MARKETBEAT
# BRISBANE CBD
## OFFICE Q3 2024

### MARKET FUNDAMENTALS

| | YOY Chg | 12-Month Forecast |
|---|---|---|
| **9.5%** Vacancy Rate | ▼ | ▲ |
| **26,552** 6-month Net Absorption, sqm | — | ▼ |
| **$381** Prime Net Effective, sqm pa | ▲ | ▲ |

### ECONOMIC INDICATORS

| | YOY Chg | 12-Month Forecast |
|---|---|---|
| **1.0%** (National) GDP Growth | ▼ | ▼ |
| **1.8%** (Queensland) State Final Demand Growth | ▼ | ▲ |
| **4.2%** (National) Unemployment Rate | ▲ | ▲ |

*Source: ABS*

### ECONOMIC OVERVIEW:

The second-quarter GDP release was a key highlight among recent economic updates. It showed real growth slowing, with GDP increasing by 1% in the year to June 2024. Adjusted for population growth, however, per capita GDP declined by 1.5%, indicating weaker economic output per person. This highlights the economy's growing reliance on population growth, as net overseas migration surged to over 70,000 in Q2, contributing significantly to overall economic activity and helping offset productivity challenges.

Forecasts for Queensland's gross state product remain modest for 2024, forecast to increase 2.2% over 2024, before recovering to grow 3.3% in 2025 and 3.1% in 2026.

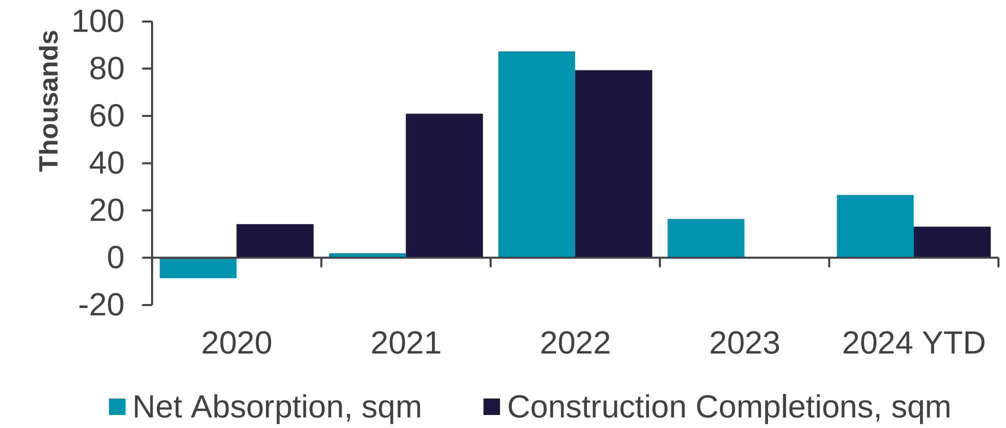
### DEMAND:

Over the past three years, demand for office space in Brisbane's CBD has remained consistently strong, especially in Premium and A-grade sectors. While net absorption for H2 2023 was -12,682 sqm—the first decline in three years—this was primarily due to the withdrawal of a fully occupied building. However, H1 2024 saw a rebound with 25,552 sqm of positive net absorption. Demand remained largely unchanged for Premium, C, and D-grade spaces, while A-grade experienced a significant uptake of 42,417 sqm. In contrast, B-grade saw a negative absorption of 14,976 sqm.

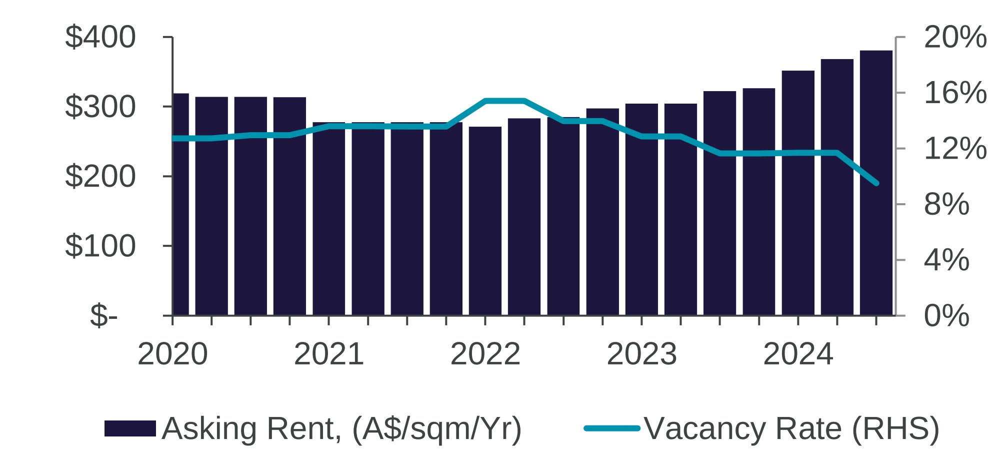
### RENTS:

Demand for premium and A-grade space continues to drive prime rental growth. With no new prime supply since 2021 and more than a year until uncommitted space becomes available, larger tenants are securing leases well ahead of expiry. Over the 12 months to September 2024, average prime gross face rent rose 8.5% to $915/sqm, with incentives dropping slightly to 38%, boosting effective rents by 15.6%. Premium rents (+9.4% year-on-year.) are rising faster than A-grade (+8.1% year-on-year), with demand focused on limited space. For secondary stock, gross face rents average $722 sqm pa (7.6% year-on-year), with average incentives falling from 44.0% to 40.5% over the 12 months to September 2024.

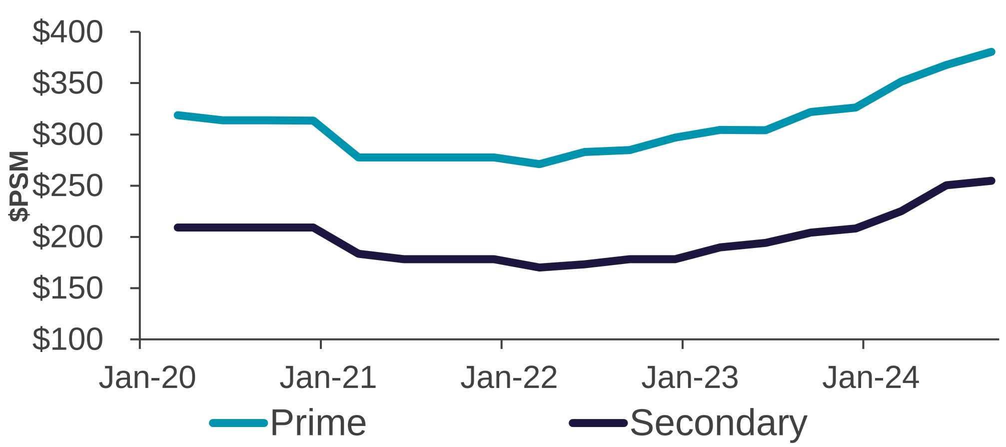
### SPACE DEMAND / DELIVERIES



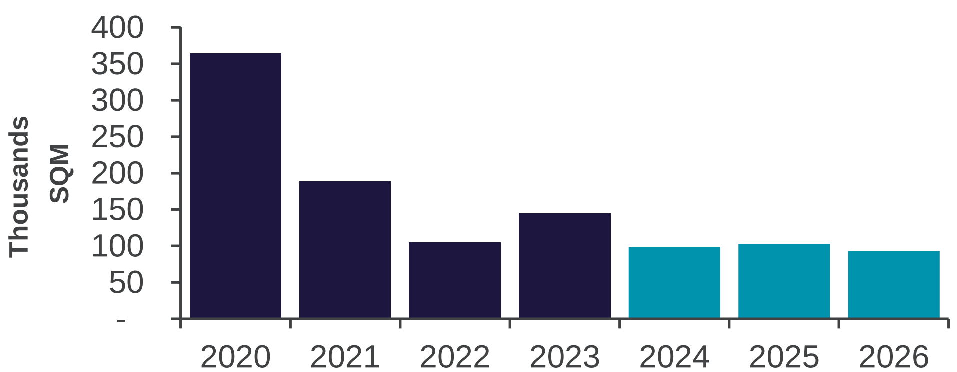

### OVERALL VACANCY & PRIME NET EFFECTIVE RENT



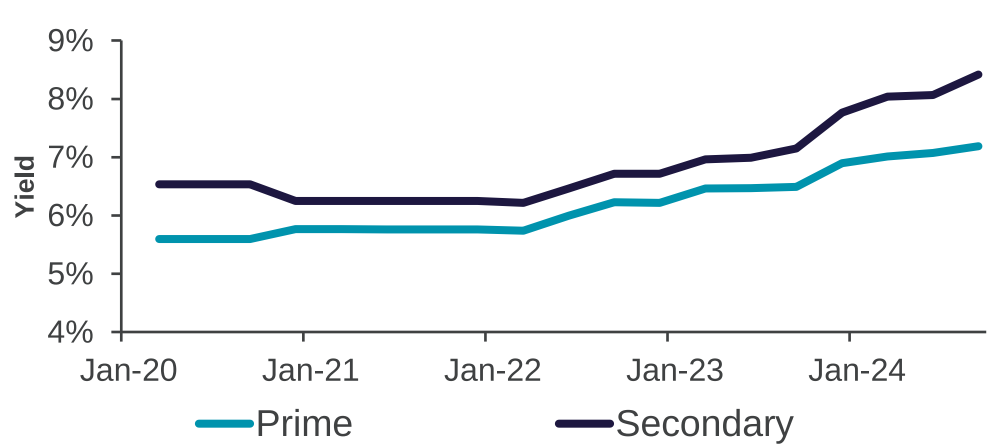
## AVERAGE NET EFFECTIVE RENTS




## SUPPLY




## AVERAGE YIELDS




## VACANCY & SUPPLY:

No new stock was added to the Brisbane CBD in the second half of 2023 or the first half of 2024. The only significant addition in H1 2024 was the 13,000 sqm refurbishment of the Christie Centre at 320 Adelaide Street, completed in Q2. The fully pre-committed development at 205 North Quay is expected to be completed by early 2025, while the premium-grade 360 Queen Street project, which is 75% pre-committed, is scheduled for completion in H2 2025. With no further developments set to enter the market in H2 2024 and limited contiguous space available, refurbishments are expected to provide some relief over the next two years, as new uncommitted supply remains tight. As a result, of limited supply additions and strong levels of demand, vacancy is at decades low in the CBD, with total vacancy at 9.5%.

## YIELDS:

Yields in the Brisbane CBD office market are continuing in their softening cycle, although the rate of softening has slowed. Premium yields are holding steady for the second quarter in a row, whilst A-grade is still softening resulting in Prime yields creeping higher, now averaging 7.19%, 12 basis points softer than Q2. The softening of secondary yields has not slowed as quickly as Prime, with secondary yields now averaging 8.42%, after softening 35 basis points over Q3 2024.

The continued flight to quality as evidenced by net absorption and rental growth continues to flow through to yields, with the gap between prime and secondary now at 123 basis points, up from 48 basis points at the peak of this cycle.

## INVESTMENT MARKET:

Brisbane CBD office transactions remained slow for most of 2023, only picking up in Q4 and into the first half of 2024, driven by a push to close deals before the financial year ended. Despite this push, Q3 2024 has also seen relatively strong activity.

Major sales in Q3 include the William Buck Centre at 120 Edward Street, acquired by Clarence Property from DWS for $119 million, a $24 million discount on its 2017 sale price. Additionally, the fully occupied 15-level building at 116 Adelaide Street sold for $35 million to a domestic private investor, continuing the dominance of private buyers in the Brisbane CBD market.

## OUTLOOK

- The outlook for the Brisbane CBD office market remains positive, with strong rental growth, low vacancy and an investment market that is showing signs of recovery despite ongoing challenges.
- Economic growth is expected to strengthen in Q4 and through 2025, as Gross State Produce reverts to align with longer term averages.
- Occupier demand is expected to remain focused on quality product and quality location. Though the lack of contiguous space across the prime market reduces options for some occupiers.
- New supply is expected to moderately lift vacancy in 2025. However, no new supply between 2026 and 2028 will aid vacancy decreasing back to single digit vacancy.
- Recent transaction activity suggest that yields are nearing the bottom of the cycle, with some moderate softening to continue before rebounding. While this softening occurs, we expect private buyers to continue to dominate the transaction landscape.

## MARKET STATISTICS

| SUBMARKET | INVENTORY (SQM) | DIRECT VACANT (SQM) | OVERALL VACANCY RATE | 6-MONTH NET-ABSORPTION (SQM) | UNDER CONSTRUCTION (SQM) | NET FACE RENT ($ SQM PA) | AVERAGE GROSS INCENTIVES | AVERAGE OUTGOINGS ($ SQM PA) |
|---|---|---|---|---|---|---|---|---|
| Premium | 395,257 | 25,722 | 6.5% | -381 | 126,157 | $919 | 37% | $214 |
| A-grade | 990,134 | 73,722 | 7.4% | 42,417 | 62,770 | $667 | 40% | $193 |
| **Prime** | **1,385,391** | **99,444** | **7.2%** | **42,036** | **188,927** | **$739** | **38%** | **$198** |
| Secondary | 694,308 | 90,520 | 13.0% | -14,976 | 0 | $550 | 41% | $179 |
| **TOTALS^** | **2,316,324** | **219,779** | **9.50%** | **26,552** | **188,927** | | | |

**Rental rates reflect full service asking*

*^ Total reflects all grades*

## KEY LEASE TRANSACTIONS Q3 2024

| PROPERTY | SUBMARKET | TENANT | SQM | TYPE |
|---|---|---|---|---|
| 71 Eagle Street | CBD | HMW Group | 1,198 | Direct |
| 12 Creek Street | CBD | Hewitt Agribusiness | 1,010 | Direct |
| 12 Creek Street | CBD | Knight Frank | 1,041 | Direct |
| 1 Eagle Street | CBD | Australian Digital Health Agency | 1,822 | Direct |

**Renewals not included in leasing statistics*

## KEY SALES TRANSACTIONS Q3 2024

| PROPERTY | SUBMARKET | SELLER/BUYER | SQM | PRICE (AUD M) |
|---|---|---|---|---|
| 120 Edward Street | CBD | DWS / Clarence Property | 21,119 | $119 |
| 116 Adelaide Street | CBD | Keppel Capital / Private | 6,938 | $35 |

## KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

| PROPERTY | SUBMARKET | MAJOR TENANT | SQM | OWNER/DEVELOPER |
|---|---|---|---|---|
| 205 North Quay | CBD | Services Australia | 43,700 | CBUS |
| 360 Queen Street | CBD | BDO / HopgoodGanim | 45,000 | Charter Hall & Investa |

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