Milton Office Trust

Quarterly update: 31 December 2024

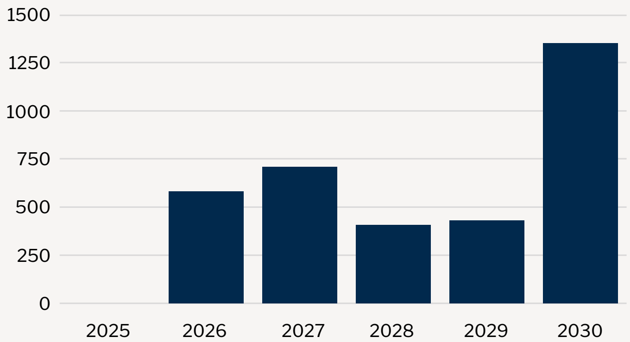
0.50% PA[1]

[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):
4.01 years (based on NLA)

Lease Expiry by Net Lettable Area (NLA):



Tenants - Net Lettable Area

Lessee	% of NLA
Homefront Australia Pty Ltd	19.66%
Ballantyne Moss Brown Pty Ltd	15.05%
Veris Australia Pty Ltd	15.05%
CMP Engineers Pty Ltd	11.36%
Blue Apache Pty Ltd	10.73%
PMC Property Buyers Pty Ltd	7.98%
Ridgemill Pty Ltd	6.72%
COHA Group Pty Ltd	3.65%
Total leased	**90.20%**
Vacant	9.80%
Total	**100.00%**

Commentary

Fund update

The management team is actively pursuing tenants for the remaining vacant space on the ground floor (10% of NLA). Whilst there has been some interest in the space, the leasing activity in Brisbane fringe market remains soft. This is a direct result from the challenging market conditions within Brisbane's fringe office sector combined with subdued economic conditions. Local SMEs are still adopting a conservative outlook when it comes to taking on new or additional office space. Ballantyne Moss Brown are continuing to work on their fourth-floor fit out, with plans positioning the office layout to take advantage of the views across the Brisbane River and the CBD. Management are also in discussions with the incumbent financier around an extension of the finance facility.

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 stubbornly 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.