

MARKET FUNDAMENTALS

	Q3 2024	12-Month Forecast
2.7% Vacancy Rate	—	▲
6.12% Average Prime Yield	—	▼
2.6% Prime QoQ Rental Growth	▲	▲

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, set to increase by 2.2% for the year before recovering to grow 3.3% in 2025 and 3.1% in 2026.

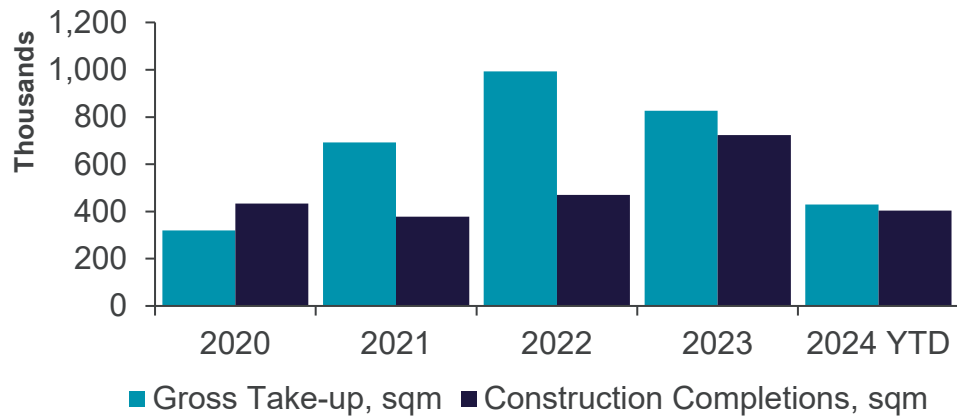
DEMAND

Elevated leasing demand was recorded in Brisbane in Q3 2024 at almost 185,000 sqm, the highest quarterly total so far this year. In combination with take-up in the first half of 2024, approximately 430,000 sqm has been leased, and while this is below the levels recorded over the past two years, it remains 11% above the long-term average for the same period. The modest slowdown in demand reflects broader economic headwinds, including weak discretionary spending, which has impacted the expansion plans of some occupiers.

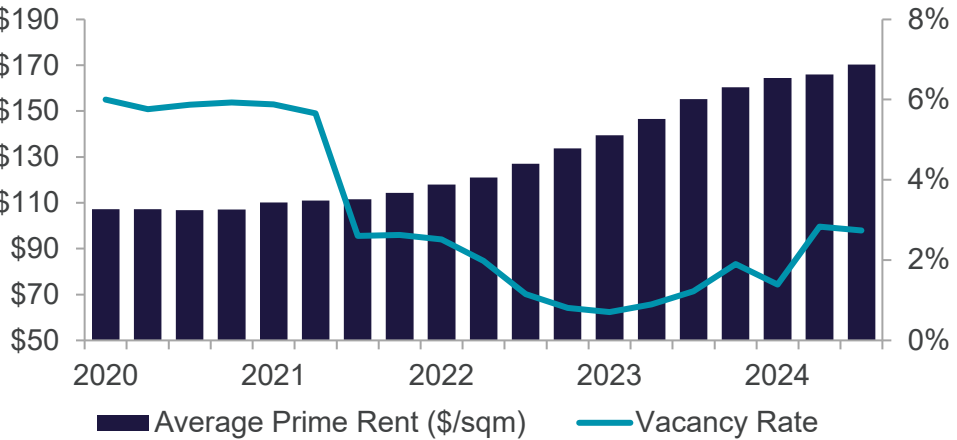
Demand continues to be heavily skewed towards the transport and logistics sector, with the sector accounting for over 50% of GLA leased this quarter, while enquiry out of the Sydney market remains a thematic.

The West and South submarkets were again the most active in Q3 2024, accounting for 70% of space leased, and reflects speculative development activity. Demand for space on the Trade Coast remains substantial; however, limited supply and backfill availability have placed a cap on take-up volumes.

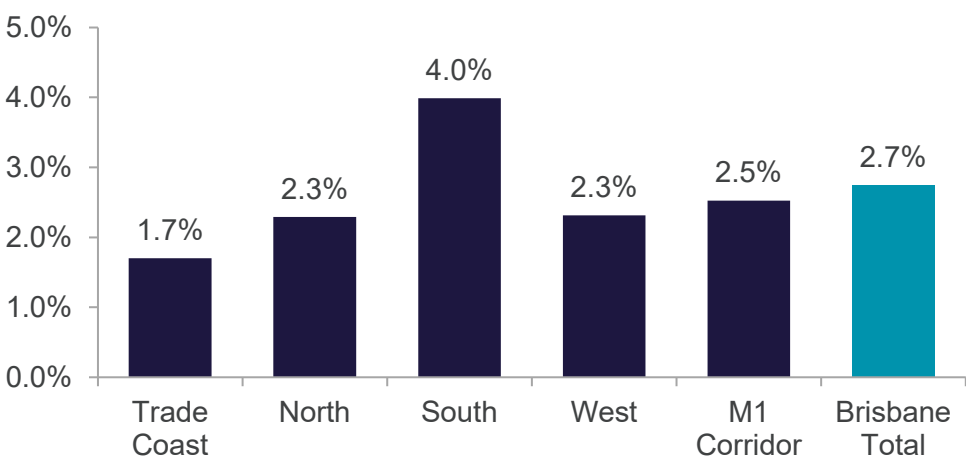
SPACE DEMAND / DELIVERIES



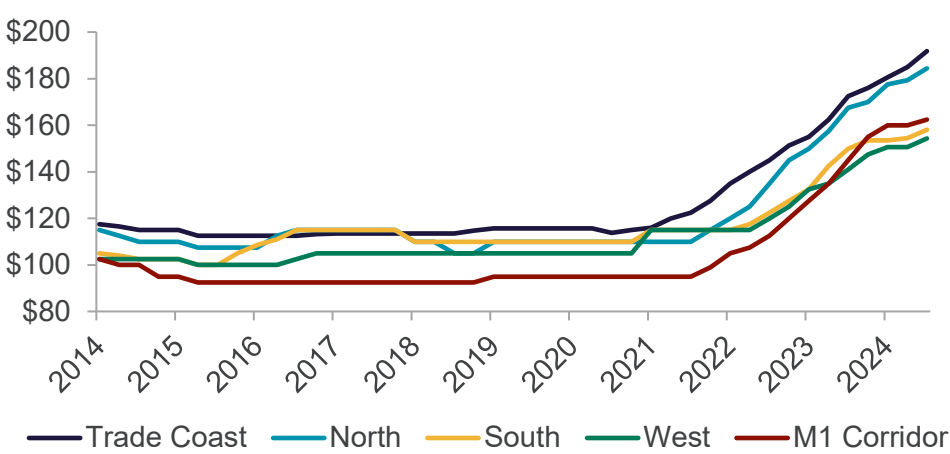
VACANCY & AVERAGE PRIME RENTS



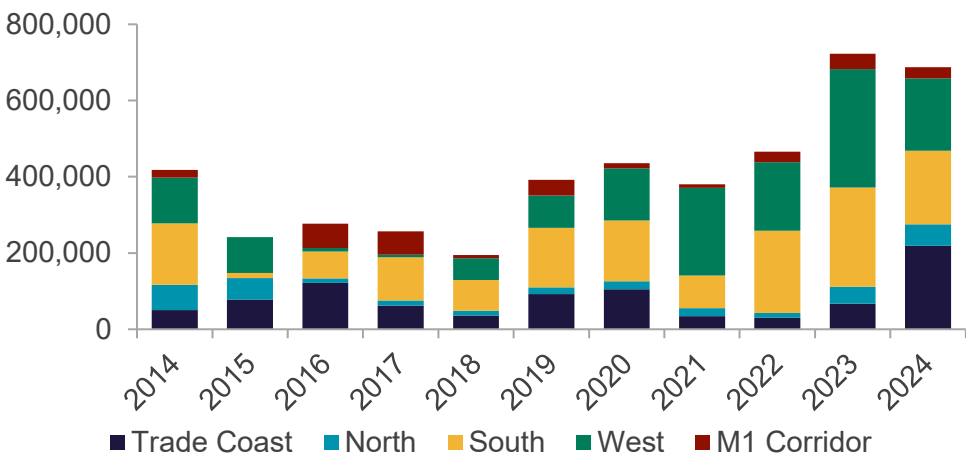
Q3 2024 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET (\$/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

The Brisbane L&I vacancy rate has remained broadly unchanged in Q3 2024 averaging 2.7% across the city, down from 2.8% in the prior quarter. Despite the leasing of multiple vacancies since Q2 2024, the South continues to record the highest vacancy, accounting for almost half of current availability, albeit it remains skewed by a handful of larger facilities including 82 Noosa Street, Heathwood (37,665 sqm) and Building 4 at ESR’s Acacia Ridge Business Park (25,868 sqm). The Trade Coast submarket remains the tightest at just 1.7% which is underpinning its rental outperformance.

RENTS & INCENTIVES

The pace of rental growth in the Brisbane market continues to exceed national benchmarks with prime rents growing by 2.6% in Q3 2024, taking average prime rents to \$170/sqm net face. So far in 2024, 6.1% prime rental growth has been recorded, and a number of precincts, including the Trade Coast, remain on track to see double-digit growth in 2024.

Reflecting tenant preferences for new space, rental growth in the secondary market was more subdued at 0.7% over the past quarter, taking rents to \$136/sqm.

Incentives remained unchanged this quarter and broadly range between 5.0% to 15.0%.

SUPPLY

Warehouse completions remained elevated this quarter in Brisbane with approximately 170,000 sqm being delivered, taking the year-to-date total to almost 488,500 sqm (across both speculative and pre-lease developments).

New additions over the quarter was broadly spread across the city and included Centennial’s The Link Industrial Park at Willawong (32,542 sqm) and Laminex’s new facility within the TradeCoast Central estate at Brisbane Airport (27,600 sqm).

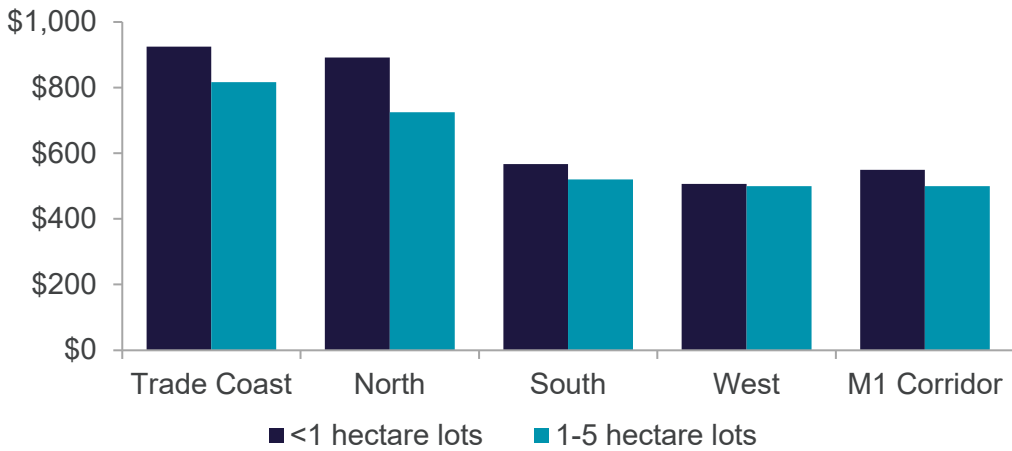
Looking ahead to the remainder of 2024, there is almost 300,000 sqm of space in the pipeline, 61% of which is already pre committed. However, some of these facilities could potentially be pushed into 2025 as weather impacts delivery timing. Projects due for completion in Q4 2024 include Charter Hall’s Trade Coast Logistics Hub (46,100 sqm leased to Qld Government) and Frucor Suntory’s facility at Swanbank (62,780 sqm).

As it stands, the supply pipeline for 2025 stands at approximately 730,000 sqm, 29%, with 29% of this space already pre-committed.

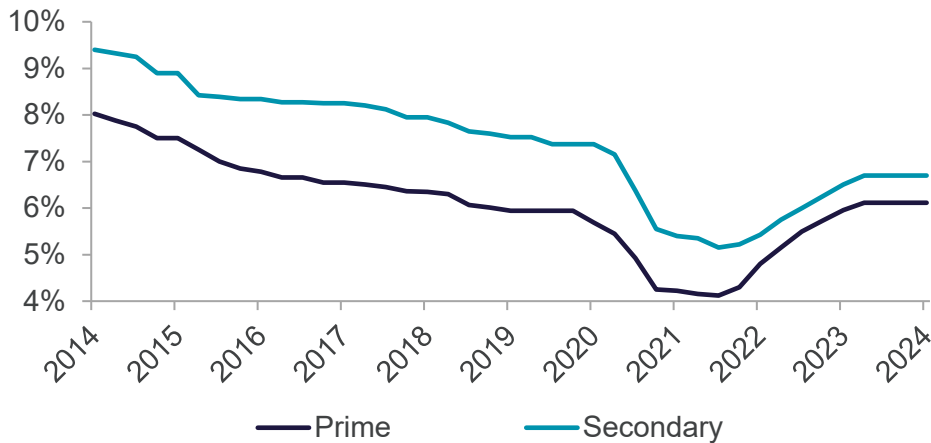
OUTLOOK

- While leasing demand has softened from the record highs of the past two years, it has reset at levels higher than pre-pandemic averages. Consumer headwinds given cost of living pressures has resulted on more modest levels of enquiry from the e-commerce and transport and logistics sectors; however, this is being partly offset by solid manufacturing and construction related demand.
- Vacancy rates are expected to range between 3.0% to 3.5% over the next six months, before a likely uptick in mid-2025 off the back of backfill options becoming available. Notably, this includes Mapletree’s 44 Stradbroke Street, Healthwood (55,773 sqm) which will become available in Q2 2025.
- Supply beyond 2024 remains challenged by elevated construction costs and developer capital constraints. As a result, it is likely that a substantial share will be delayed and pushed into 2026 and 2027, at which point developments will likely be aided by a yield compression cycle.

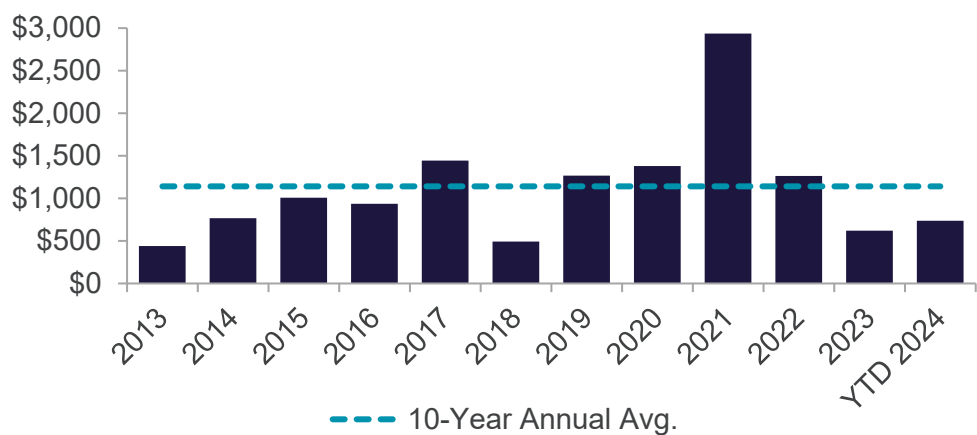
Q3 2024 LAND VALUES BY SIZE BRACKET (\$/SQM)



YIELDS BY GRADE



BRISBANE INVESTMENT VOLUMES (\$M)



LAND VALUES

Land values in Brisbane continue to remain stable coming into the second half of 2024, with 1-5 hectare lots averaging \$632/sqm.

The Trade Coast market continues to have a premium with land values in the market ranging from \$700 – \$930/sqm, albeit select precincts such as Eagle Farm are higher again at \$900 – \$1,200/sqm. Land values in the South and South West, where the bulk of the developable land exists, range between \$450 – \$650/sqm for 1-5 hectare lots depending on the precinct.

The appetite for land remains strong, more recently supported by increased owner-occupier demand. Institutional developers continue to target core precincts, given the continued forecast outperformance of rents.

YIELDS

Following approximately 200 basis points of yield expansion since early 2022, L&I yields in Brisbane have continued to hold firm in 2024, albeit book values have adjusted further.

Based on transactions in Q3 2024, the average initial yield was approximately 5.50%, while the core market yield was closer to 6.00%, which is broadly where our prime core market yield range sits (5.75% to 6.50%). The secondary yield range is higher at 6.25% to 7.00%

INVESTMENT

Transaction volumes in Brisbane have continued to improve in 2024 following a subdued 2023, with a further \$389.2 million trading in Q3 2024. This now takes the year-to-date 2024 total to almost \$750 million, already exceeding the \$620.1 million that traded for the 2023 calendar year. Further, there are a number of assets currently in due diligence which in combination with other assets in the market, could see 2024 volumes approach the 10-year annual average of \$1.1 billion.

The largest transaction was the sale of the Gold Coast Logistics Hub for \$200 million, reflecting a core market yield of ~5.50%. This asset was acquired by a private, highlighting the theme of private investors participating in price brackets historically dominated by institutional groups. Other assets to trade include 92 Sandstone Place, Parkinson (\$32.0 million), while Blackstone acquired 441 Nudgee Road, Hendra for \$50.08 million from Dexu.

OUTLOOK

- Solid owner-occupier demand and an improvement in development feasibilities from rising rents are forecast to support modest growth in land values in select precincts over the next 12 months. This will be led by land constrained infill markets.
- Over the short term, potential rate cuts and moderating bond yields highlight the value upside for capital markets. In our view, the L&I yield decompression cycle has ended and follows approximately 200 basis points of yield expansion in Brisbane since early 2022.
- Our base case is for the RBA to begin the rate easing cycle in H1 2025, which, in tandem with falling government bond yields (~3.50% 10-year yield by Q4 2025) and greater market participation, is forecast to drive yield compression from mid to late 2025.
- Improved investor sentiment is expected to result in a pick-up in investment activity in 2025, underpinned by favourable sector fundamentals and the ability to drive asset performance through continued income growth.

Q3 2024 BRISBANE MARKET STATISTICS

SUBMARKET	VACANCY RATE (TOTAL MARKET)	TAKE-UP (TOTAL MARKET SQM)	AVERAGE NET FACE RENT (\$/SQM P.A.)	AVERAGE OUTGOINGS (\$/SQM P.A.)	AVERAGE INCENTIVES	AVERAGE YIELDS	AVERAGE CAPITAL VALUES (\$/SQM P.A.)	AVERAGE LAND VALUES (1-5ha, \$/SQM P.A.)
PRIME								
Trade Coast	1.7%	25,617	\$192	\$43	7.8%	5.93%	\$3,238	\$825
North	2.3%	21,613	\$184	\$32	9.7%	6.15%	\$2,998	\$725
South	4.0%	93,161	\$158	\$35	10.7%	6.13%	\$2,580	\$558
West	2.3%	33,370	\$154	\$35	11.9%	6.13%	\$2,520	\$500
M1 Corridor	2.5%	10,298	\$163	\$30	10.0%	6.25%	\$2,600	\$550
PRIME AVERAGE	2.7%	184,059	\$170	\$35	10.0%	6.12%	\$2,787	\$632
SECONDARY								
Trade Coast	-	-	\$140	\$38	8.1%	6.50%	\$2,154	-
North	-	-	\$125	\$29	9.7%	6.75%	\$1,852	-
South	-	-	\$138	\$35	11.0%	6.75%	\$2,037	-
West	-	-	\$133	\$35	11.3%	6.75%	\$1,972	-
M1 Corridor	-	-	\$143	\$30	12.5%	6.75%	\$2,111	-
SECONDARY AVERAGE	-	-	\$136	\$33	10.5%	6.70%	\$2,025	-

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