The Race Is On...

The absorption of vacant space in the Brisbane CBD has continued from strength to strength over the past three years. While the ten-year average absorption has been in the order of 40,000 square metres per annum, the past three years has averaged nearly 63,000 square metres. This has aided the strong contraction in the vacancy rate to the current 7.4%.

Going forward the biggest question is where will the new supply come from? The race is on for a number of groups who are currently pushing to be the next development starter. However, any new project is dependent upon a wide range of hurdles, in our opinion the largest is that of securing tenant pre-commitments. Of the mooted projects identified, many are simply too large in the context of the current tenant requirements which are typically in the order of 5,000 to 15,000 square metres. While smaller development opportunities exist they are typically second choice CBD locations.

An overview of Brisbane CBD development projects is shown at top right.

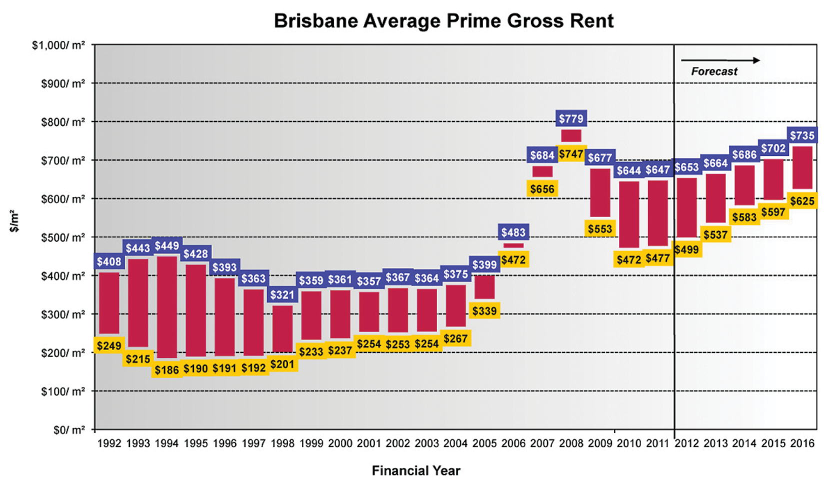
Despite the above highlighted development constraints, the market invariably finds a way of filling the void. Going forward our forecast over the five-year horizon is for a moderate supply pipeline in the context of an average absorption of approximately 45,000 square metres per annum. The delivery of existing new development will push vacancy back up towards 9% in 2012 before trending down to the vicinity of 7% over the next five years.

To date landlords have sought to hold face rentals firm however, effective rental levels have fallen off the back of increasing incentives. As market conditions improve landlords will initially seek to reduce those incentives back towards their longer term averages, face rental growth will follow thereafter. The graph at right illustrates the relationship between face and effective rentals in the prime rental market.

The race is on to deliver new development in the Brisbane CBD market. However, should the new supply be delayed, and/ or should the recent strong absorption continue, a supply squeeze may be on the horizon. Watch this space.

Project	Developer	Total	Timing	Committed	Tenants
New Construction					
123 Albert Street	DEXUS	38,000 m^2	Q3 2011	92%	Rio Tinto, Bentleys, Urbis
111 Eagle Street (One One One Eagle)	GPT	62,500 m^2	Q2 2012	49%(+)	Norton Rose, Gadens, Ernst Young, ANZ
145 Ann Street (King George Central)	Leighton	28,000 m^2	Q3 2012	75%	GHD, CUA
55 Elizabeth Street (Treasury Row)	Grocon	18,500 m^2	Q4 2013	100%	ATO
Total New Construction		147,000 m^2		59%	
Potential Future Projects					
Mary and Margaret Streets (Vision Site)	AMP/ Billbergia Group	35,000 m^2	2013+		
480 Queen Street (Trilogy)	Grocon	62,500 m^2	2013+		
161 Queen Street (Regent)	ISPT	53,000 m^2	2013+		
Turbot Street (Dental School)	Leightons	30,000 m^2	2013+		
174 Ann Street (Mincom 2)	Daisho	50,000 m^2	2013+		
159 Roma Centre (Transit Centre)	GPT/APPF	69,500 m^2	2013+		
40 Albert Street (Camelot Site)	Devine/Marquette	18,000 m^2	2013+		
111 Margaret	Devine/ Brookfield Multiplex	26,000 m^2	2013+		
Total Future Projects		343,500 m^2			

Source: PCA, m3property Research



Source: m3property Research

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