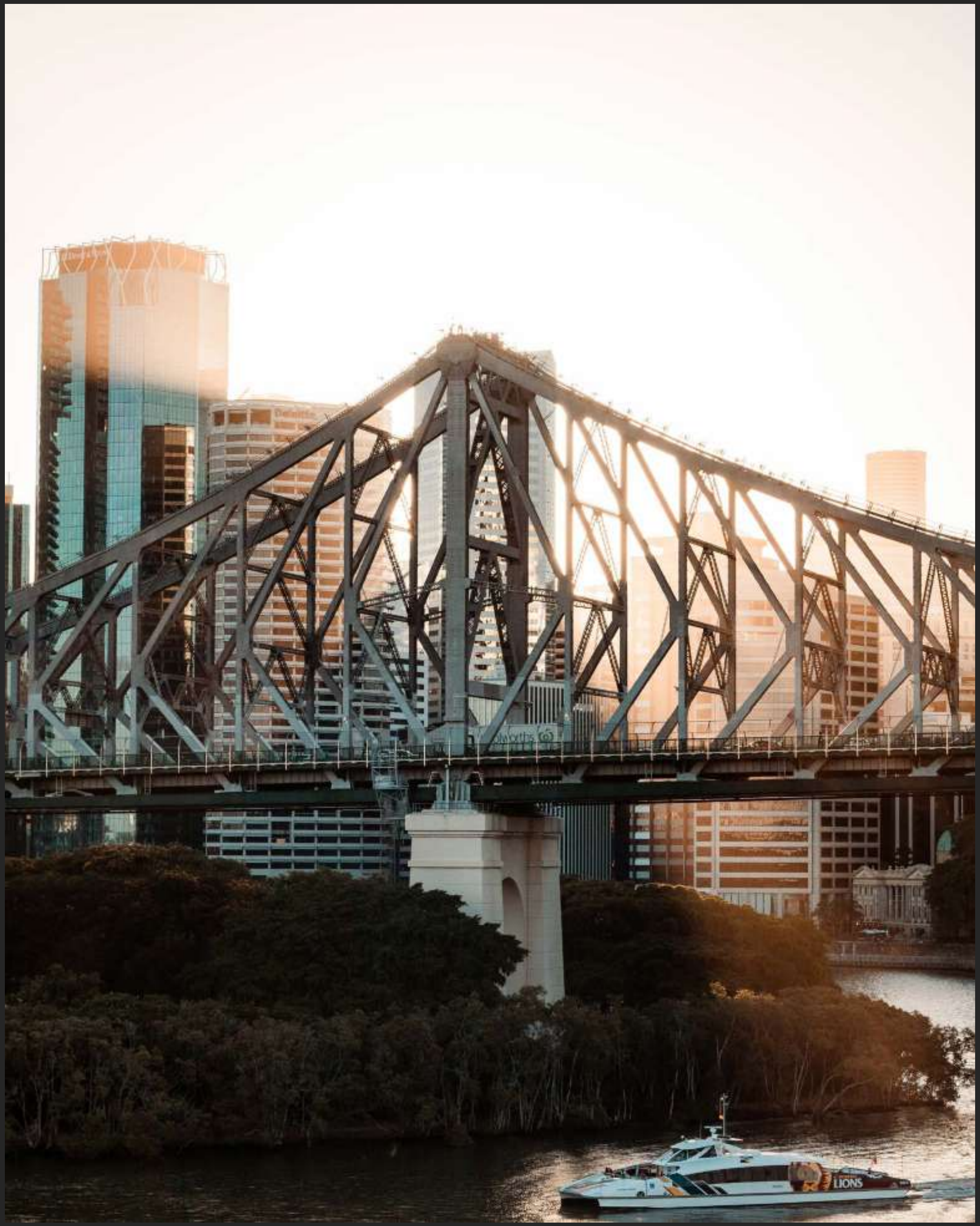
caden
Intellectual Property

Brisbane Office Market Outlook 2025

Brisbane CBD

Contents



Executive Summary

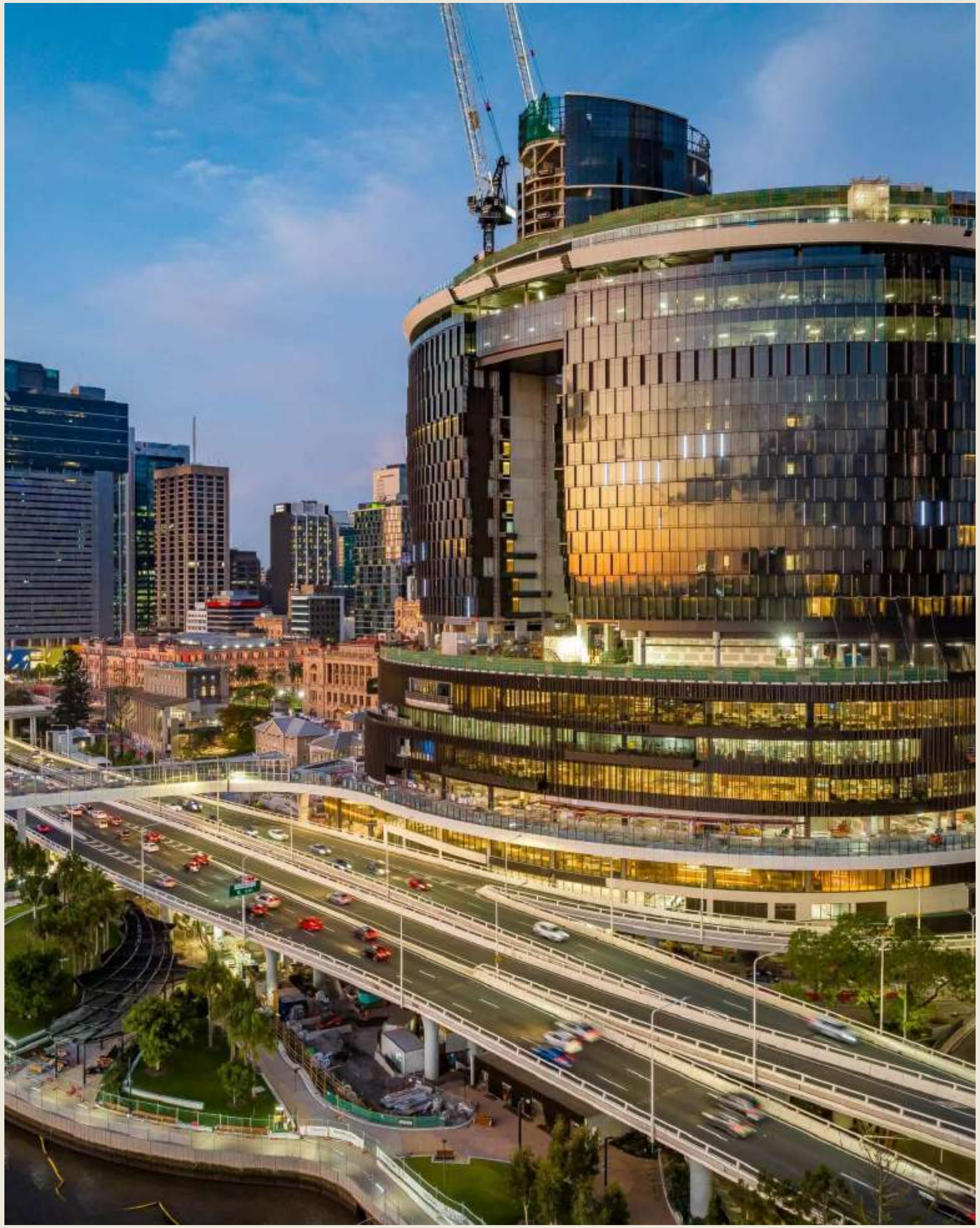
Welcome to the first of Caden's statement report releases for 2025. We enjoy challenging our perspectives to formulate a report such as this which will paint the Brisbane market in a light only visible from the streets themselves. We are always open to feedback, questions, being proven wrong, and encourage you to engage where you know better than us.

Please enjoy, and we hope to hear from you soon.

For 2025 we anticipate that cap rates may not compress as quickly as the market expects given the recent movement in US 10-Year government bond rates as the US government tries to balance continued growth of the economy, reduction in government deficit, and inflation. Our base case forecast is underpinned by the thesis that structurally higher inflation along with Trump's dogmatic pursuit of growth above all else will likely mean that the US 10-year bond rate remains elevated and therefore cap rate compression that the sector is relying on going forward may not materialise.

Therefore, if capital return (by compression of cap rates) cannot be counted on, income return (growing net operating income by active asset management) will be required to do the heavy lifting. This is precisely what our new CadenIP data analytics platform is designed to help you with (more on this later).

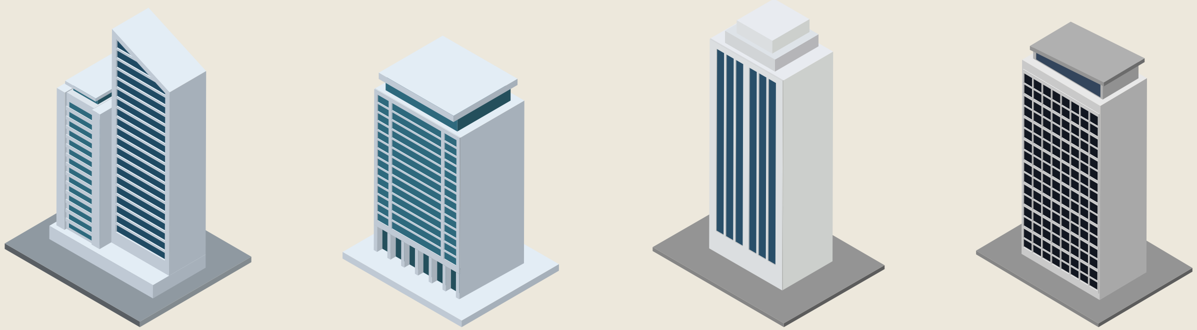
On the income side of the equation we expect leasing momentum to continue positively in 1H25 and to soften in 2H25 as the market is challenged with the entry of substantial backfill space. Any reduction in vacancy through 1H25 is expected to place upward pressure on rents, which will cushion some of the supply risks in the second half of the year when backfill hits the market and results in a temporarily weaker leasing environment. Without a major shift in demand dynamics we expect Brisbane to remain a "high rent, high incentive" market, though we do have a keen eye on the mining industry as a potential bolter to significantly move the needle on absorption, potentially driving vacancy to a level that landlords can take full advantage of.



2024 in Summary

Key Office Market Trends as at Dec-24

Vacancy Change



Premium	4.9%	(-1.0%)
A Grade	3.95%	(-1.6%)
A-/B+ Grade	7.7%	(-6.3%)
B Grade	14.6%	(+0.3%)

Net Absorption

Premium	+6,182 sqm
A Grade	+19,334 sqm
A-/B+ Grade	+15,138 sqm
B Grade	-2,558 sqm

Average Unfitted Incentives

Premium	42.0%	-2.5%
A Grade	39.3%	-2.8%
A-/B+ Grade	40.0%	-1.5%
B Grade	42.5%	-3.0%

Average Transacted Rent & Rental Growth

Premium	$1,142/sqm	+8.8%
A Grade	$895/sqm	+8.1%
A-/B+ Grade	$818/sqm	+8.8%
B Grade	$739/sqm	+6.1%

* Metric variances from Jan-24 to Dec-24

What we called right in 2024

12 months ago we outlined our expectations for the 2024 year in leasing and even surprised ourselves with how accurate our numbers played out to be. Doing it once may just be a stroke of luck so we will prove our methods over a couple more terms before we declare ourselves soothsayers...

Brisbane's leasing market was a tale of two halves in 2024. In 1H24 overall vacancy increased by 0.40% however, positive net absorption across most grades in 2H24 saw vacancy compress by 1.95% to close out 2024 at 7.52%. Total direct leasing transactions amounted to 130,100 sqm aided by notable deals including State and Federal Government absorption, Senex Energy and Compare the Market.

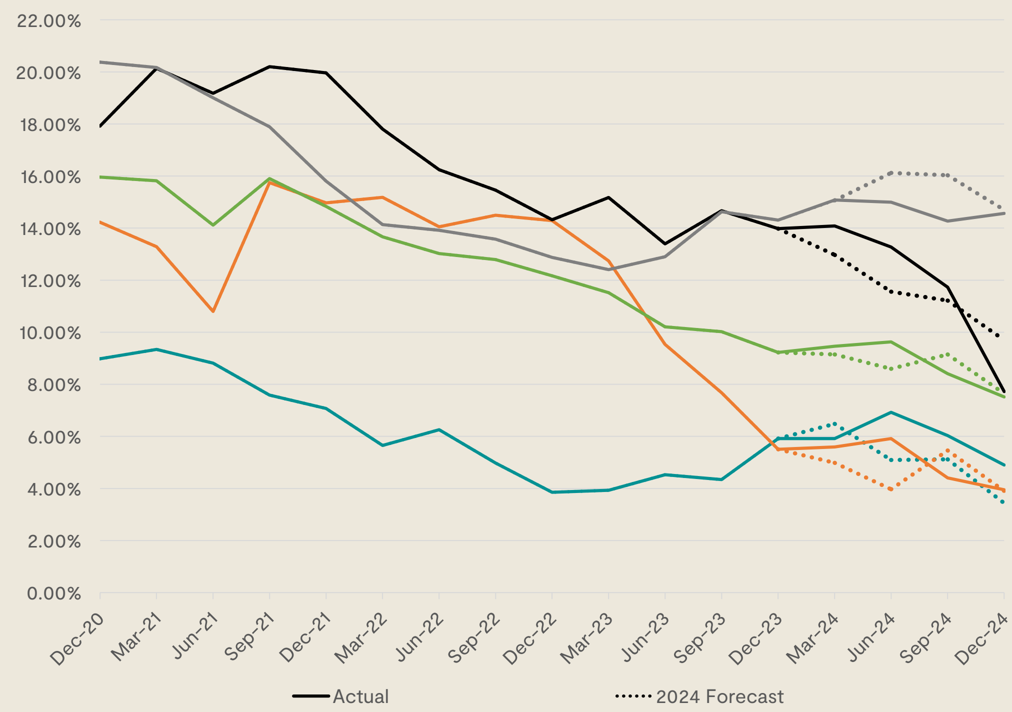
When we shared our predictions for 2024 we saw a relatively steady year with a late rush. We also saw A-/B+ as a major beneficiary of an increasingly tight Prime market – both elements that played out, and had we been a touch more bullish, the accuracy would have been unbelievable. While not all forecasts were accurate, some that were correct were particularly noteworthy are highlighted here:

- Our prediction that A Grade vacancy (Forecast: 3.90%, Actual: 3.95%) would drop below 4% by year-end proved accurate. With the market favoring quality office spaces coupled with the price point of Premium Grade surpassing $1,000/sqm, strong demand and healthy net absorption were anticipated to drive A Grade vacancy downward.

- Despite widespread negative rhetoric on the B Grade market (Forecast: 14.70%, Actual: 14.60%), we argued that B Grade vacancy would remain steady at ~14% despite supply pressures encountered through the year. An anticipated softening in June 2024, followed by a correction in the second half of the year, unfolded as predicted, as the robust uptake of space in quality B Grade assets aligned with our expectations.

- With average rental growth across the market at 6.4% in 2023, we adopted a measured rental outlook for 2024. Premium and B Grade markets surpassed expectations, while both A and A-/B+ Grades fell below our projections.

Figure 1: CadenIP 2024 Vacancy Forecast vs Actual Comparison



Economic Outlook

Global outlook

The US 10-year government bond rate underpins many investments and financial decisions due to its perceived role as the "risk free rate" in the global financial system. So, if it matters to the global financial system it matters for the Brisbane office market!

The market consensus for the US 10-year bond rate is 3.6% by the end of 2025 and 3.5% by the end of the decade. If this were to occur, then bond prices will increase by 25% and 29% respectively. All else equal, this would imply that property prices may also increase by a similar amount.

For the US bond rate to be ~3.5%, recent history tells us that the US Fed Fund rate must be around 2.7%, which is a 180 bps reduction from where it is now (4.5%) and in order for that to occur history once again tells us that inflation rate has come down to 1.7% (from the current 2.9%).

But recent history may not necessarily be the correct guide in this abnormal economic cycle. Why do we say that? Well, the US Fed cut interest rates (from 5.5% to 4.5%) rather aggressively starting in Sep-24 and since then the US 10-year bond rate has increased from 3.65% to 4.5% as of date.

Can inflation in the US come down to below 2% and stay there?

The US$27 trillion treasury bond market doesn't think so. Market consensus is for inflation to be 2.5% by the end of 2025, which is just a 40 bps reduction from the current 2.9%.

If the question wasn't already hard enough to answer, we now have a change of government in the US and based on the many election promises that Trump has made, no one is sure what this means for the inflation rate and subsequently the bond rates and all investments (including real estate).

Our take is – Trump has promised many things to many people; however, US government borrowings will be a limiting factor in trying to fulfill all those promises, and the sacrificial lamb will be inflation not growth!

Figure 2: Inflation Best/Worst Case Scenarios

	Current	Best Case	Base Case	Worst Case
US Inflation	2.9%	1.7%	2.5%	2.9%
Fed Fund Rate	4.5%	2.7%	3.5%	3.9%
10Y Bond Rate	4.5%	3.5%	4.3%	4.7%

Post GFC, the economic growth in the US has largely been underpinned by government spending and therefore the Government has now become a bigger part of the economy. To put this into context ~20% of all jobs created in USA are now government jobs, up from 1% in 2010.

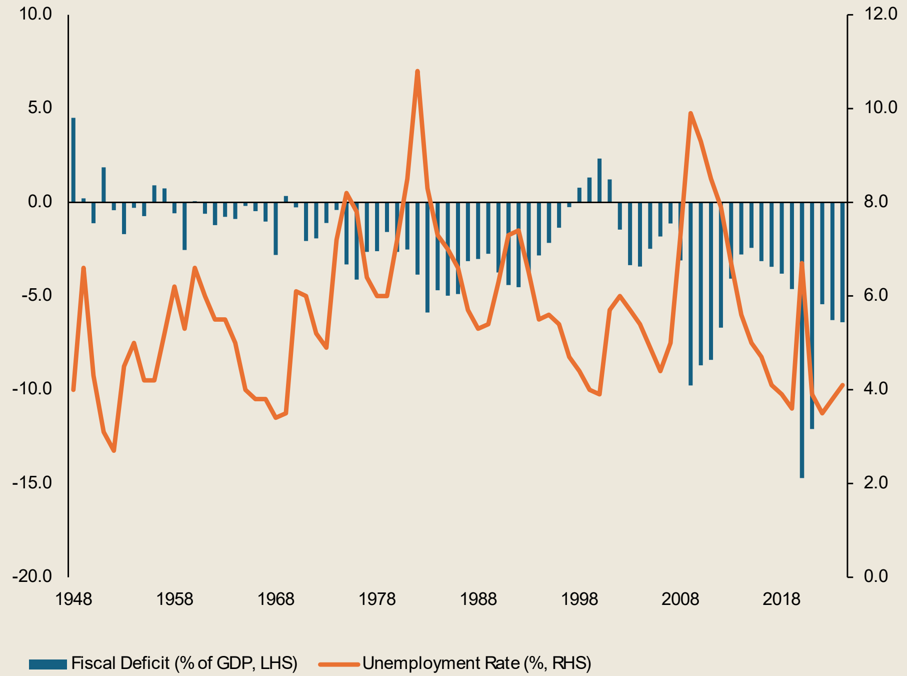
Here is another baffling statistic - the US now needs $2 of debt to generate $1 in GDP growth (a decade ago it used to take less than $1 in debt to generate a $1 of GDP). The benefits of leverage are well past its expiry date for the US government (households and corporates learnt this lesson during the GFC).

So, will the US be able to cool inflation down?

Once again, our take is that Trump will be challenged to maintain a high pace of economic growth while bringing down debt and if push comes to shove, he will chase higher growth vs fiscally disciplining the country which is inflationary.

Therefore, given the factors that are underpinning structurally higher inflation along with Trump's dogmatic pursuit of growth above all else, we forecast the US 10-year bond rate is likely to remain elevated and the office sector needs to prepare for such an outcome.

Figure 3: US Fiscal Deficit vs Unemployment Rate



Source: US Fed, NBER

Australian outlook

Will Australia follow the USA?

To start with Australia's 10 Year government bond rate is almost always at or above the US 10 Year bond rate. For the statisticians, the average spread is 137 bps going back to 1969, 69 bps post GFC and 8 bps post COVID.

The conundrum Australia faces is that our GDP growth has slowed down considerably, and outside of the COVID period, the current GDP growth rate of Australia (0.9% p.a.) is the slowest since the 1991 recession and inflation, although coming down, remains elevated at 2.8% p.a. The only thing holding up the economy is the strong employment market with an unemployment rate of 4% which is at a five-decade low!

Having said this, 44% of Australia's GDP is wages (a record low). So, the tight labour market and weak AUD helps exporting sectors and therefore the majority of Australia's economic activity is getting through (albeit a bit of a slog). If anything, wage pressures will persist given the structurally higher cost of living that most are witnessing.

Many commentators are focusing on the higher cost-of-living and that it will tip the economy into a recession. While we don't totally discount the thesis, we ask another question – what is the highest interest rate the country can tolerate without dipping the economy into recession?

When looked at from this angle, one realises that the economy is not as interest rate sensitive as broadly perceived. Current interest rates are not slowing the expansion of credit in the system and therefore the economy is ticking along longer than most are expecting.

Overall, given demand for goods and services continues to outpace supply, inflationary pressures will persist, making it difficult for the RBA to cut interest rates and, if they do, it will weaken the AUD further. The optimal solution for bringing down inflation in our minds is to increase the supply side but our policymakers (labour and liberal) favour demand side policies and we are in a federal election year!

Have office values bottomed?

Most experts are predicting modest price increases, at least for the Premium CBD towers in 2025 after two years of valuation write-downs and high interest rates putting upward pressure on cap rates.

While there is cautious optimism about the office market's recovery, several factors will influence its trajectory. These include interest rates, the depth of investor interest, and the ability to generate rental growth.

Consensus forecasts remain unchanged, i.e. recovery is likely to be uneven across different markets and asset qualities. Premium, energy-efficient buildings in prime locations are expected to perform better than Secondary Grade assets which continue to face challenges from high vacancy rates. For Prime Sydney office buildings cap rates are to compress by 50 bps and other major cities will follow suit in the coming years.

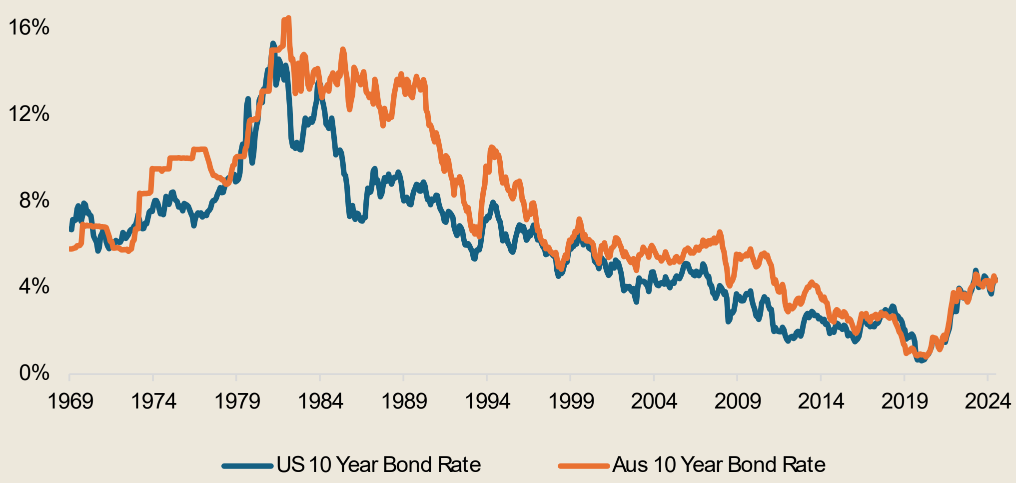
Caden's Brisbane CBD view:

Overall, we expect leasing momentum to continue positively in 1H25 and to soften in 2H25 as the market is challenged with the entry of substantial backfill space. The reduction in vacancy through the 1H25 is expected to place upward pressure on rents, which will cushion some of the risks in the second half of the year when backfill supply hits the market and results in a weaker leasing environment.

We also foresee the repurposing of existing fit outs will likely be a key strategy for landlords to capture occupier demand needs and minimise downtime. Additionally, as the calibre and quality of office continues to increase, the upgrade and repositioning of secondary assets will be essential to staying competitive in an increasingly discerning market.

Given inflationary pressures remain, we anticipate elevated cap rates for the foreseeable future and for landlords to continue to focus on driving income growth. The rental difference between Prime and Secondary has increased substantially post COVID-19 and we expect this difference to close with significant upside for secondary assets that are repositioned astutely.

Figure 4: US 10 Yr Bond Rate vs Aus 10 Yr Bond Rate



Source: US Fed, NBER

Leasing Outlook

2025 in the bigger picture

Post COVID-19, Brisbane's office market peaked in August 2021 and has since seen only the third extended period of vacancy absorption since the turn of the century. This has pushed Brisbane into a historically low vacancy environment, perching the market on the precipice of a turning point toward a landlord favourable market. At present, Caden IP data measures the overall vacancy rate at a 12-year low of 7.5%, well below the 10-year average of 13.6%. This places Brisbane as the best performing CBD office market along the Eastern seaboard, and second nationally behind Hobart CBD (2.5%).

We note that in previous cycles it has taken vacancy to get below 5% for the market to react with reduced incentives and true rental growth, and for the first time in over a decade we are approaching territory where that may become a reality.

Our 2025 forecasts do not see this critical 5% vacancy level being breached in the next 12 months, partly on account of the new supply due to hit the market, but we acknowledge the simmering level of demand may take the overall statistics below this level in the subsequent 12 - 24 months.

As a side note...

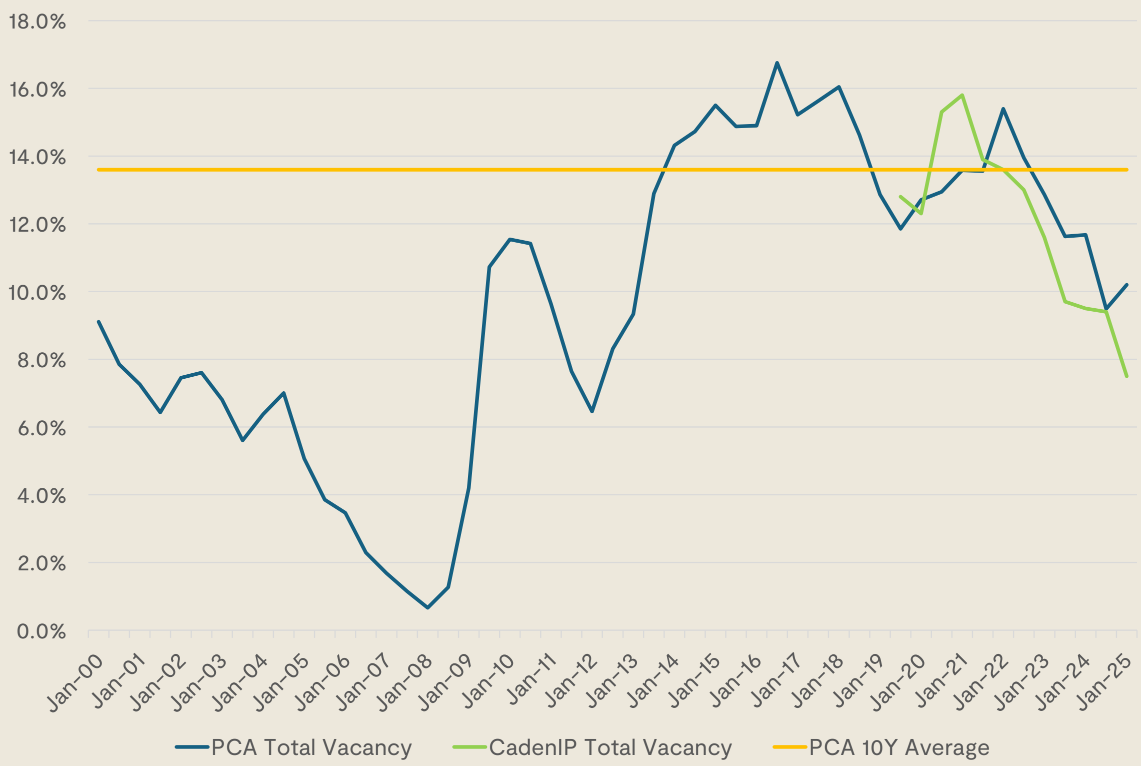
This graph is one of the best indications of why CadenIP exists and is so particular about what is does and offers to clients.

As Brisbane's CBD Office market matures it deserves information that matches its improving sophistication. Traditionally, the industry has relied on the Property Council of Australia (PCA) to deliver market statistics, however, they lag significantly and their data collection process is flawed.

Caden began tracking the CBD market in 2019 and has progressively captured data in real time which, as the graph shows, precedes the PCA data by over six months, and frequently identifies a major shift well in advance. Consistently being ahead of the competition by six months puts us and our clients in the drivers' seat when it comes to securing market-beating leasing outcomes.

Brisbane CBD vacancy is sitting well below the 10Y historic average

Figure 5: Brisbane CBD Historic Vacancy



2025 Development pipeline

Since 2015, Brisbane CBD has seen several major office developments that have played a pivotal role in influencing vacancy rates. Key projects include:

- 180 Ann St (2015): 57,465 sqm;
- 480 Queen St (2016): 56,200 sqm;
- 1 William St (2016): 75,000 sqm;
- 300 George Street (2019): 48,000 sqm;
- 155 Charlotte St – Refurbishment (2021): 44,000 sqm;
- **205 North Quay (2025): 43,700 sqm [100% pre-committed);**
- **360 Queen St (Late 2025/Early 2026): 45,000 sqm [~75% pre-committed].**

Brisbane is set to welcome two new developments in 2025 (205 North Quay, 43,700 sqm) and early 2026 (360 Queen St, 45,000 sqm), marking another period of a development cycle that will introduce further supply pressures and impact vacancy rates. As these projects come online and tenants move into these assets, a significant amount of space will be left vacant in existing assets (backfill vacancy), estimated to be ~55,000 sqm.

Figure 6: Supply Pipeline

Tenant	Australian Government	Australian Government	Australian Government	HopgoodGanim Lawyers
Affiliated Development	205 North Quay	205 North Quay	205 North Quay	360 Queen St
Backfill Address	400 George St	140 Creek St	140 Elizabeth St	1 Eagle St
Backfill NLA	8,576	7,286	9,942	5,376
Landlord	Cromwell	Ashe Morgan	Shayher Group	Dexus
Building Grade	A	A	A	Premium
Backfill Timing Approx	3Q 25	3Q 25	3Q 25	Early 2026

Tenant	HWL Ebsworth Lawyers	Herbert Smith Freehills	BDO	QIC
Affiliated Development	360 Queen St	360 Queen St	360 Queen St	360 Queen St
Backfill Address	480 Queen St	480 Queen St	12 Creek St	66 Eagle St
Backfill NLA	5,164	5,091	6,786	7,165
Landlord	Dexus	Dexus	Marquette	Deka
Building Grade	Premium	Premium	A	A
Backfill Timing Approx	Early 2026	Mid 2026	Mid 2026	Mid 2026

New developments have recorded 100% and ~75% pre-commitment levels

Vacancy to fall in spite of supply additions

Premium Grade: 4.9% to 5.3% (+0.4%)
Premium Grade will be exposed to ~10,000 sqm of vacancy after the completion of 360 Queen St. HopgoodGanim Lawyers and HWL Ebsworth will be vacating ~5,000 sqm in 1 Eagle St and 480 Queen St respectively, relocating to the 360 Queen St development. Both occupiers are anticipated to relocate in early 2026, however we have brought this foward in our forecast which will see Premium vacancy rise to ~5.3%.

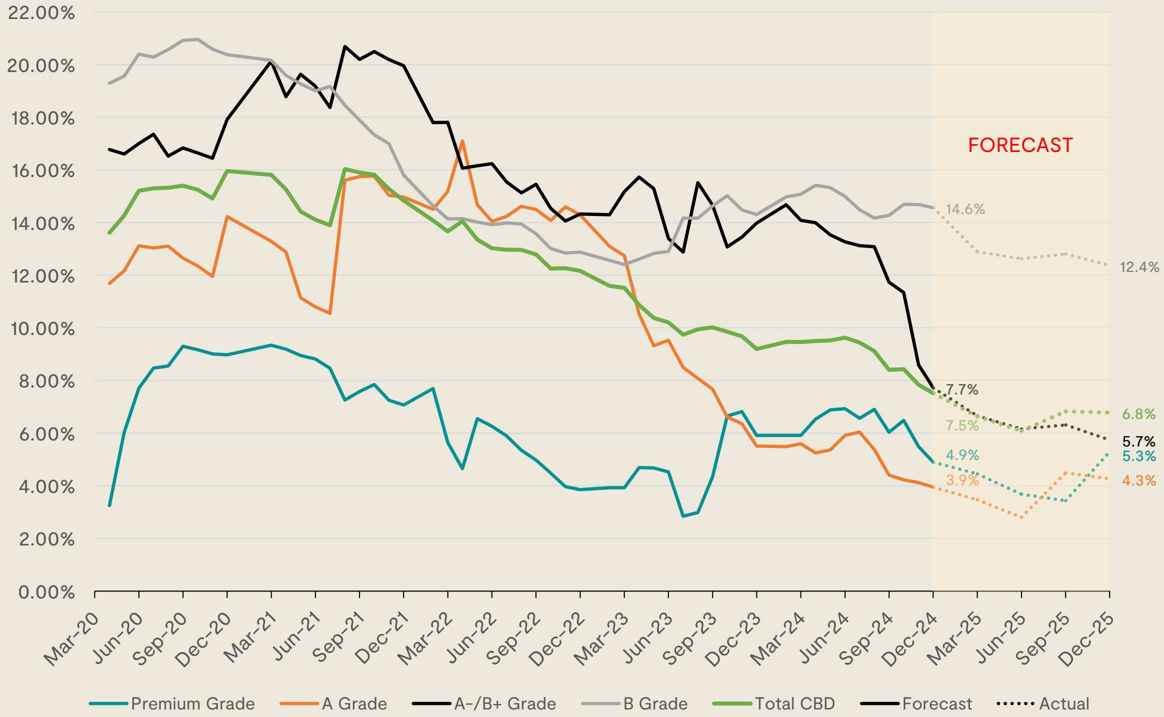
A Grade: 3.9% to 4.3% (+0.4%)
A Grade will continue to perform well in 1H25, as landlords will be aggressive with leasing campaigns prior to the supply pressures entering in 2H25. We anticipate a challenging 2H25 as both 205 North Quay and 360 Queen St reach practical completion. In addition, the Federal Government are vacating three A Grade buildings (400 George St, 140 Creek St and 140 Elizabeth St) amounting to ~26,000 sqm in 3Q25. 70 Eagle St's refurbishment will add another ~4,000 sqm to the market (asset is already 60% pre-committed). 360 Queen St (45,000 sqm tower that is ~75% pre-committed) is expected in 4Q25 and will subsequently add ~26,000 sqm of vacancy via backfills at 12 Creek St (BDO), 66 Eagle St (QIC) and the remaining floors in the development (assuming it remains 75% pre-committed upon completion). It is forecasted that A Grade vacancy will jump up to 4.3% at the conclusion of the year.

A-/B+ Grade: 7.7% to 5.7% (-2.0%)
After an incredible run in 2024, this Grade will likely maintain sub-8% as no notable supply is expected through the year. Occupiers will continue to find value in this market given the quality of stock available, underpinning steady demand through the calendar year. Our assumptions have allowed for a softer 3Q25 to account for occupiers expected to upgrade their office premises upon lease expiry – particularly targeted by A Grade landlords that will be exposed to backfill vacancy.

B Grade: 14.6% to 12.4% (-2.2%)
At time of writing, a few B Grade assets are in the final stages of closing out whole floor deals which will see vacancy dropping to below 14% by 1Q25. While two new vacancy tranches at 410 Ann St (~3,300 sqm) and 160 Ann St (~2,800 sqm) are slated for release in 2Q25 and 3Q25, the impact on overall vacancy is expected to be minimal. Strong brokerage activity, demand for high-quality existing fit-outs and newly delivered specs will offset additional vacancy.

Total CBD: 7.5% to 6.8% (-0.7%)
Despite the disruption that will be caused by the supply of two new A Grade assets, we forecast overall vacancy to reduce from 7.5% to 6.8% by the end of 2025.

Figure 7: Vacancy Forecast



Secondary markets will benefit from a tight Prime Grade

Income growth required to protect asset value, driving rents

In 2024, the absence of new supply and further reductions in vacancy drove ‘average’ rents up by 8.1% and ‘high’ rental band by 10.8%. It is projected that rental growth will extend across all Grades in 2025 given economic rents continue to push higher. This will also help landlords offset the downward pressure on valuation that is stemming from higher opex and elevated cap rates.

With limited new supply expected until 4Q25, Premium rental growth is likely to accelerate with direct deals projected to surpass $1,300/sqm. That said, the influx of A Grade supply in 2H25 may divert some occupiers towards A Grade buildings where the perceived value may be greater, hindering further growth in Premium Grade rents.

With some assets already surpassing $1,000/sqm, A Grade is projected to trend towards the ~$1,100 bracket this year. Landlords are anticipated to focus on strong rental growth in 1H25, aiming to capitalise on market conditions before a softening in vacancy and the addition of new supply in 2H25. Assets that will be setting the benchmark include Blue Tower (12 Creek St), CP1 (345 Queen St) and CP2 (66 Eagle St).

Secondary Grade rents are expected to rise steadily throughout the year, though at a more moderate rate compared to Prime Grade. A-/B+ Grade assets are likely to see average rents climb into the mid-to-high $800s, as current asking rents are already nearing this range. B Grade average rents are also anticipated to surpass $800/sqm, with ‘high’ rents potentially approaching $900/sqm.

Refurbished assets are best placed to capitalise on growth

Figure 8: Prime Grade Rent Forecast

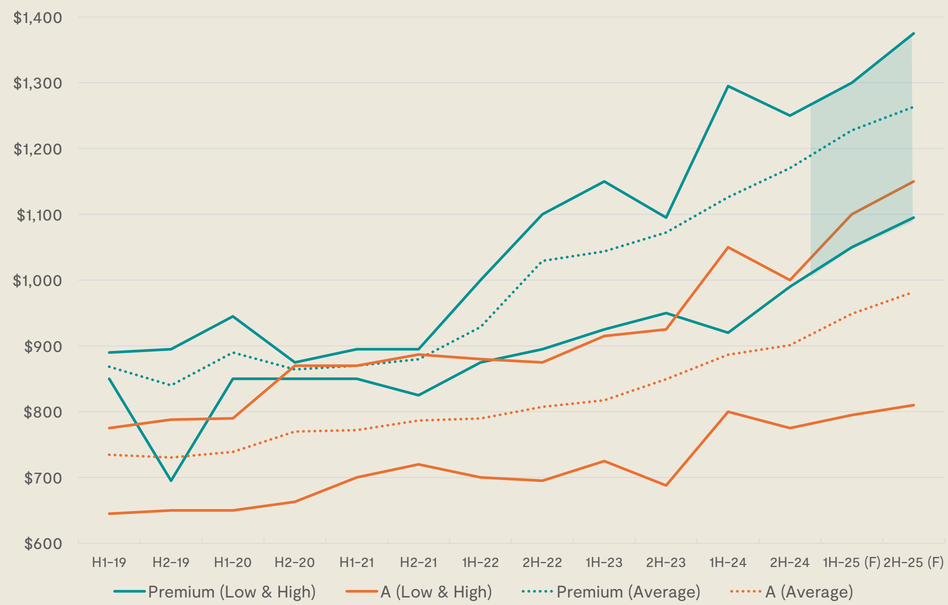
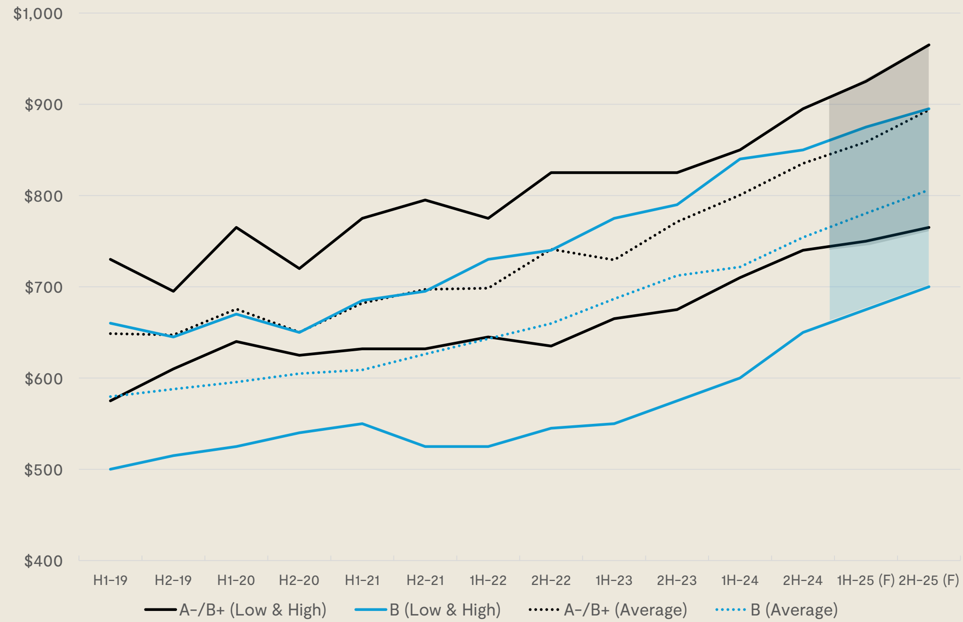


Figure 9: Secondary Grade Rent Forecast



High rent, high incentive the recipe for Brisbane

Although incentives have contracted since the peak in 1H24, we anticipate they will remain elevated given the expected supply to come online in 2H25, and the historically slow turning of tides on incentives relative to vacancy rates.

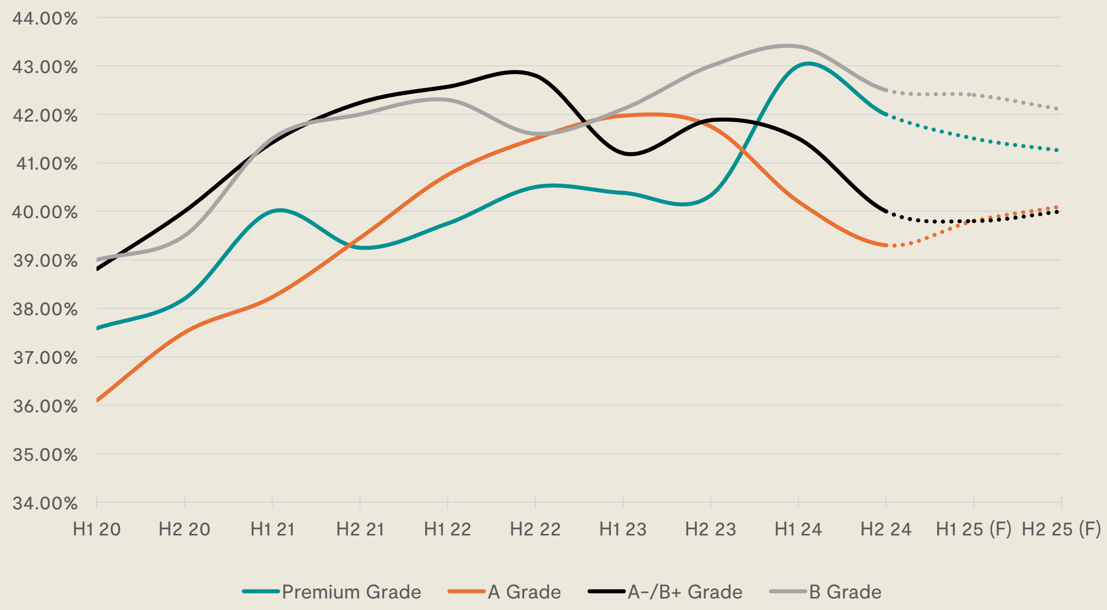
On the current trajectory as much as 70% of new supply will remain unabsorbed (via backfill vacancies), but we are looking to take a balanced view to this space. For some of the backfill space it will become some of the only contiguously available >1,000sqm floorplates available in the Prime market, a prospect that may garner serious traction with larger occupiers. However, on the other hand, if the existing fit outs prove to be low quality or have low reusability, there is every chance that the space sits vacant for longer than ideal given the need to refit from scratch, something that only a small portion of the market is prepared to consider.

As a result of the backfill space returning A Grade assets are expected to experience the most significant upward pressure on incentives. Assuming landlords exposed to the backfill vacancies invest in repurposing some existing fit-outs, recent market evidence suggests mid to high 30s could be achievable on deals. However, when all aspects of a deal are considered it's likely an incentive of 40% or more may be necessary to remain competitive in a period of increased supply.

We don't expect this backfill to have an immediate impact on Premium Grade incentives given the limited number of mostly small fitted space on the market. Therefore, we expect incentives will be judged on a "building by building" basis.

Incentives in the Secondary market are unlikely to see any significant movement as landlords will find it challenging to shift incentives to their advantage in such a supply-oriented market. With vacancy in this market still trending above 10% it will be some time before we see genuine opportunity for these owners to reduce incentives.

Figure 10: Unfitted Incentive Outlook



Incentives will struggle to tighten given supply pressures through 2025

Larger deals to dominate 2H on backfill

Historically, <500 sqm lease deals have dominated the Brisbane office market with a significant market share of leasing activity occurring across the 101 – 200 sqm and 201 – 300 sqm size bands. This is reflective of Brisbane's tenant profile, which is largely composed of small to medium-sized businesses as opposed to a global and national headquarter presence and this has been consistent over time.

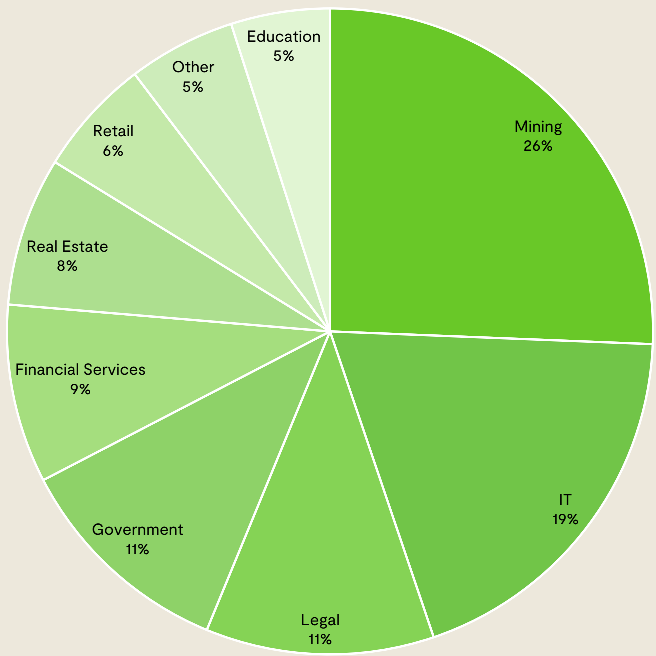
However, looking forward, we are anticipating the >1,000 sqm size band to experience a surge in activity as new supply enters the market, creating opportunities for larger occupiers to secure higher quality premises. The wave of stock is expected to drive leasing activity, particularly as the current pool of whole floor opportunities are scarce. Additionally, increased availability will lead to more competitive incentives, with landlords attracting larger tenants from lower grade assets and occupiers residing outside the CBD.

Various industry sectors were active in the market through 2024 (by NLA), shown in Figure 12. Mining is projected to continue to serve as the dominant sector, and is one we are keeping an eye on for the beginning of a minor boom. Financial Services are expected for an uplift after a lull last year. Government, on the other hand, may encounter a slight downturn influenced by recent long-term commitments in new office premises, change in State Government leadership and the upcoming Federal Election.

Figure 11: Deal Activity by Size Range Forecast

Size Range	0 - 100	101 - 200	201 - 300	301 - 400	401 - 500	501 - 1,000	1,000+
H1-21	8.6%	38.6%	21.4%	9.3%	7.9%	9.3%	5.0%
H2-21	9.1%	29.4%	19.8%	17.6%	7.5%	10.7%	5.9%
H1-22	8.8%	25.8%	28.4%	7.7%	6.2%	10.8%	12.4%
H2-22	10.2%	27.4%	17.2%	7.0%	7.6%	21.0%	9.6%
H1-23	11.2%	26.9%	14.2%	9.1%	5.1%	17.3%	16.2%
H2-23	6.9%	35.8%	17.9%	10.4%	7.5%	12.7%	8.7%
H1-24	17.2%	27.4%	20.4%	15.3%	3.8%	10.2%	5.7%
H2-24	13.4%	33.5%	20.1%	10.4%	4.9%	9.8%	7.9%
H1-25 (F)	*9.6%*	*22.5%*	*32.6%*	*14.0%*	*6.7%*	*8.4%*	*6.2%*
H2-25 (F)	*3.9%*	*23.4%*	*18.2%*	*10.4%*	*7.8%*	*19.5%*	*16.9%*

Figure 12: Industry Sector Demand (2024)



We expect the spread to lean to larger spaces as backfill space comes online

Introducing Caden
Intellectual Property

We take immense pride in our on the ground knowledge and granular data collection policy enabling us to accurately call the vacancy movements of the Brisbane office market in 2024. Looking forward, the Brisbane CBD is undergoing significant changes and with that, Caden is also pivoting so that we stay ahead of those challenges.

To continue to better serve the office owners of Brisbane we are introducing another vertical in our business - Caden Intellectual Property.

CadenIP is host to our digitalised data analytics platform that incorporates the highly specific and granular leasing data that Caden has become famous for, and builds on that granularity to unlock capital and investment insights to aid purchasers and vendors in their assessment of their assets and market conditions. Pairing this platform with best-in-market independent capital advisory positions CadenIP's clients perfectly to invest in property, intellectually.

With this expanded approach, our Caden Office Outlook (released at the beginning of each year) has undergone a significant change and now includes our analysis of the capital markets as well as the trusted in-depth look at the Brisbane CBD office leasing market.

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