solid in H1 2024 at 26,552 sqm across all grades. This was led by the A-Grade market which recorded 42,417 sqm of net absorption in the first 6 months of 2024. Most of this activity was in buildings such as 300 George Street, 123 Albert Street and 179 Turbot Street. A lot of the leasing volumes have come from Government at both the State and Federal level. State Government activity is likely to slow given the upcoming election as well as many of the major departments locking in long-term leases over the past 24 months. The renewables sector is continuing show organic growth off the back of significant investment throughout the state.

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. Sublease availability has increased slightly with a few key tenants contracting, although this is mostly due to merger activity. 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 solid in H2 2024.

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



Source: PCA, CBRE Research

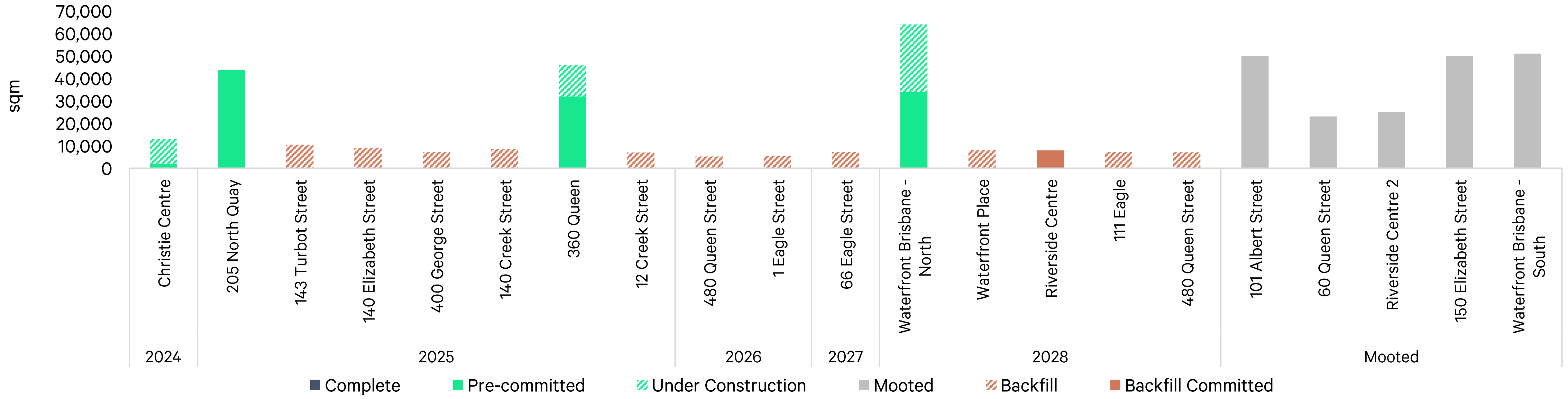
Supply

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

The supply pipeline in Brisbane remains under control given the high construction costs and cap rate impacts are delaying commencements of new projects. The refurbishment of the Christie Centre at 320 Adelaide Street is now complete, with delivery of the 13,000 sqm to the market. 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 150 Elizabeth Street. However, these projects are yet to commence construction and are unlikely to be delivered prior to 2028.

Withdrawals of secondary stock continues to be a theme with both 150 Charlotte Street and 41 George Street taken out of the stock in H1 2024. Both buildings are proposed to be converted to student accommodation.

FIGURE 3: Brisbane CBD Development Supply Pipeline



Source: CBRE Research

Vacancy

Vacancy continues to tighten off the back of solid demand and withdrawals

Total vacancy tightened further to 9.5% in H1 2024, the lowest level since 2012. The contraction in vacancy has largely been led by the A-grade market given the lack of new supply and solid net absorption by both Government and the private sector. Prime vacancy improved to 7.2% in June 2024, from 12.5% a year earlier. Premium vacancy remained tight at 6.5%, while A-Grade dropped to 7.4% in June 2024.

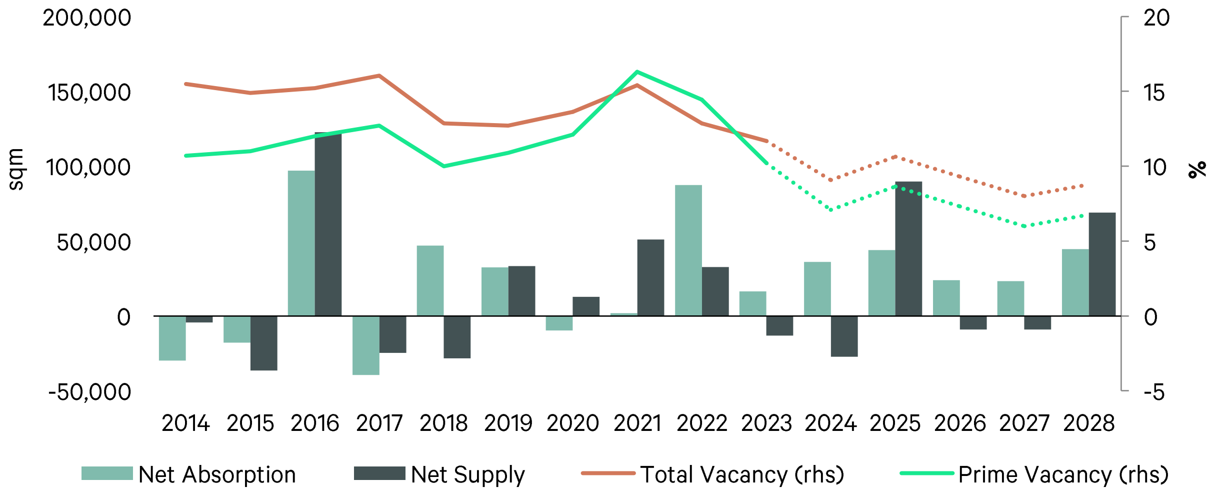
The secondary market has seen vacancy increase over the past 12 months to 12.9% as tenants have upgraded into A-Grade stock. However, the recent withdrawal of two buildings for conversion has helped the secondary rate.

The outlook for vacancy remains solid, given that there is no supply expected to be delivered until H2 2025. Assuming normal levels of demand, vacancy is likely reach 9.1% by the end of 2024. Vacancy is likely to increase in 2025 as supply is delivered which will present backfill opportunities. However, there will then be two years (2026 & 2027) of no major supply which should cause the market to tighten further.

FIGURE 4: Summary of Brisbane CBD Office Market

Market/ Grade	Stock (sqm) – Jun 24	Net Stock Change (sqm) – 12 months	Vacant (sqm) – Jun 224	Vacancy (%) – Jun 24	Vacancy (%) - Jun 23	Net Absorption (sqm) – 6 months	Net Absorption (sqm) – 12 months
Prime	1,385,391	0	99,444	7.2%	12.5%	42,036	73,960
Secondary	930,933	40,338	120,335	12.9%	10.4%	-15,484	-60,090
Total	2,316,324	-40,338	219,779	9.5%	11.6%	26,552	13,870

FIGURE 5: Brisbane CBD Office Market Balance



Source: PCA, CBRE Research

Rental Performance

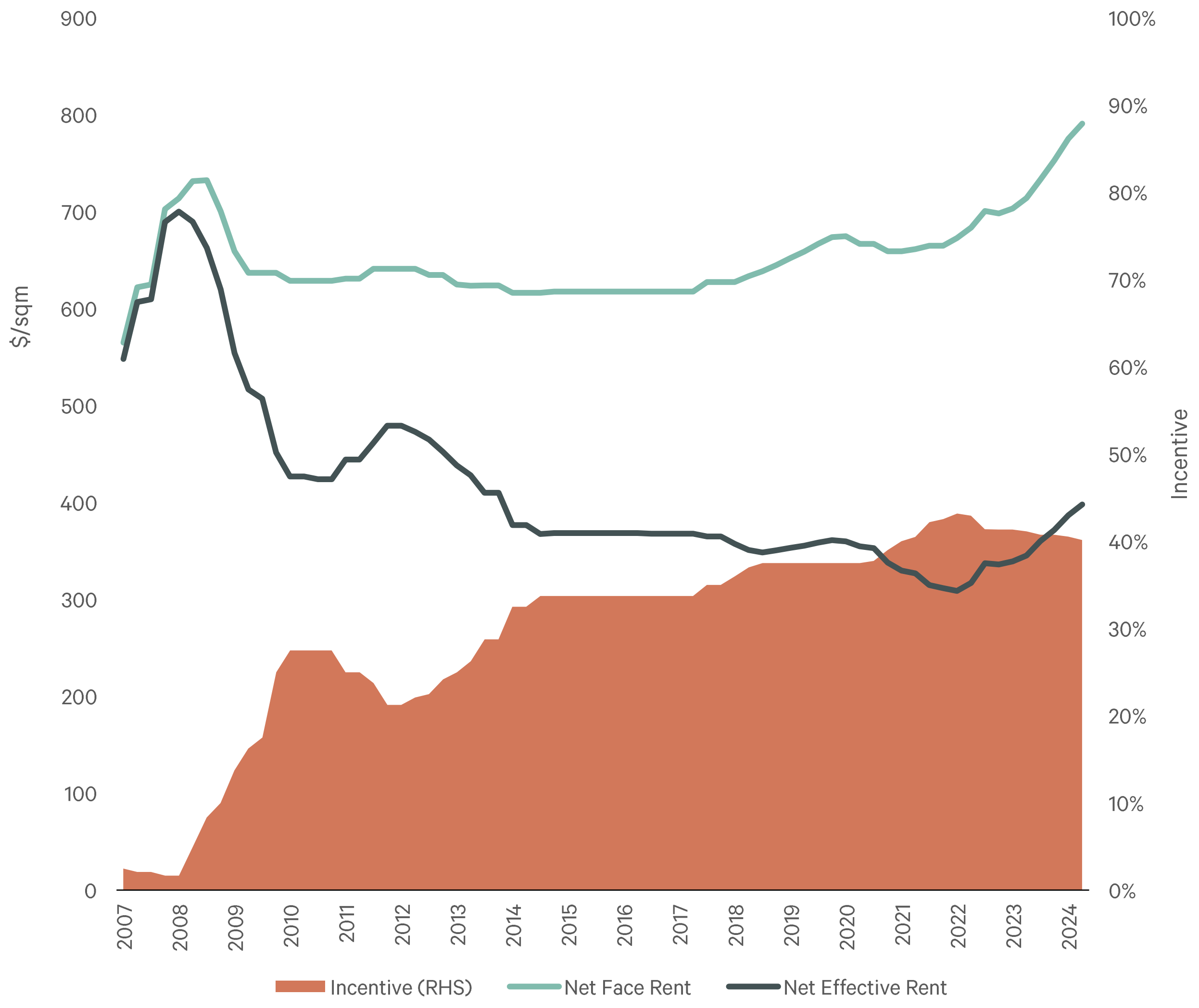
Rents continue to grow as prime vacancy tightens

Given the tightening leasing market, rental growth in the Brisbane CBD continues to accelerate. Prime gross face rents grew by 2.1% q-o-q and 9.1% y-o-y in Q2 2024. The economic rents of new developments are significantly higher than where rents are for existing buildings which has given landlords more confidence to drive up face rents. Incentives have also declined slightly, dropping by 40 bps q-o-q to average 40.2% in June 2024. Despite the gradual decline of incentives, it should be noted that many landlords are capping the amount of incentive that can be used for fit-out works and preferring that tenants take rental abatement over the term of the lease. The combination of face rental growth and lower incentives have caused prime net effective rents by 2.9% q-o-q and 15.3% y-o-y.

The secondary market has also performed well with 6.3% y-o-y growth in gross face rents. Incentives remain stubbornly high in secondary buildings at 46.9%, although there has been a slight reduction over the past 12 months. Secondary net effective rents have grown by 12.1% y-o-y, albeit off a very low base.

The strong rental growth in the Brisbane CBD is expected to continue over the remainder of 2024, given the tightening vacancy rate and high economic rents of new developments. Backfill opportunities will arise from the end of 2025 off the back of the new developments that are due to be delivered. This may put a handbrake on rental growth for a year or so. However, the lack of supply in 2026 and 2027 is likely to mean the rents should grow in those years.

FIGURE 6: Brisbane CBD Office – Prime Rents



Source: CBRE Research

Investment Market

Transaction activity improves in early 2024

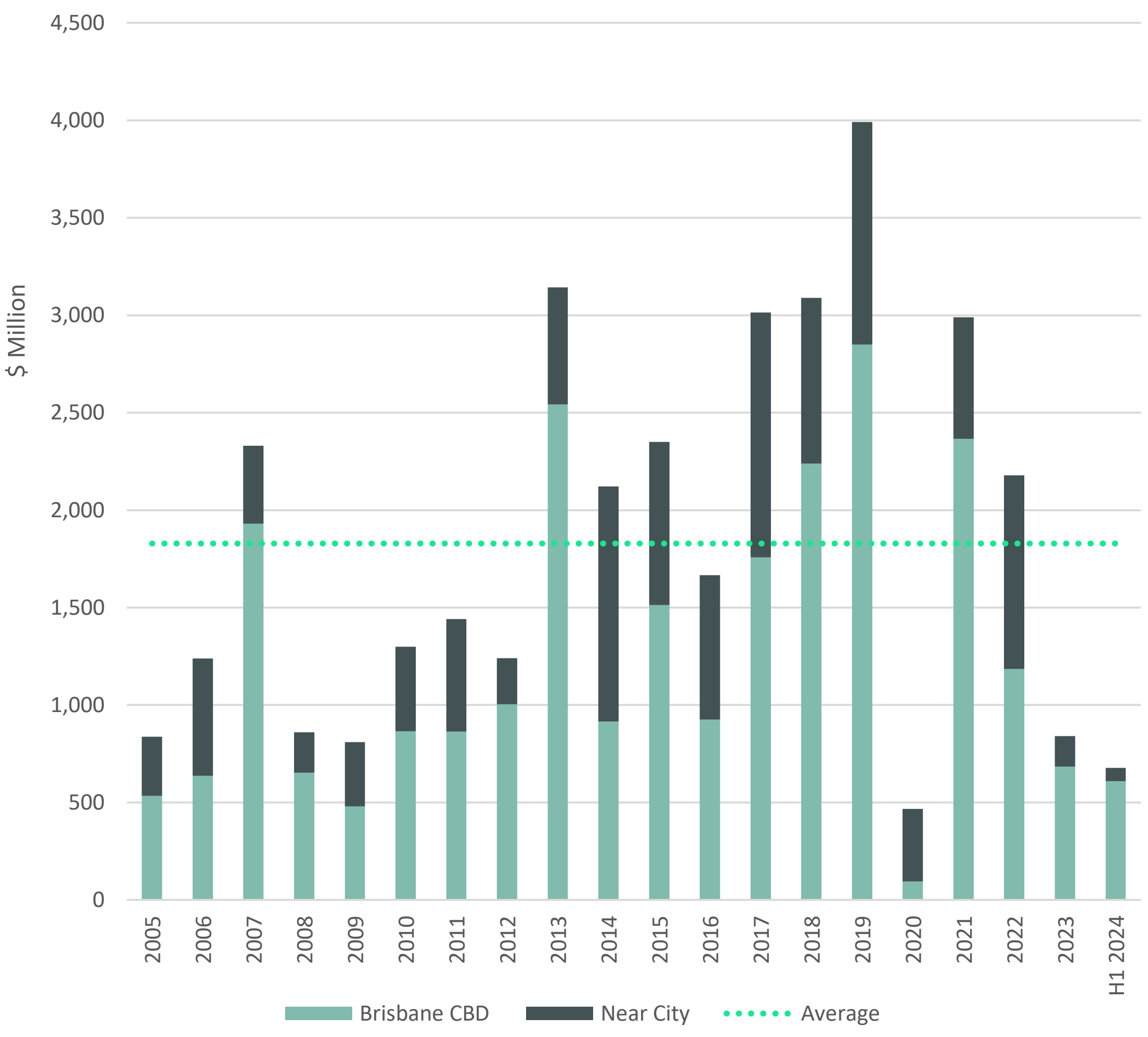
Office investment activity rose to $678m in H1 2024, just 20% less than the full year result in 2023. The stabilisation of interest rates appears to have given buyers more confidence to invest combined with the strong leasing market fundamentals in Brisbane. In addition, vendors have been more willing to meet the market on pricing.

The most significant deal for the quarter was Quintessential's purchase of 240 Queen Street for $250 million. The asset was sold by Brookfield at a rate of $9,049/sqm. In addition, Clarence Property bought 120 Edward Street off DWS for $119 million. Finally, 150 Charlotte Street was sold for $64.5 million to Sumner, which is proposed to be converted to student accommodation in the future.

Prime CBD yields softened by 30 bps q-o-q in Q2 2024 to average 6.69%. This reflects about 140 bps of softening from peak pricing in early 2022. Given recent transaction evidence, yields are likely to be close to their peak, assuming that interest rates do not rise further. The secondary market yield in Q2 2024 averaged 8.38%.

Given recent transaction evidence and compelling value compared to historic averages, transaction activity is likely to continue into H2 2024. However, given the strength of the Brisbane market, some owners are choosing to hold their assets and sell in other states where the performance is inferior. Buyer depth appears to be improving which might entice more assets to come to the market in late 2024 and early 2025.

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



Source: CBRE Research

Outlook

Rental growth to continue and price stabilisation expected

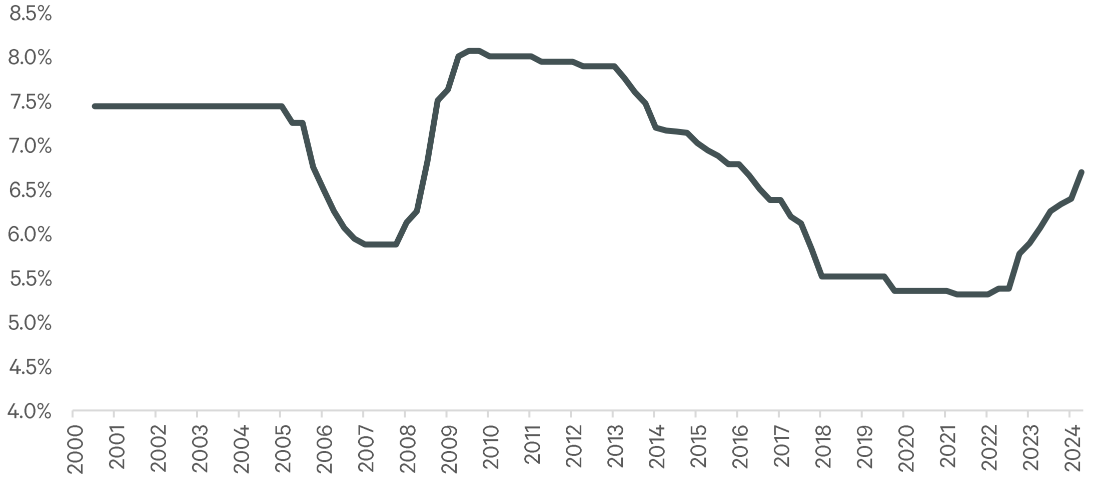
The Australian and Queensland economy is expected to experience below trend growth, given the impacts of higher interest rates on household spending and a decline in the construction activity. However, population growth is expected to continue to drive demand, with white collar migration to help the office sector in Brisbane. The State Government elections occur in Q4 2024, which will create some uncertainty.

Net absorption has been elevated above historic averages over the past few years, with a combination of elevated Government leasing and corporate expansion the main drivers. This net absorption is unlikely to continue, with more normalised levels of demand expected in H2 2024 and beyond.

However, the supply outlook remains very limited with just 3 buildings to be delivered until the end of 2028. CBRE Research expects total vacancy to drop to 9.1% by the end of 2024, before rising slightly in 2025 as the new supply is delivered.

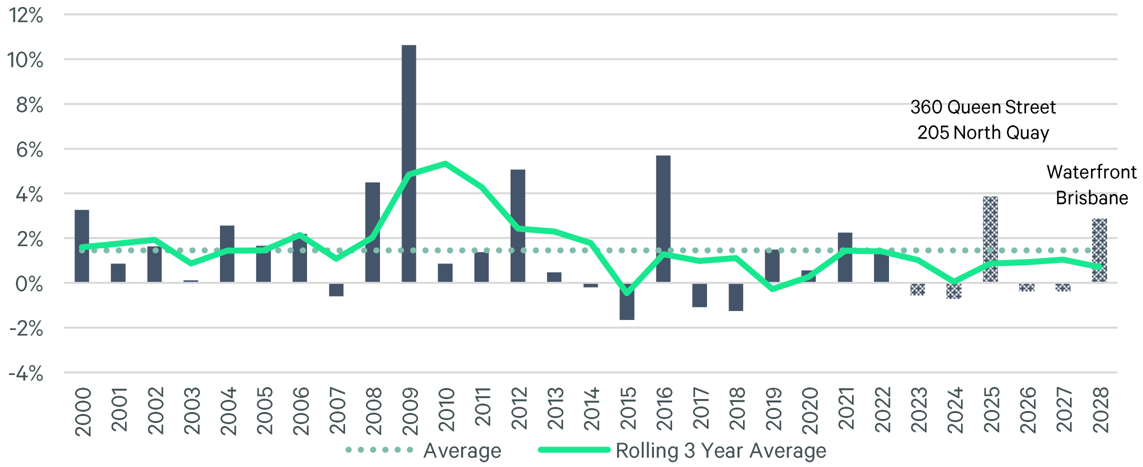
Transaction volumes are likely to improve over the next 18 months with interest rates likely to be cut during 2025. The solid fundamentals of the leasing market are likely to attract buyers, given Brisbane's relative outperformance to the rest of Australia.

FIGURE 8: Brisbane CBD Office Yield



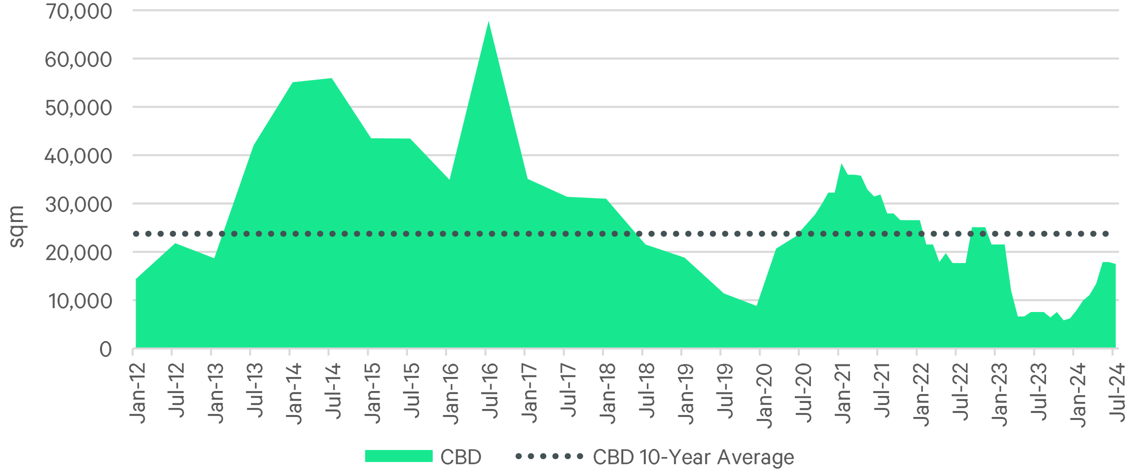
Source: CBRE Research

FIGURE 10: Brisbane CBD Future Growth in Stock



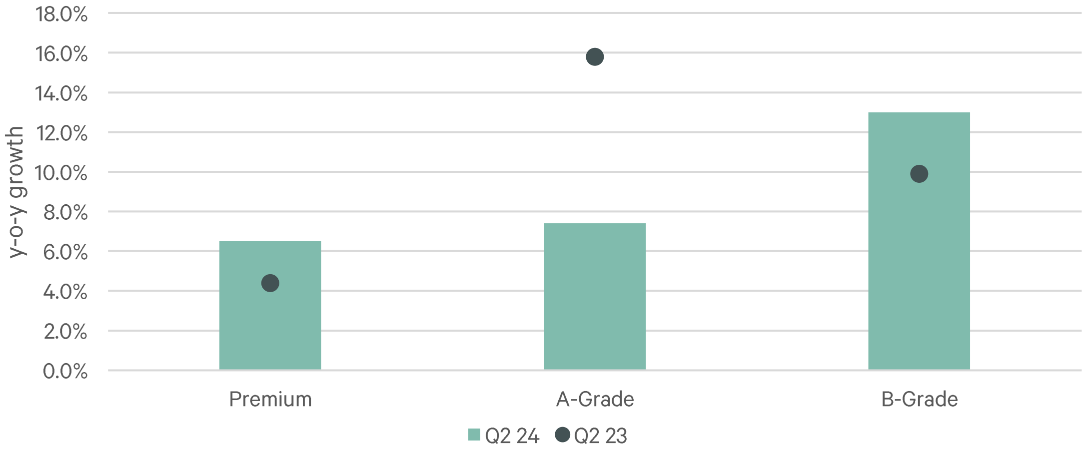
Source: CBRE Research

FIGURE 9: Brisbane CBD Sublease Availability



Source: CBRE Research

FIGURE 11: Brisbane CBD Vacancy by Grade



Source: PCA, CBRE Research

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