Cannon Hill Office Trust

Quarterly update: 31 December 2024

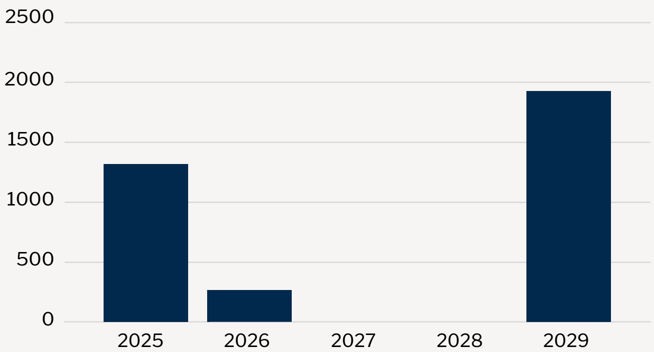
0.50% PA[1]

[1] December 2024 net distribution rate annualised. Variable rate. Past performance is not a reliable indicator of future performance.

Overview (as at 31 December 2024)

Weighted Average Lease Expiry (WALE):
3.33 years (based on NLA)

Lease Expiry by Net Lettable Area (NLA):



Lessee	% of NLA
Compass Group Aus Pty Ltd	55.00%
Orica Australia Pty Ltd	37.64%
Mindray Medical Pty Ltd	7.46%
Total leased	**100.00%**

Commentary

Fund update

The asset remains fully occupied and there are currently no arrears to report. The next tenant due for expiry is Orica (1,312sqm) on 31 December 2025. The tenant has not indicated either way if they would like to commence the use of their 3 year option. Management are working with external leasing agents looking for suitable replacement tenants, in the event Orica decide to vacate the space they occupy. A new fourteen-month finance facility with a major Australian bank has been negotiated and documented, as previously advised.

Market update

Queensland's population has increased 2.6% in the last 12 months to December 2023. This growth continues to be a driving force in the local economy and is starting to filter into a demand for office space. Net absorption figures have been recently elevated above historical long-term averages, predominately driven by new Government leasing and corporate expansions.[1]

Supply remains limited with 3 buildings expected to be completed by 2029. This subdued construction pipeline is a result of limited demand from years past and labour shortages and high construction costs.

A shifting tide in office demand and limited long term supply, have resulted in headline vacancy rates reducing to 11.4%. The lowest rating since Q1 2023 and a 7.4% reduction from the recent high experienced in Q1 2022.[1] Majority of net absorption has occurred in Brisbane's CBD and preferred fringe precincts, with landlords offering strong incentives to attract tenants back into centres. The tightening leasing market has resulted in positive growth in prime gross net rents. Secondary markets have followed with a 7.5% y-o-y growth in gross face rents. This market continues to be challenged by high levels of incentives, now averaging 42.2%. A drop of almost 175bps over the last 12 months, albeit still above historical averages and some way to fall before landlords will feel incentive pressures released.[1]

Short-term rental growth looks favourable given tightening vacancy rates however, too much supply too soon could put the handbrake on rental growth. Transactional volumes are likely to improve over the next 18 months with interest rates likely to be cut early-mid 2025. Brisbane and Sydney office sector is favourable as a buyers' market, with the sector forecast to have bottomed out and solid market tailwinds beginning to present themselves. Offshore capital is yet to re-enter the Brisbane market, with overseas buyers largely focused on the more established Sydney CBD market.[1]

1. CBRE Research Brisbane Office, Q3 2024.
2. JLL, Brisbane Office Market Dynamic Q3 2024.

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