

# Brisbane Near City

Office Market Report • April 2008

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## Executive Summary

- The Near City market has seen the initial, and much needed, injection of new commercial space over the past six months. As a result the vacancy rate increased from 1.3% in July 2007 to be 2.0% in January 2008 and the low point of the vacancy rate now appears to be in the past for the Near City market.
- Additional supply to the Near City market was 43,000m<sup>2</sup> during 2007, and already in 2008 a further 43,200m<sup>2</sup> has been completed and added to the market. These recent completions have been well absorbed with 90% of the space leased and additions for the remainder of the year are similarly 89% pre-leased. For 2009, supply already under construction or committed totals approximately 100,000m<sup>2</sup>, however beyond those projects the supply additions are expected to slow dramatically.
- Prime rental levels grew strongly throughout the whole of 2007, with 17% growth to show \$470/m<sup>2</sup> gross effective, on average, at the start of 2008. Rental growth levels have begun to slow and annual growth is expected to fall to just below 5% for the 2008 calendar year.
- The capital market for the Near City has, in line with most other markets, seen little purchasing activity during the first quarter of 2008. While prime yields have softened, the Near City market is expected to remain relatively active in the sub-\$20 million price bracket as private investors fill the gap left by the absence of institutional buyers.

**“Proposed additions to the Near City office market during 2008 show a total of 117,750m<sup>2</sup> of new space, over 43,000m<sup>2</sup> of this has already been delivered in the first few months of the year.”**



**199 Grey Street, South Brisbane the 13,800m<sup>2</sup> building was completed early in 2008 and is fully leased. Purchased for circa \$84 million on a fund-through arrangement**

Figure 1  
Brisbane Near City office market – current distribution of office stock

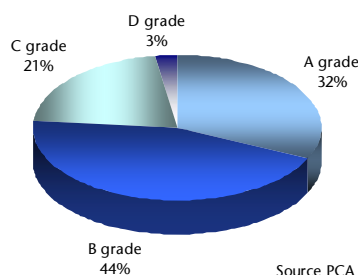
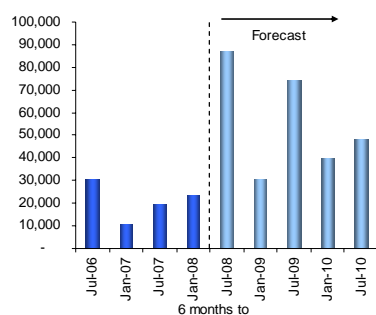


Figure 2  
Brisbane Near City Supply square metres



Source: PCA/Knight Frank

## Supply

The Brisbane Near City is within the first stages of the supply surge with over 43,000m<sup>2</sup> of new and refurbished space coming into the market during 2007, all of it is fully committed. Several projects were completed over the new year period, with a further 43,220m<sup>2</sup> added within the first few months of 2008. This recently completed stock has been well absorbed by the market with that space 90% leased to date. Recent supply has been dominated by the Urban Renewal and Inner South regions and this trend is expected to continue into the near future, given the greater availability of development sites within these regions.

### Near City new commercial buildings completed 2007 & 2008 ytd

Project	Precinct	Bld Area m <sup>2</sup>	% Leased	Developer
<b>2007</b>				
2 Bourke St	Inner South	5,481	100%	Bennelong Gp
601 Coronation Dr	Toowong	7,558	100%	Ray White Invest
100 Brookes St	Urban Renewal	9,671	100%	Anthony John Gp
503 St Pauls Tce Stage 1	Urban Renewal	17,000	100%	Leighton/ISPT
49 Doggett St	Urban Renewal	2,500	100%	Private Inv
<b>Total</b>		<b>42,210</b>	<b>100%</b>	
<b>2008 ytd</b>				
199 Grey St	Inner South	13,800	100%	Stockwell
108 Wickham St	Urban Renewal	11,000	100%	Fortius FM
56 Edmonstone St	Urban Renewal	12,800	Owner Occupied	Sunland/Virgin Blue
26 Donkin St	Inner South	2,720	-	Pradella
45 Commercial Rd	Urban Renewal	2,900 (office)	50%	Private Inv
<b>Total</b>		<b>43,220</b>	<b>90%</b>	

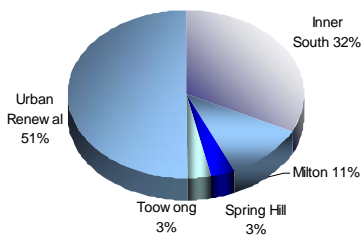
Proposed additions to the Near City office market during 2008 show a total of 117,750m<sup>2</sup> of new space, over 43,000m<sup>2</sup> of this has already been delivered in the first few months of the year. This is approximately four times the average level of annual supply which has been brought to the market in the past 10 years. The supply surge for the Near City market is not expected to end there with high levels of supply, circa 100,000m<sup>2</sup>, expected to be added to the market in 2009. Beyond that, and for projects which have not yet achieved a construction start or pre-commitment, the timeline appears less certain.

The 2009 supply figures adopted by Knight Frank, although at a level significantly higher than in previous years, are still considerably less than the presently proposed 200,000m<sup>2</sup>+ for potential delivery in 2009. In addition, there are proposals for a further 360,000m<sup>2</sup> of office space presently slated for delivery in 2010 and beyond. Given the quantum of supply already under construction in both the Brisbane CBD and in the Near City zones it is expected that the levels of supply for 2009 and beyond will be at levels much lower than presently proposed. As indicated above, apart from projects already under construction or advanced site works, the timing of additional supply will be dictated by occupier pre-commitments. This is likely to have the effect of slowing down and spreading out the delivery of major additional office supply – to the benefit of the market as a whole.

The major alteration to the characteristics of the Brisbane Near City market will be the injection of a large proportion of prime space, into a market which presently has a relatively small stock base of prime accommodation. As shown in Figure 1, 32% of the Near City Market (268,000m<sup>2</sup>) is currently classed as A Grade property. Compared with the Brisbane CBD, where 42% of the current stock is classified as prime space, the Near City currently has a proportionally large secondary office stock base. This secondary sector is expected to be particularly affected by the influx of new accommodation, and maintaining occupancy rates and rental levels is expected to become more difficult for these properties over the next four years.

“The major alteration to the characteristics of the Brisbane Near City market will be the injection of a large proportion of prime space, into a market which presently has a relatively small stock base of prime accommodation.”

Figure 3  
Brisbane Near City Proposed new supply by region to 2010



Source: BCC/Knight Frank



Green Square North Tower, Fortitude Valley on track for completion mid 2008 is presently 92% pre-committed (for details see page 4)

## Development Pipeline

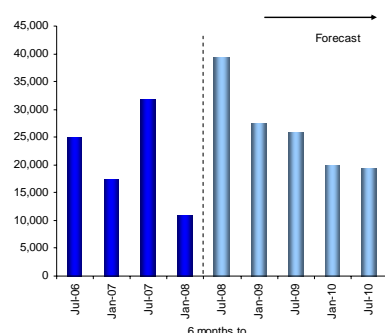
Brisbane Near City proposed commercial developments over 4,000m<sup>2</sup> 2008 – 2010+

Project	Precinct	Bld Area m <sup>2</sup>	Commitments	Status
<b>2008 (remainder)</b>				
10 Browning St	Inner South	7,500	95%	Construction
35 Boundary St	Inner South	7,980	86%	Construction
503 St Pauls Tce Stage 2	Urban Renewal	23,000	92%	Construction
Petrie Barracks	Milton	10,400	100%	Construction
South-West 1 – Stage 2	Inner South	17,785	82%	Construction
<b>2009</b>				
Coronation Dr Office Park:Bld 4	Milton	16,585	25%	Construction
19 Lang Pde	Milton	6,561	-	Construction
Verge, 25 Montpelier Rd	Urban Renewal	7,500	-	Construction
154 Melbourne St	Inner South	11,685	-	Construction
Waterloo Hotel – Stage 1	Urban Renewal	4,895	-	Approval
512 Wickham St – Stg 1	Urban Renewal	10,000	100%	Site Works
512 Wickham St – Stg 2	Urban Renewal	28,900	35%	Site Works
144 Montague Rd	Inner South	14,620 GFA	100%	Application
<b>2010</b>				
Gasworks@Newstead	Urban Renewal	24,800	100%	Approval
<b>Subject to pre-commitment/no firm date</b>				
NS3, Longland St	Urban Renewal	12,500	Site for Sale	Approval
113-121 Commercial Rd	Urban Renewal	5,687	-	Approval
42 Alfred St	Urban Renewal	4,570	-	Application
757 Ann St	Urban Renewal	8,000	-	Application
949 Ann St	Urban Renewal	26,810	-	Application
128 Brookes St	Urban Renewal	15,800	-	Application
35 Russell St	Inner South	5,656	-	Application
51 Alfred St	Urban Renewal	5,007	-	Application
Union, Milton Train Station	Milton	20,000 approx	-	Application
209 Grey St – South Point	Inner South	38,000	-	Masterplanning
City South Corp Park – Stg 1	Inner South	10,000	-	Mooted
Waterloo Hotel – Stage 2	Urban Renewal	17,000	-	Mooted
Breakfast Creek Rd (Portal III)	Urban Renewal	12,000 approx	-	Mooted
High St & Sherwood Rd	Urban Renewal	15,000	-	Mooted
435 St Pauls Tce	Urban Renewal	36,000	-	Mooted
395 St Pauls Tce	Urban Renewal	10,000	-	Mooted
City South Corp Park – Stg 2+	Inner South	50,000 up to	-	Mooted

Longer term, the Near City commercial market is expected to continue to expand towards the Bowen Hills and inner northern area. The recent announcement that the ULDA has taken over planning control for a large portion of the Bowen Hills, RNA Showground, present cross-city tunnel development site, and Albion region has changed the planning parameters for these regions. Significant development sites exist within these areas and initial indications are that up to 500,000m<sup>2</sup> of commercial space may be constructed within these areas. Given the level of infrastructure and road network access still required to be provided for this region, a large proportion of this precinct remains a medium term proposal of 5-10 years. In the short term, the delivery this year of two commercial buildings in Kelvin Grove (ARCBS Building & Synergy), the ICB Central Building in Herston, the continued progress to construction of significant commercial space at the Albion Four Mill site and Hamilton Harbour has paved the way for this future commercial expansion into the inner northern suburbs of Brisbane.

“Much of this net absorption will arise from the supply-led cycle of this market and the rental levels set for both new and existing accommodation will need to remain competitive in comparison with the CBD for the Near City to fully capture these potential net absorption levels.”

Figure 4  
Brisbane Near City Net Absorption  
Square metres



Source: PCA/Knight Frank

“This initial new supply has also drawn several tenants (approx 25,000m<sup>2</sup> in their existing space) from the CBD into the Near City. The CBD could not provide the necessary new space in the timing sought by the tenants such as CMC, SKM and Hatch.”

## Net Absorption & Tenant Demand

Net absorption for the Brisbane Near City was recorded at 42,749m<sup>2</sup> by the PCA for the calendar year of 2007. This was in line with the results for the previous two years which had seen 42,523m<sup>2</sup> and 50,628m<sup>2</sup> respectively. The delayed delivery of a few projects over the new year period limited the net absorption recorded in the second half of last year.

The combination of strong tenant demand and new supply being completed early in the year is expected to see a near term peak in net absorption levels in the six months to July 2008. Generally the level of tenant demand for the Near City is expected to slow gradually however remain relatively strong, averaging just over 50,000m<sup>2</sup> per annum over the next three years. Much of this net absorption will arise from the supply-led cycle of this market and the rental levels set for both new and existing accommodation will need to remain competitive in comparison with the CBD for the Near City to fully capture these potential net absorption levels.

Major Tenant Requirements Near City or Near City/CBD		
Tenant	Approx Area	Timing
National ICT Australia	1,000m <sup>2</sup>	2008
WPP	1,700m <sup>2</sup>	2008
Exxon Mobil	3,500m <sup>2</sup>	2008
Ergon Energy	7,500m <sup>2</sup>	2009
Connell Wagner*	8,000 -10,000m <sup>2</sup>	2009
Tarong Energy	3,000m <sup>2</sup>	2009
Flight Centre*	5,500m <sup>2</sup>	2009
Worley Parsons*	5,000m <sup>2</sup>	2009
Allianz	4,500m <sup>2</sup>	2009
Technology One	8,000m <sup>2</sup>	2009/10

\* understood to have selected a preferred option

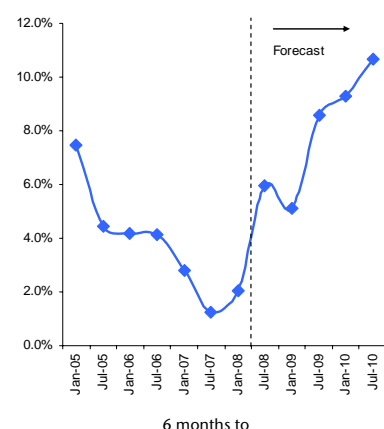
A selection of tenants currently seeking commercial accommodation in the Brisbane Near City or who would consider either the Near City or CBD is shown in the table above. With many of the new developments for 2008 already largely pre-committed (100,000m<sup>2</sup> pre-committed out of the expected 117,000m<sup>2</sup> to be delivered during this calendar year) the concentration is now on tenants with a requirement in 2009. This initial new supply has also drawn several tenants (approx 25,000m<sup>2</sup> in their existing space) from the CBD into the Near City. The CBD could not provide the necessary new space in the timing sought by the tenants such as CMC, SKM and Hatch. The table below is a selection of the larger reported pre-commitments to new office accommodation.

Major Reported Tenant Pre-commitments to the Near City					
Address	Est Face Rental	Area m <sup>2</sup>	Developer	Tenant	Date
45 Commercial Rd	\$520 g	1,450	Private/ Opus	Silverton	Q2 08
10 Browning St, South Bris	\$425 g	2,400	SSI Group	Thiess Services	Q2 08
10 Browning St, South Bris	\$525 g	1,700	SSI Group	NEHTA	Q2 08
Green Square Nth, Fort. Valley	Undis.	9,500	Leighton/ISPT	CMC	Q2 08
Green Square Nth, Fort. Valley	\$450 g	3,800	Leighton/ISPT	Collection House	Q2 08
Green Square Nth, Fort. Valley	\$410 g	9,000	Leighton/ISPT	Cardno Davies	Q2 08
35 Boundary St, South Bris	\$465 g	1,018	State Devt's	Roberts & Schaeffer	Q2 08
35 Boundary St, South Bris	\$465 g	3,164	State Devt's	MWH	Q2 08
35 Boundary St, South Bris	Undis.	2,678	State Devt's	Dialog	Q2 08
Petrie Barracks, Petrie Tce	\$445 g	10,400	Property Sol.	Hatch	Q3 08
Melbourne St, South Brisbane	\$500 g	3,494	Property Sol.	McMahon Holdings	Q3 08
Melbourne St, South Brisbane	\$485 g	9,422	Property Sol.	SKM	Q3 08
Melbourne St, South Brisbane	\$500 g	1,600	Property Sol.	Transfield	Q3 08
144 Montague Rd, South Bris	Undis	13,000	State Devt's	Ausenco	Q2 09
512 Wickham St, Fort Valley	Undis	12,000	Leighton	Maunsell	Q4 09
Gasworks @ Newstead	\$420 n eff	24,800	FKP	Energex	2010

## Vacancy and Rents

**“With further high levels of supply in 2008, the vacancy rate is expected to continue to increase to be between 5.0% and 6.0% during the second half of 2008.”**

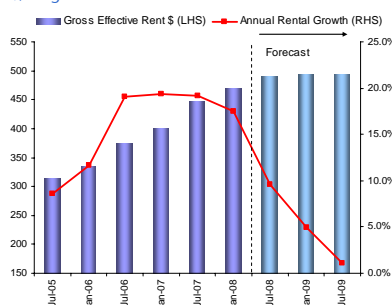
Figure 5  
Brisbane Near City Vacancy Rate  
% vacancy



Source: PCA/Knight Frank

**“After 17% rental growth over the year to January 2008 the forecast annual rental growth rate is expected to slow to 9.6% over the year to July 2008, with average prime gross effective rental levels of \$490/m<sup>2</sup>.”**

Figure 6  
Brisbane Near City Av Prime Rents  
\$/m<sup>2</sup> gross effective rent



Source: Knight Frank

### Stock and Vacancy Levels for the Near City Markets – January 2008

Precinct	Stock m <sup>2</sup>	Vacancy m <sup>2</sup>	Vacancy %	6 mth net absorption
A Grade	268,503	1,620	0.6%	15,577
B Grade	372,679	8,598	2.3%	-1,580
C Grade	177,012	3,790	2.1%	-353
D Grade	22,018	3,000	13.6%	-2,835
Milton	186,184	2,426	1.3%	-2,323
Spring Hill	175,383	291	0.2%	98
Urban Renewal	244,818	12,426	5.5%	11,738
Toowong	81,183	-	0.0%	60
Inner South	172,644	1,865	1.1%	1,336
<b>TOTAL</b>	<b>840,212</b>	<b>10,407</b>	<b>2.0%</b>	<b>10,909</b>

Source: Property Council of Australia January 2008

The Brisbane Near City market vacancy rate increased marginally from 1.3% in July 2007 to be 2.0% as at January 2008 as the supply additions began to have an influence on the market. Despite this, the prime end of the market has remained quite tight, with the majority of the vacant space (84%), concentrated within secondary buildings.

With further high levels of supply in 2008, the vacancy rate is expected to continue to increase to be between 5.0% and 6.0% during the second half of 2008. While the overall net absorption will be supported by a quite significant relocation of tenants from the CBD to the Near City precinct, there will still be increasing secondary vacant space. Already there is a noticeable increase in leasing agents' signage across the Near City zone, predominantly outside the premier locations.

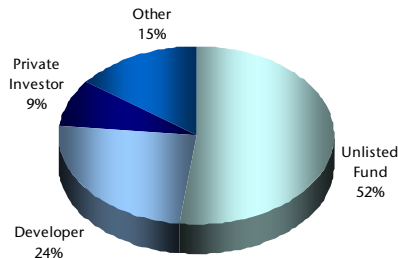
Further stock additions, largely through projects which are already under construction, is expected to drive the vacancy rate to circa 9.3% at the end of 2009. Despite the recent low levels of vacancy for the Near City market, the 10 year average vacancy rate is 9.0%, therefore this takes the market back to just above trend levels. Beyond the end of 2009, the supply additions are expected to be largely subject to pre-commitment and our projected supply levels are significantly lower than what is currently proposed by the market. However even with expected stock withdrawals of more than three times the last ten years' average, the vacancy level is expected to continue to climb. In the medium term this is expected to encourage greater recycling of the existing older stock into residential development where appropriate or refurbishment or redevelopment of the office space.

As outlined in previous reports, the period of above average rental growth levels will be shorter for the Near City in comparison with the CBD. After 17% rental growth over the year to January 2008 the forecast annual rental growth rate is expected to slow to 9.6% over the year to July 2008, with average prime gross effective rental levels of \$490/m<sup>2</sup>. From that time the return of liquidity to the CBD secondary market (largely through backfill space) and high levels of tenant relocation throughout the Near City region is expected to see rental growth slow. During 2009 the average prime rental rate is expected to stall to be just below \$500/m<sup>2</sup>.

The level of leasing activity within the existing prime buildings has remained lower than for the pre-commitment market. Tenants are attracted to new contiguous space at similar rentals to what is presently being sought for limited vacancies in the prime market. Secondary existing stock has continued to lease well at rates in excess of \$400/m<sup>2</sup> - however the future prospects for achieving these rental levels will be reliant on the building being located within a desirable location to support the older building fabric. Recent pre-commitment deals have been across a wide range from the low \$400s to \$520/m<sup>2</sup> gross face. As some deals were signed with buildings close to practical completion, these higher rents represent a premium for occupation in the near term and are therefore closer to existing rental levels.

## Investment & Yields

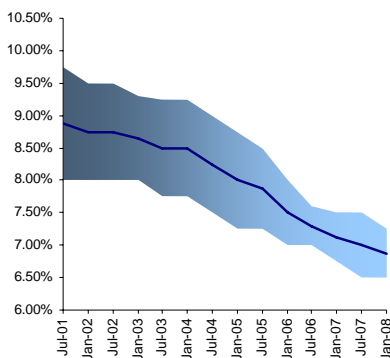
Figure 7  
Brisbane Near City Purchaser Profile  
Sales over \$10million 12 months to April 2008



13 Sales  
\$417.01 million  
Source: Knight Frank

**“In general we expect that purchasing activity will remain quite strong in the sub-\$20 million category of the market as owner occupiers and non-institutional investors are still seeking opportunities, albeit at yields different to what would have been seen last year.”**

Figure 8  
Brisbane Near City Prime Yield  
core market yield



Source: Knight Frank

Purchasing activity within the Near City commercial market was stronger during the last quarter of 2007, similar to the Brisbane CBD. However there have only been two sales completed in the first quarter of this year and both were purchased by private investors. Sales over the past 12 months were dominated by unlisted investment funds with 52% of the transactions by value – however many of these purchasers are now no longer in the market. Total sales volume for the year is in line with previous results with a total realisation of \$417 million from 13 sales, largely supported by the late 2007 market activity.

Developer activity continued to be high during the past 12 months as the development industry consolidated their positions for the coming development cycle. Developers accounted for 24% of total transactions during the past 12 months. While several development sites are on the market at this time, evidence of 2008 values is as equally limited as investment sales. The most recently reported major site sale was the transfer of the current Norfolk House, 144 Montague Rd, South Brisbane which is expected to be demolished and a purpose built office building for Ausenco constructed in its place. The site sold at a rate of \$3,656/m<sup>2</sup> of land area.

Private investors accounted for 9% of the sales by value during the previous 12 months, but appear to be the most active of the purchaser categories at this time, as wider market instability has caused many of the major corporate entities to largely cease their purchasing activities. It is difficult to gauge how long the major investors will remain out of the market, or at what yield price point they will return.

The yield band continued to tighten during the second half of 2007 with the lower yield range remaining steady at 6.5% while the upper yield band firmed further to circa 7.25% as at December 2007. However in the first few months of the year this yield movement has been reversed as the market sentiment has softened. Greater focus on the existing income profile, irrespective of the timing and quantum of reversionary income, has begun to have an impact on market pricing. With few sales transacted during this calendar year the current yield environment remains difficult to measure.

The greater attention paid by the market to risk and the increasing underlying cost of capital would indicate that the lower yield band has softened by circa 25 basis points, while the upper yield range may have increased by 50 basis points; indicating an increase to the median prime yield of circa 37 basis points. The faster increase in the upper yield range is an indicator of a return to more normal market pricing conditions, where properties with different risk profiles are priced differently. Secondary properties, which were riding the market wave, will be now judged more harshly on their ability to maintain occupancy and rental levels and therefore core market yields are likely to have softened in excess of 50 basis points.

The largest recent sale has been the \$65.25 million transfer of a 50% share in the Kings Row Office Park on Coronation Drive, Milton. The Investa Property Group sold the property to the related unlisted Investa Commercial Property Fund (which already held the other 50% of the property). The sale was negotiated in late 2007 and reflected a blended core market yield across the three buildings of 6.77%.

As outlined above the two most recent Near City sales were made to private investors and were in the \$10 - \$12 million range. In general we expect that purchasing activity will remain quite strong in the sub-\$20 million category of the market as owner occupiers and non-institutional investors are still seeking opportunities, albeit at yields different to what would have been seen last year. Near City properties formerly offered to the market early in the year include 301 Vulture Street, 189 Coronation Drive, 501 Ann Street and 57 Coronation Drive. At this time only 310 vulture Street has proceeded to an unconditional contract.

## Transactions

### Major Sales Activity

Address	Precinct	Price (\$ mill.)	Core Mkt Yield (%)	NLA (sq m)	\$/m <sup>2</sup> NLA	Purchaser	Sale Date
310 Vulture St	IS	11.8	6.10% ^	3,466	3,405	Private Investor	Apr 08
52 Douglas St	M	12.9 est	n/a	2,350	5,489	Under contract	Jan 08
Kings Row Office Park	M	65.25 # (50%)	6.77%	20,815	6,269	ICPF	Dec 07
365 St Pauls Tce	UR	5.20	6.40%^	900	5,778	Private Investor	Nov 07
65 Park Rd	M	5.75	3.60%^	978	5,879	Private Investor	Nov 07
25 Montpelier Rd	UR	48.0*	6.70%	7,500	6,400	Opus Funds Mgt	Nov 07
6 Cordelia St	IS	4.20	5.70%^	1,172	3,584	Private Investor	Sept 07
15 Butterfield St	Herston	73.5 *	6.50%	11,000	6,682	Domaine Funds Mgt	Aug 07
1+2/5 Gardner Cl Rd	M	5.75	4.70%^	1,606	3,580	Northern Alliance	Aug 07
45 Commercial Rd	UR	30.4*	6.25%	4,288	7,090	Opus Funds Mgt	Jul 07
56 Edmonstone St	UR	61.0* est	VP	12,813	4,761	Virgin Blue	Jul 07

^ passing yield \* final estimated value of the pre-sale #related party transfer



Kings Row Office Park, Milton where a 50% interest in the property was sold for \$65.25 million in late 2007. This reflected a rate per square metre of \$6,269/m<sup>2</sup>.



45 Commercial Rd, Newstead completed construction in March 2008. The project was pre-sold by local developers to Opus Funds Management for an end value of \$30.4 million. The building contains one level of commercial/retail space and two upper office floors, one of which has been leased.

### Major Near City Site Sales

Address	Precinct	Price \$m	Site Area m <sup>2</sup>	\$/m <sup>2</sup> Site	Purchaser	Date
144 Montague Rd	IS	13.01	3,558	3,656	State Developments	Dec 07
Montague Rd & Boundary St	IS	35.0 est*	17,000	2,118	Multiplex	Oct 07
51 Alfred St	UR	5.16	1,888	2,733	Private Investor	Aug 07
11-17 Lytton Rd	IS	3.00	1,241	2,471	Private Investor	Sept 07
144 Montague Rd	IS	7.50	3,558	2,108	Private Investor	Jul 07
Longland & Wyandra Sts	UR	10.75	6,755	1,591	McNab Developments	Jun 07
26 Commercial Rd	UR	4.90	1,639	2,990	White Property Gp	Jun 07
757 Ann St	UR	5.55	1,219	4,553	Seymour Group	May 07
42 Alfred St	UR	2.20	746	2,949	Seymour Group	May 07

\* estimated price, long term settlement

### Major Recent Leases

Address	Precinct	Area m <sup>2</sup>	Est Rental	Term yrs	Tenant	Date
12 Cribb St*	M	2,977	\$500 g	5	Maunsells	Feb 09
555 Coronation Dr	M	2,000	\$510 g	7	Evans & Peck	Apr 08
501 Ann St	UR	2,670	\$540 g	5	Suncorp	Apr 08
8 Gardner Close	M	2,200	\$445 g	5	OAMPS Insurance Brokers	Apr 08
339 Coronation Dr	M	1,800	\$510 g	6	Origin	Apr 08
38 Warry St	UR	2,500	\$420 g	-	Hassell	Mar 08
315 Brunswick St	UR	3,796	\$415 g	2	Queensland Govt	Jan 08
612 Wickham St	UR	716	\$420 g	3	Leighton Contractors	Nov 07
163 Wharf St	SH	600	\$450 g	5	Lycopodium Engineering	Oct 07
324 Wickham St	UR	636	\$465 g	-	Daryl Jackson Architects	Jul 07
601 Coronation Dr	M	587	\$460 g	7	Bankwest	Jul 07
97 School St	SH	2,273	\$445 g	5	State Government	Jul 07

\*re-commitment to existing accommodation

Precinct Key: M = Milton; UR = Urban Renewal; SH = Spring Hill; IS = Inner South; T = Toowong



OAMPS Insurance Brokers have entered into a new lease over 2,200m<sup>2</sup> in 8 Gardner Close, Milton for a reported rental of \$445/m<sup>2</sup> gross.



## Outlook

- The Brisbane Near City market faces some challenges over the next three years as the market comes to terms with the supply additions. However in the longer term the additional prime supply and the resultant upgrading of the stock base as obsolete space is withdrawn from the market, will be beneficial for the market as a whole. The vacancy rate, presently at 2.0% in January 2008 is likely to have passed the lowest point of 1.3% in July 2007. However the vacancy level is expected to remain under 6% for the next 12 months.
- The supply surge is already well underway across the Near City markets with 43,200m<sup>2</sup> of stock already completed in the first few months of 2008. Overall the whole of the year is expected to deliver in the order of 117,750m<sup>2</sup>. A similar level of stock at circa 100,000m<sup>2</sup> is expected to be delivered in 2009. These supply levels are largely limited to the projects which are either already under construction or with an occupier pre-commitment.
- Rental rates for prime Near City accommodation increased by 17% during the 12 months to January 2008, however the expected growth for the following 12 months is expected to be significantly lower at just under 5%. Increasing levels of both prime, but more particularly secondary space has caused landlords to be more willing to negotiate softer rental levels in order to ensure occupation of their space prior to the peak of new additions entering the market.

Knight Frank Research provide strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, financial and corporate institutions. All recognise the need for the provision of expert independent advice customised to their specific needs.

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