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CATCHING THE WAVE:

WHY BRISBANE IS LEADING AUSTRALIA'S OFFICE MARKET RECOVERY

INTRODUCTION

2026 is shaping up as a pivotal window to deploy capital into Brisbane's office sector. Brisbane's economic momentum, improving office fundamentals, and unique supply-demand dynamics have converged to make it a standout opportunity for real estate investors. While Sydney and Melbourne grapple with elevated vacancies and softer rental growth, Brisbane offers an attractive combination of strong rent growth, stabilising vacancies, and higher yields, all underpinned by robust macroeconomic tailwinds. Crucially, Brisbane's conditions favour "build-to-core" developments and value-add repositioning strategies – allowing investors to create core assets or revitalise older stock at a cycle inflection point. The upcoming Brisbane 2032 Olympics and ongoing infrastructure boom add further long-term catalysts to demand. This paper details why Brisbane's office market warrants attention now (contrasting it with Sydney and Melbourne where appropriate) and outlines an investor-focused action plan to capitalise on this critical window.

BRISBANE'S TAILWINDS

Brisbane's economic and demographic fundamentals provide a solid foundation for rising office demand. Queensland is currently leading Australia in growth, with Brisbane at the epicentre. In the four years to 2024, Brisbane's economy expanded by 16% (adding roughly $28 billion) and total employment surged by ***274,000 jobs.***

Population growth is the fastest of any Australian capital – Brisbane has attracted more relocators than any other city since 2018. This influx of skilled residents (over 1.5 million employed in 2024) is supercharging the city's talent base across industries from technology to healthcare, in turn driving office space needs as companies expand locally.

Policy settings and the cost of doing business further support Brisbane's appeal. The city boasts stable governance and a pro-business environment, with Brisbane City Council approving development applications ***57% faster*** *than Sydney or Melbourne.Business costs are lower – office rents are around* ***50% cheaper*** *than Sydney's, and local taxes about* ***10% below*** *the national average.*

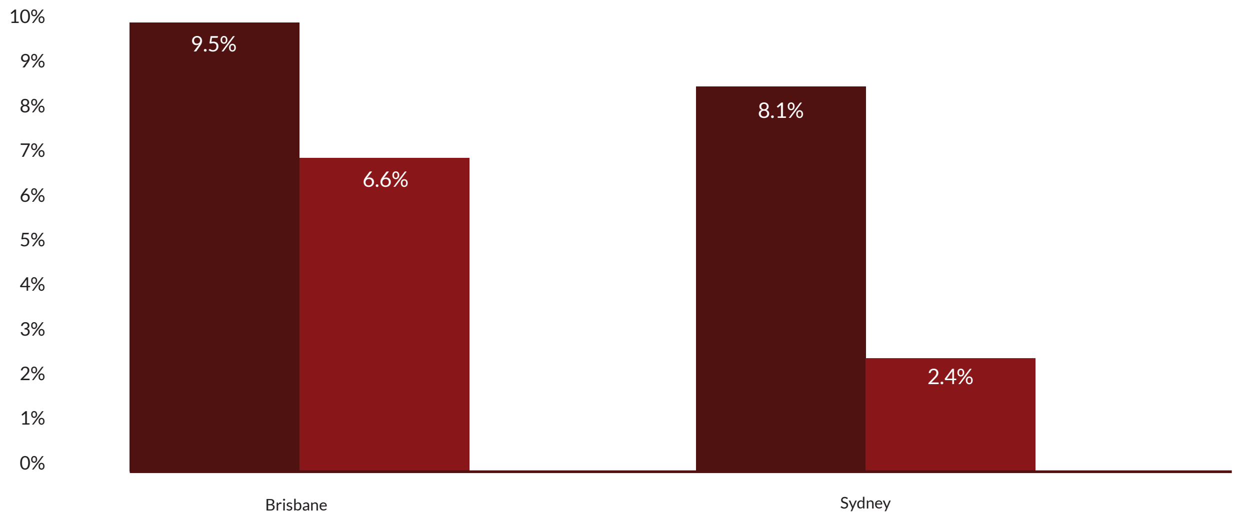
These advantages, combined with lifestyle factors (Brisbane is often touted for its attractive lifestyle), continue to draw both employers and employees to the city. Major infrastructure projects (e.g. Cross River Rail and the Brisbane Metro) and the 2032 Olympics are injecting billions into the region, bolstering employment and investor confidence.

On the interest rate front, Australia's monetary tightening cycle of 2022–2023 saw the RBA cash rate peak at multi-year highs 4.35%, before cutting rates in 2025 to 3.60%. Labour markets remain historically tight (unemployment ~4.4% by late-2025) even with a slight loosening. The outlook for rates remains steady as 2025 concludes, despite some upward pressure on inflation. This outlook is significant for office values: as interest rates remain lower and stable, cap rate compression and investment activity are likely to accelerate as investors hunt for yield. Brisbane's office yields, which softened in 2022–24, have stabilised, positioning the market to benefit from the next decline in financing costs.

OVERALL, BRISBANE'S MACRO STORY – STRONG POPULATION AND EMPLOYMENT GROWTH, PRO BUSINESS POLICIES, AND AN IMPROVING INTEREST RATE OUTLOOK – PROVIDES A FAVOURABLE BACKDROP FOR OFFICE INVESTMENT IN 2026.

OFFICE DEMAND DRIVERS AND OCCUPIER TRENDS

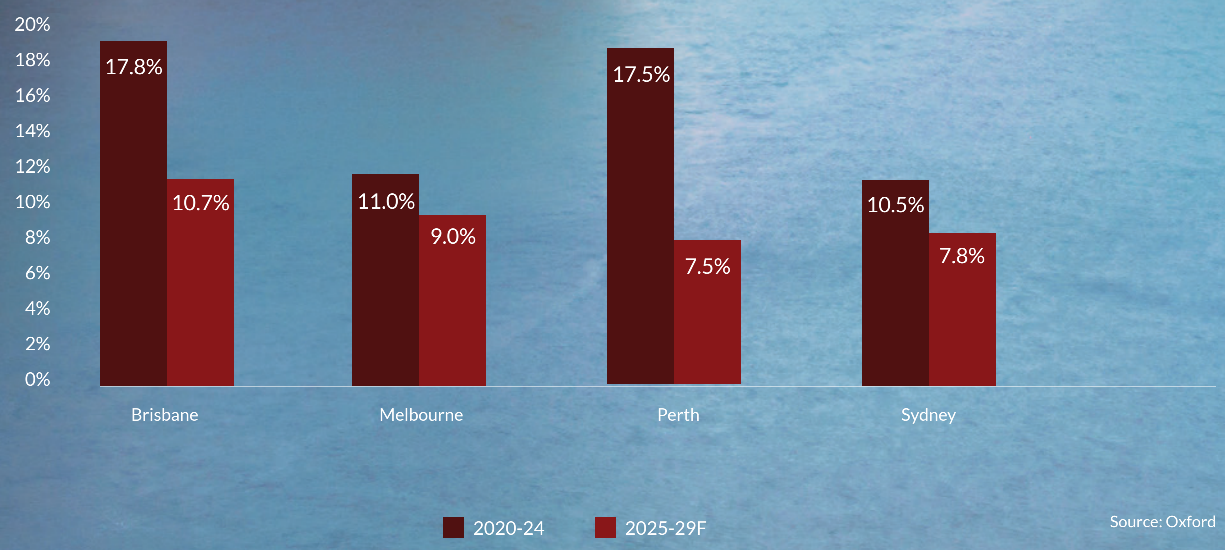
Brisbane vs Sydney Prime and Secondary Net Effective Rental Growth (% YOY)



Source: CBRE Research, RW Capital Research

Office demand in Brisbane is buoyed by rising office utilisation and evolving tenant priorities. In the wake of the pandemic, 2023–2024 saw concerted efforts to bring workers back to CBD offices. The Queensland Government led with innovative policies like a six-month period of 50-cent public transport fares in late 2024, which drove an 18% surge in transit usage. Major employers have also implemented return-to-office mandates – companies such as NAB, Woolworths, and ANZ now require roughly three days in-office, contributing to a jump in workplace attendance from about 78% to 88% over the past year. These measures have re-energised Brisbane's CBD: foot traffic and office occupancy have materially improved, creating a more vibrant environment that in turn attracts further tenancy demand.

OFFICE WORKFORCE GROWTH - % CHANGE - PAST 5 YEARS, FORECAST 5 YEARS



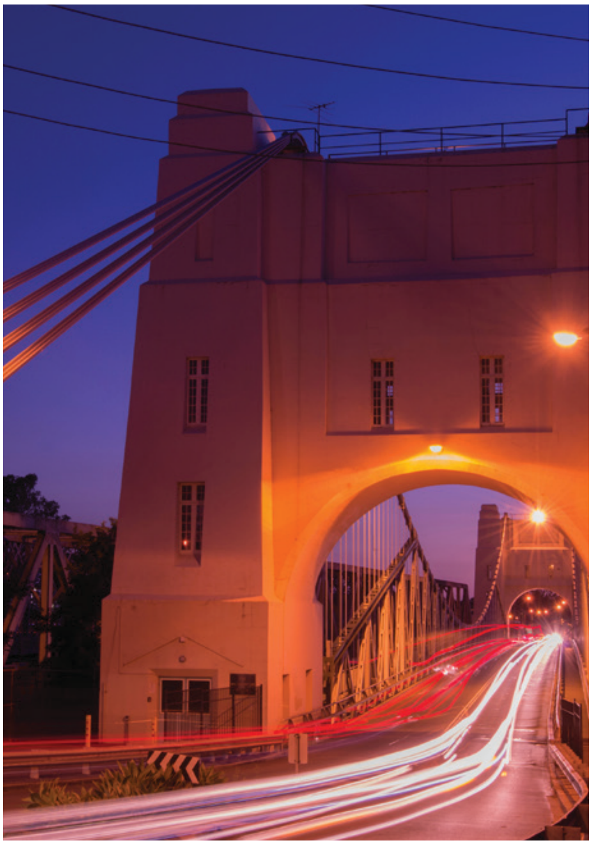
GENERATIONAL SHIFTS ARE SUBTLY INFLUENCING HOW OFFICE SPACE IS USED AND VALUED. YOUNGER WORKERS (MILLENNIALS AND GEN Z), WHILE COMFORTABLE WITH HYBRID WORK, INCREASINGLY APPRECIATE IN-PERSON COLLABORATION AND MENTORSHIP OPPORTUNITIES. THEY TEND TO GRAVITATE TOWARDS WORKPLACES THAT OFFER ENGAGING EXPERIENCES, SOCIAL SPACES, AND AMENITY-RICH ENVIRONMENTS.

Landlords report that modern, flexible offices with wellness facilities and collaborative areas are key tools for employers to attract and retain talent. At the same time, cost-consciousness remains – younger and smaller businesses often seek value, which has led some to consider fringe locations or secondary buildings if the quality/price trade-off is compelling. However, Brisbane's post-COVID office demand has largely been a direct flight-to-quality (as discussed below). Generational preferences are still pushing landlords to upgrade older stock with new amenities and ESG features in order to compete for tenants.

Above all, tenant preferences centre on quality, flexibility, and wellness. The "flight to quality" – tenants favouring modern, premium offices – is a dominant theme nationwide, but especially pronounced in Brisbane. In H1 2025, **65%** of all CBD leasing in Australia was for Premium or A-grade space. In Brisbane's CBD the impact is clear: Premium-grade vacancy plunged from 7.3% to just **3.8%** in the first half of 2025, the lowest premium vacancy in over four years. Top-tier buildings in core locations (near transport, dining, and entertainment) with high sustainability ratings (5–6 Star NABERS) and abundant amenities are enjoying robust demand and lease up quickly whenever space becomes available. This has left a shortage of contiguous prime space – Colliers notes that the availability of Premium offices in preferred locations is diminishing, effectively masking tightening conditions in that segment. For tenants intent on prime space, early engagement is now essential given the competition for the best buildings.

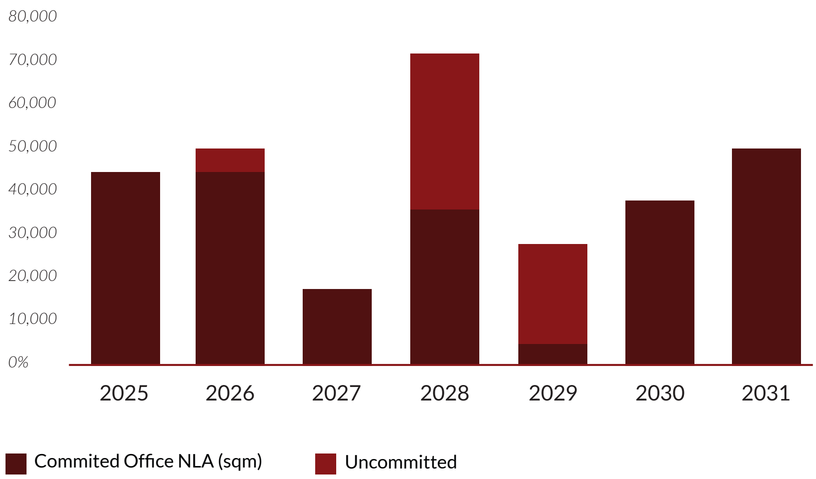
Conversely, mid-tier and secondary offices face a more challenging demand environment – but also an opportunity. Brisbane's A- and B-grade vacancies have risen (A-grade vacancy at 9.6%, B-grade roughly 14.9% as of mid-2025) as some tenants upgrade to new builds, leaving behind backfill space in older stock. Landlords of these secondary assets are responding with aggressive incentive packages, speculative fit-outs, and capital upgrades to entice tenants. In Brisbane, **incentives on B-grade leases average 35% to nearly 40%** (still elevated, giving tenants significant leverage). Many secondary owners are adding end-of-trip facilities, improving lobbies, or funding fit-outs to align with tenant expectations around wellness and sustainability. The result is a two-tier market: tenants that prioritise top quality will pay premium rents in scarce prime space, while those more focused on cost can find good deals in refurbished secondary stock. Notably, sublease availability has shrunk to ~0.9% of stock – the lowest in years – as tenants either withdraw sublease offerings or reoccupy space, reversing the pandemic-era glut of sublease space. This signals renewed confidence and stability in occupiers' space needs.

In summary, Brisbane's demand drivers are trending positively: more people are back in the office, and companies are actively seeking high-quality workspaces to support collaboration, culture, and sustainability goals. While flight-to-quality elevates prime assets, it also opens opportunities to reposition older offices to meet evolving preferences.
The stage is set for investors to cater to these demand drivers – either by supplying new premium space (build-to-core) or |by upgrading well-located older buildings (value-add) to capture tenants who desire a quality environment at a relative discount.



SUPPLY CONSTRAINTS AND PIPELINE OUTLOOK

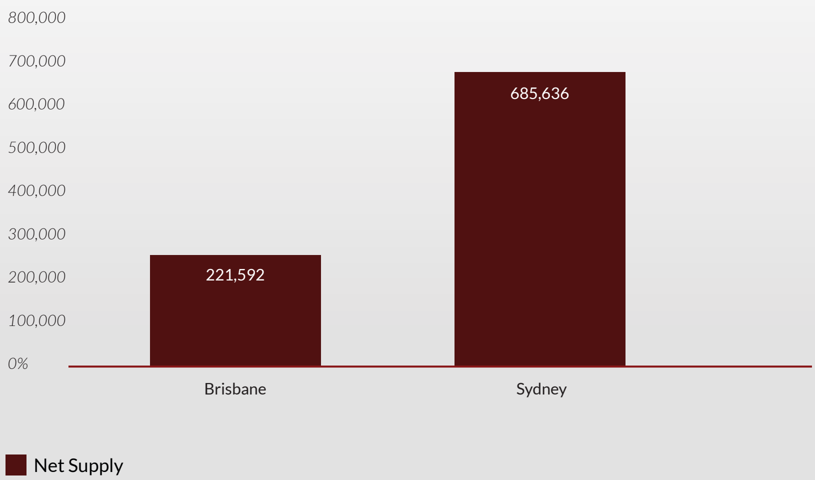
BRISBANE CBD OFFICE SUPPLY PIPELINE -2025-2031



Source: CBRE, PCA, Knight Frank, RW Capital Research

Brisbane's office supply dynamics in 2025 are characterized by a scarcity of new developments and significant friction in bringing new projects to market. This is a central part of the investment thesis: a constrained supply pipeline means well-timed investments now could benefit from future space shortages.

GROSS SUPPLY OUTLOOK 2025-2030



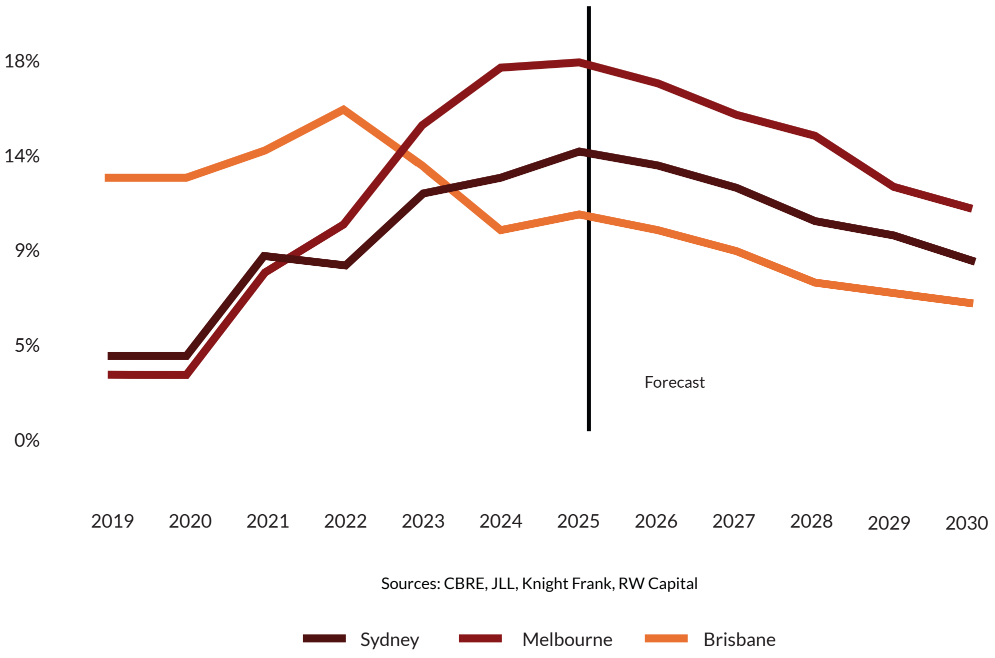
Source: CBRE, PCA, Knight Frank, RW Capital Research

Currently, Brisbane's CBD has only a few major projects delivering in the near term. In late 2025, two significant Premium-grade towers will complete: 205 North Quay (43,700 sqm, fully pre-leased to a federal government agency) and 360 Queen Street (45,000 sqm, ~75% pre-committed to blue-chip tenants). These projects, due in Q4 2025, will add high-quality stock to the market – but crucially, they are largely spoken for. The high pre-commitment levels indicate strong tenant demand for new space and will soften the impact of these completions on vacancy rates. Beyond 2025, the development pipeline thins out dramatically. The only CBD office project firmly on the schedule is Dexus's Waterfront Brisbane (North Tower ~72,000 sqm) slated for 2028, and even that tower is only ~50% pre-committed as of mid-2025. Several other mooted projects – such as QIC's proposed 101 Albert Street (45,000 sqm), Charter Hall's 60 Queen Street (~25,000–35,000 sqm office), and a second Waterfront tower – remain uncommitted and will not hit the market before 2028 at the earliest. In fact, over 2027–2029 the completions are expected to average under 20,000 sqm per year, well below historic averages. This means that after the 2025 wave, Brisbane faces a dearth of new supply for at least three years. As one industry report noted, upcoming office supply is "low relative to long-term averages, providing scope for vacancy rates to fall and rents to grow" in Brisbane.

Compounding the limited pipeline are spiralling construction costs and labour shortages, which act as a brake on new development starts. Brisbane is now the most expensive city in Australia to build in, with average prime office construction cost around A$5,009 per sqm – edging above Sydney and Melbourne. Construction costs have been climbing at an alarming rate: +5.2% in 2024 and another ~5% projected for 2025, on the way to a cumulative 30%+ increase by 2029. Key drivers include surging construction demand ahead of the Olympics, wage inflation amid an estimated 41,000 shortfall of skilled workers in Queensland, and global materials cost pressures. Industry reports warn that productivity issues (e.g. union-driven work stoppages) are effectively reducing active building days, potentially raising effective costs by another ~25% by 2030. These conditions make new office towers "harder and slower to deliver". Developers must either secure tenants willing to pay top rents or accept lower profit margins to justify new projects. As a result, several sites have stalled in the planning phase despite having development approvals in hand. For instance, Charter Hall's 60 Queen Street project (envisioned as a 35-storey, ~$800 million office tower) had backing for a 2023 launch, yet by mid-2025 it still hasn't commenced – likely due to cost and risk considerations. The current climate effectively deters speculative development – a double-edged sword that benefits existing assets (due to less future competition) but underscores the need for higher achievable rents to underwrite any new construction.

VACANCY AND ABSORPTION: BRISBANE VS SYDNEY AND MELBOURNE

EAST COAST OFFICE TOTAL VACANCY FORECAST



Sources: CBRE, JLL, Knight Frank, RW Capital

Brisbane's CBD vacancy trajectory continues to diverge positively from Australia's two largest office markets. While Sydney and Melbourne are grappling with historically high vacancy and delayed absorption, Brisbane has already entered its recovery phase. Total vacancy in Brisbane's CBD was 10.7% as of mid-2025. Knight Frank reports prime-grade vacancy in Brisbane steady around 8%, despite 45,000 sqm of new supply in H1 2025 – the lowest prime vacancy rate among the major east coast CBDs. This compares with Melbourne's roughly 18% vacancy and Sydney's 13.8%, both of which remain elevated by sublease inflows and a slower rebound in physical occupancy. In other words, Brisbane currently has the tightest vacancy of the east coast CBD markets.

SEVERAL FACTORS UNDERPIN BRISBANE'S STRUCTURAL TIGHTNESS RELATIVE TO SYDNEY AND MELBOURNE:

Limited new supply: *With only 205 North Quay and 360 Queen Street completing before 2028, Brisbane's pipeline represents just ~12% of existing stock through 2031 — about half that of Sydney or Melbourne.*

Strong net absorption: *Brisbane recorded +27,473 sqm of net absorption in H1 2025 – the highest of any Australian CBD – driven by professional services growth and government consolidations. By contrast, Sydney's absorption was positive but modest (~10,000 sqm in H1 2025) and Melbourne barely broke even (+1,446 sqm) in the same period.*

Population and employment growth: *Queensland continues to lead the nation in population inflows (+1.9% y/y in 2024), underpinning long-term tenant expansion in Brisbane.*

Flight-to-quality within CBD: *Tenants in Brisbane are migrating into higher-grade buildings rather than exiting the CBD. This "upgrade" trend keeps net demand positive even amid broader economic uncertainty, whereas in southern cities some tenants have contracted or decentralized.*

An additional dynamic tightening Brisbane's market is the ongoing withdrawal of older stock from the office inventory. Several secondary-grade buildings are being removed for refurbishment or conversion to alternative uses. For example, 150 Charlotte Street and 41 George Street (lower-grade offices) are slated for conversion into student housing, permanently reducing office stock. Similarly, older assets like the former Law Courts site have been razed for new development (e.g. the new Supreme Court, not offices). Over 2022–2024, Brisbane added ~75,000 sqm of new or refurbished office space, but also saw older withdrawals nearly offsetting that addition. Even A-grade landlords are undertaking major refurbishments (a form of temporary withdrawal of stock). In 2025, Dexus's refurbishment of 70 Eagle Street (11,500 sqm) is completing, and PGIM's upgrade of 444 Queen Street (17,500 sqm) runs through 2026. While these projects will return better-quality space to the market, they illustrate that much of Brisbane's secondary stock is either being upgraded or removed, keeping net supply growth low despite gross additions.

Outlook: *By 2028, Brisbane's CBD vacancy is projected to fall to around 7.5%, which would be three to seven percentage points lower than the forecast ~10.4% in Sydney and ~14.5% in Melbourne. This narrowing (indeed, reversal) of the vacancy gap marks a stark change from pre-COVID years, when Brisbane often had the highest office vacancy in the nation. As effective rents rise and incentives compress, Brisbane is positioned to outperform in total returns between 2026 and 2030, aided by a relatively stable yield profile (prime yields around 7.25%, secondary ~8.5%). In short, Brisbane is entering a landlord-favourable phase of the cycle earlier than Sydney/Melbourne.*

COMPARATIVE MARKET FUNDAMENTALS: BRISBANE VS SYDNEY VS MELBOURNE

Metric (Mid-2025)	Sydney CBD	Melbourne CBD	Brisbane
Prime Gross Face Rent (p.a.)	*~$1,700/sqm*	*~$980/sqm*	*~$930/sqm*
Secondary Gross Rent (p.a.)	*~$1,040/sqm*	*~$825/sqm*	*~$800/sqm*
Average Lease Incentive	*~30% (down from 39%)*	*~45% (near record high)*	*~35% (stable/high)*
Prime Yield (Cap Rate)	*~5.75%*	*~6.5–7.0%*	~6.5–7.0% (median ~6.75%)
Secondary Yield	*~7.5%*	*~7.75%*	~8.0%
Total Vacancy Rate	*~14%*	*~17.9%*	*10.7%*
Net Absorption H1 2025	*~+10,000 sqm*	*~+1,000 sqm*	*+27,473 sqm*
2024–25 Supply Additions	*Moderate (2022–24 saw several completions; little new in 2025)*	*Significant (multiple new towers 2020–23)*	High in 2025 (2 big completions), Minimal 2026–27
Investor Sentiment	*Primary core target (global gateway)*	*Opportunistic focus (value play)*	*Rising interest (often ranked #2 after Sydney)*

Table 1: East Coast CBD office market comparison. Brisbane shows lower vacancy, higher recent absorption and yields, and stronger rent growth relative to Sydney and Melbourne.

Brisbane's outperformance is evident across these metrics. Its total vacancy of ~10.7% is well below Sydney (~14%) and Melbourne (~18%). In H1 2025 Brisbane saw +27,500 sqm of net absorption – far exceeding Sydney's ~10,000 sqm and Melbourne's marginal uptake. Effective rents are surging in Brisbane, whereas other markets are seeing only modest growth. Prime net effective rents in Brisbane's CBD have soared to roughly $448 per sqm, up 22.6% year-on-year, the fastest growth among major markets. By contrast, Sydney's prime effective rents (~$795) rose ~5.9% y/y and Melbourne's prime effective (~$399) crept up only ~2–3%. In secondary stock, Brisbane has also begun to see effective rent increases, whereas Sydney and Melbourne's secondary effective rents were flat or even negative over the past year (e.g. Sydney secondary effective rents fell ~5% y/y under the weight of high incentives).

Brisbane also offers a notable yield premium. Prime office yields in Brisbane are currently around the mid-6% range, roughly +100 basis points higher than prime Sydney yields (~5.5–6.0%). Melbourne's prime yields sit in between (~6.5–7.0%). This means investors in Brisbane can obtain a higher running yield for similar-quality assets, reflecting a pricing discount. Moreover, because Brisbane's yields rose further in the downturn, there is arguably more "headroom" for yield compression going forward. Sydney's prime yields rose from ~4.5% at the market peak to ~6.0% in 2025, whereas Brisbane's prime yields moved from the mid-5% range to ~7% (a comparable or slightly larger expansion). If the cycle turns and cap rates compress as financing costs ease, Brisbane could see a greater proportional value uplift than Sydney simply because its starting yields are higher. Importantly, these yields are at historically wide spreads to the risk-free rate – on the order of 250–300 bps currently, versus spreads of ~150 bps in the late 2010s. Indeed, Australian CBD prime yields have expanded about 200 bps from their pre-COVID troughs, and Q3 2025 marked the first sign of cap rate tightening (a national average 3 bps compression, led by Sydney's 12 bps firming). This suggests yields may have peaked in this cycle and a floor on values is forming. Investor sentiment toward Brisbane has also improved markedly – a few years ago, many global investors focused only on Sydney/Melbourne, but now Brisbane is squarely on the radar for both domestic and offshore buyers looking for yield and growth. In our view, Brisbane offers perhaps the best yield-adjusted growth potential among the major office markets – essentially a "Goldilocks" blend of strong local fundamentals with a pricing discount.

BRISBANE CBD LEASING MARKET: RECENT TRENDS AND TENANT PROFILES

Recent leasing evidence across Brisbane's core CBD precinct highlights a nuanced but strengthening occupier market, characterized by robust demand in prime (A-grade) assets, healthy renewal activity, and ongoing flight-to-quality into fitted space. Sixteen recorded lease transactions between Q2 and Q4 2025, spanning both A- and B-grade stock, reveal a clear bifurcation between premium riverfront towers and mid-tier secondary assets. Table 2 summarises key leasing metrics from this deal sample:

Leasing Metric (2025)	A-Grade	B-Grade	Overall Sample
Average Gross Face Rent	*$1,056/m²*	*$812/m²*	*$934/m²*
Average Incentive	*27.8%*	*32.5%*	*30.2%*
Average Lease Term	*4.8 years*	*4.1 years*	*4.5 years*
Typical Rent Review	*3.5–4.0% p.a.*	*3.75–4.0% p.a.*	–
Average Tenancy Size	*417 m²*	*305 m²*	363 m²

Table 2: Brisbane CBD leasing evidence (Q2–Q4 2025). A-grade space commands higher rents and slightly longer terms with lower incentives, whereas B-grade space competes via lower face rents but higher incentives. Source: Collated lease evidence.

KEY OBSERVATIONS:

- ***A-Grade: Renewals Dominate, Incentives Compressing*** *– High-profile A-grade buildings such as 10 Eagle Street and 12 Creek Street (Annex) have seen multiple major renewals (e.g. Accenture, Scottish Pacific) at gross face rents of $1,025–$1,150/m². These deals show that premium riverfront space continues to transact above the $1,000/m² threshold, with incentives stabilising below 30% on many deals. The willingness of tenants like Accenture (renewing ~954 m²) to stay in place – rather than relocate – signals low effective vacancy in Brisbane's top-tier assets and landlords holding stronger pricing power.*
- ***B-Grade: Spec Fit-outs Driving Uptake*** *– In contrast, B-grade leasing (e.g. deals at 241 Adelaide St, 200 Mary St, 110 Eagle St, 127 Creek St) has generally seen face rents in the ~$755–$900/m² range, but with incentives still elevated around 30–40%. Deal sizes in secondary stock tend to be small (many <200 m²), and a significant number of transactions involve landlords providing turnkey fitted suites to win tenants. This reinforces a broader theme: plug-and-play, move-in-ready offices are proving decisive in attracting tenants, particularly among professional services firms. For example, Brady Heywood (engineering) and Business Models Inc (consulting) each took spec-fitted spaces in B-grade buildings – validating the spec-fit strategy as a way to drive absorption in older assets.*
- ***Flight-to-Quality by Small Firms*** *– Despite cost differentials, several smaller firms are choosing to lease space in A-grade towers at rents >$900/m², confirming a continued flight-to-quality even for sub-500 m² tenants. For instance, companies like Search4, ThreatLocker, and Wolrah Holdings have taken <500 m² suites in A-grade buildings at premium rents. This trend is aided by tighter sublease availability and the prevalence of landlord-furnished "spec" suites – meaning even small occupiers can access prime space with minimal upfront fitout cost.*
- ***Effective Rent Recovery Underway*** *– With face rents rising and incentives gradually easing, net effective rents are starting to lift off cyclical lows. In recent deals, typical net effective rents equate to roughly $740–$800/m² for A-grade and $540–$600/m² for B-grade space. This implies effective rental growth on the order of 4–6% year-on-year, consistent with the broader uplift in leasing momentum observed since late 2024.*

TENANT PROFILE AND DEMAND DRIVERS:

The composition of recent leasing activity provides further insight into demand drivers:

- ***Sector mix:*** *Professional services (law, finance, engineering, consulting) dominate, accounting for ~70% of deals.*
- ***Renewals vs new moves:*** *Renewals represent about 55% of transactions, underscoring occupier stickiness and reduced churn in uncertain times.*
- ***Fitted space preference:*** *Tenants overwhelmingly favour offices with existing fit-outs – roughly 75% of deals were in pre-fitted or turnkey spaces – reflecting post-pandemic capex caution.*
- ***Lease terms:*** *Lease lengths are generally mid-range (3–5 years), in line with national norms as occupiers seek flexibility amid macro uncertainty.*

MARKET IMPLICATIONS:

- ***Tight Prime Vacancy:*** *The flight-to-quality has tightened Brisbane's prime segment to the point that A-grade incentives have been trimmed into the high-20% range, a clear sign of increasing landlord confidence. Landlords of top buildings are regaining leverage as premium space becomes scarce.*
- ***Spec Fit-outs Pay Off:*** *The success of speculative fit-out programs in B-grade buildings shows secondary landlords can compete by reducing friction for tenants. Turnkey, "plug-and-play" space is increasingly expected in the post-COVID market, and investors pursuing value-add strategies should budget for such offerings to accelerate leasing.*
- ***Effective Rents Rebounding:*** *The narrowing gap between A- and B-grade net effective rents – with B-grade effective rents now starting to rise toward A-grade levels – suggests an early-stage recovery where even lower-tier assets are beginning to lift off the bottom. This foreshadows broader market rent growth if demand continues and incentives gradually normalise downward.*
- ***Limited New Supply:*** *With no major new completions beyond 2025, Brisbane's leasing market should continue to tighten. Pent-up tenant demand is likely to steadily absorb remaining vacancies, especially as confidence improves. Landlords with quality upgrades or ready-to-occupy suites are positioned to outperform as market conditions shift in their favour.*

Outlook: *Forward indicators point to modest but sustained effective rental growth in Brisbane CBD over the next couple of years. Market forecasts envisage roughly 3–5% per annum growth in net effective rents, led by premium buildings along the Eagle Street waterfront and Queen Street corridor. Landlords offering turnkey fitouts and reasonable incentives are expected to capture outsized demand as the flight-to-quality momentum carries through 2026. In short, Brisbane's leasing market has turned the corner into recovery, in contrast to Sydney and Melbourne where tenant-favorable conditions persist.*

STRATEGIC INVESTMENT APPROACHES: VALUE-ADD, BUILD-TO-CORE, CORE-PLUS

VALUE-ADD REPOSITIONING

Value-add strategies involve acquiring underperforming or secondary assets at a discount and transforming them into higher-quality, core-plus properties. Brisbane's market in 2026 is highly conducive to this playbook. Many older B-grade CBD buildings can be bought ***below replacement cost,*** *and with targeted upgrades (sustainability, amenities, design) they can attract tenants who are priced out of Premium/A-grade space but still seek quality. With prime vacancies so tight and generous incentives on new builds effectively subsidising tenant upgrades, a well-executed repositioning can offer near-prime environments at lower effective rents.*

Crucially, entry yields on Brisbane secondary assets are very attractive. Currently, secondary/core-plus office properties in Brisbane trade at yields in the high-7% to low-9% range – levels not seen in years. These cap rates are historically high and price in significant downside (vacancy, capex needs, etc.), creating upside potential for investors who can remedy those issues. By comparison, prime assets trade around the mid-6% yields. This yield spread implies that if an investor upgrades a B-grade building into an A-grade equivalent (or significantly improves its occupancy and covenant profile), the ***exit yield*** *could compress substantially versus the entry yield. In other words, by turning a "distressed B" into a core-plus asset, one can capture both* ***NOI growth*** *and* ***cap rate tightening*** *at exit.*

Executing value-add projects in Brisbane now is particularly timely. With investor sentiment on the mend and few new buildings on the horizon, upgraded assets can lease up into a market with rising rents and falling incentives. There is also less competition from new supply for the next several years, giving repositioned assets a clear runway.

Local examples abound: Dexus's successful refurbishment of 70 Eagle Street (completed 2025) and PGIM's ongoing upgrade of 444 Queen Street (to complete 2026) show that institutional owners are willing to pour capital into older buildings to retain and attract tenants. Moreover, stock withdrawals for alternative uses (like the conversion of 150 Charlotte St to residential) mean fewer total competing offices going forward. All this provides a cushion for value-add investors – if you can deliver a modernised, ESG-compliant office product by 2026–27, there's a strong probability it will find demand in a supply-constrained Brisbane market.

Value-add investors should, however, be mindful of execution risks: renovation costs are high and rising, so careful scoping and contingency budgeting is key. Nonetheless, the current "counter-cyclical" entry window – where pricing has reset but fundamentals are improving – is ideal for well-capitalised players. As one strategy report noted, "pricing has reset, fundamentals are stabilising, and counter-cyclical conditions present a compelling entry point for institutional capital". By acquiring now and repositioning ahead of the full market recovery, investors can capture the rebound rather than pay for it.

BUILD-TO-CORE DEVELOPMENT

The build-to-core approach involves developing a new office building with the intention of holding it as a long-term core asset (a "trophy" institutional product). Brisbane's outlook – a future undersupply of prime space amid growing demand – makes a strong case for select ground-up projects, despite today's higher construction costs. With virtually no new CBD office completions expected from 2026 to 2027 and only one major project (Waterfront Brisbane North Tower) slated for 2028, any project commencing in 2025–26 could deliver into a significantly undersupplied market by 2028–2030. By that time, Brisbane's vacancy is projected to be at record lows (mid-single-digits) and the 2032 Olympics will be on the horizon, focusing global attention on the city.

A build-to-core strategy might involve securing a well-located site now (or partnering on one), then advancing plans to develop a Premium-grade, ESG-leading tower timed for completion around 2028-2030. The development would ideally be anchored by a substantial pre-commitment from a government or blue-chip tenant to de-risk the project – much as 205 North Quay was fully pre-leased to a federal agency ahead of its delivery. Achieving early pre-leases not only reduces leasing risk but can also unlock more favourable construction financing terms (potentially including green loans if the project meets sustainability criteria). With financing costs likely to ease alongside interest rates in the coming years, and given an expected post-2025 decline in construction volume and land values, starting a project in late 2025 or 2026 could allow developers to lock in build contracts as the market for builders becomes more competitive.

Brisbane's recent experience underscores the demand for new product: 205 North Quay and 360 Queen Street were largely pre-committed by completion, indicating tenants will commit to quality projects even before delivery. Looking forward, tenants with upcoming expiries in ageing stock may prefer to relocate to brand-new premises if any are available by the late 2020s. Currently, Waterfront Brisbane (North Tower) is the only significant project on the horizon, and even it has leasing risk (~50% uncommitted). A new build-to-core project that differentiates on sustainability (e.g. targeting 6 Star Green Star and 5 Star NABERS Energy), technology, and wellness amenities could capture a share of this pent-up demand.

From an investment perspective, build-to-core is higher risk during development but potentially high reward upon stabilisation. By delivering into a low-vacancy environment, a new development can secure premium rents and long-term leases with blue-chip covenants, effectively creating a trophy core asset. As market yields potentially compress during the recovery, the stabilised building could be worth significantly more than its cost – enabling the developer to capture both development profit and capital appreciation.

Of course, construction costs are a challenge, so rigorous feasibility and strong pre-leasing are critical. Still, with fewer competing projects, top contractors may become more available (and pricing more competitive) by 2026, helping to temper cost escalation. And by completion, rents are likely to have grown further, supporting the project's returns. In essence, this is a classic "build when others won't" strategy – building when development has stalled and delivering just as demand outweighs supply.

CORE-PLUS ACQUISITIONS

Core-plus investments target relatively high-quality assets that have minor value-add angles or leasing risk, offering a blend of stable income and upside. In Brisbane's context, core-plus opportunities include well-located A- or B+ grade offices with moderate vacancy or short WALE (lease expiry), or even near-CBD fringe assets, that can be acquired at a yield premium and improved over time. For investors seeking exposure to Brisbane's recovery without taking on full development projects, core-plus acquisitions can be attractive – they provide strong ongoing cash flow with room for improvement as the market tightens.

Current pricing makes core-plus acquisitions very appealing. Many Brisbane office transactions in 2025 have occurred at yields in the mid-to high-6% range, and even around 7–8% for assets with some vacancy. This is well above prime Sydney office yields (~5.5–6%), underscoring the significant yield premium available in Brisbane. Notably, some recent sales by distressed sellers were at 20–30% discounts to pre-2022 values, but this wave of forced selling is now easing as values stabilise. The window to acquire assets at bargain prices may therefore be closing.

By acquiring a core-plus asset now, an investor can lock in an outsized income yield while positioning for upside as fundamentals improve. As Brisbane's cycle progresses, these assets stand to benefit from both yield compression and income growth – for example, by leasing up vacant space or marking below-market rents to higher levels on renewal. The risk profile is lower than an opportunistic redevelopment (the asset is already income-producing and generally institutional quality), but higher than a fully leased core asset, since success relies on capturing leasing improvements and the market recovery. Given Brisbane's outlook – vacancy trending down and rents likely to rise through the late 2020s – that bet appears well-founded.

To illustrate recent evidence, Table 3 highlights two notable office investment deals in Brisbane and Melbourne:

Asset (Location)	Sale Date	Initial Yield	Remarks
Central Plaza 1 (Brisbane CBD, 50% stake)	*Oct 2025*	*~6.5%*	*Premium-grade 1980s tower (short WALE); 50% stake acquired by offshore investor with a value-add re-leasing strategy.*
357 Collins Street (Melbourne CBD)	*Mid-2024*	*~8.3%*	*Grade A office tower; sold ~14% below its 2015 purchase price, reflecting market repricing and high vacancy at sale.*

Table 3: Selected office investment sales in 2024–25. Brisbane assets offer significantly higher yields than Sydney peers, while Melbourne sales demonstrate the deep discounts and high yields seen at the market trough.

These examples underscore divergent conditions. The Brisbane transaction (Central Plaza 1) achieved a 6.5% cap rate for a half-stake in a prime location tower with leasing upside – highlighting Brisbane's relative value and the confidence of foreign capital in the recovery story. The Melbourne sale at an 8.3% yield shows how sharply values there had corrected; by comparison, a prime Sydney CBD asset at that time might trade around a 5.5–6% yield. Overall, Brisbane currently provides core-plus returns for near-core risk. This yield premium, combined with Brisbane's strong growth outlook, makes the city a prime candidate for core-plus investment.

HISTORICAL COMPARISONS AND CYCLE OUTLOOK

Brisbane's current recovery shares some similarities with past cycles, which offer insight into potential outcomes. In the late 1990s, after a prolonged development lull, national office vacancy plunged from 14% to 8% as demand recovered. Today's situation is comparable – developers are largely sidelined (Australian CBD supply growth from 2026–2030 is projected to average just ~0.5% per year, the lowest since the 1990s) and vacancy is expected to tighten markedly over the next five years. By riding this upswing early, investors can position for outsized gains similar to those seen by first-movers in past recovery periods.

Brisbane's experience after the Global Financial Crisis also illustrates how an "out-of-favour" market can become a leader. In the early 2010s Brisbane had one of the highest vacancy rates among capitals, yet by the end of that decade it had rebounded – only to face the pandemic shock. As 2026 commences, the tables have turned: Brisbane has lower vacancy and stronger momentum than Sydney or Melbourne, a complete reversal of the post-GFC era. This turnaround underlines the cyclical nature of real estate – and Brisbane is entering this cycle from a position of relative strength.

Finally, the interest rate backdrop is an important parallel. In prior recoveries, falling interest rates and improving sentiment led to significant cap rate compression and value uplift. We appear to be on the cusp of that pattern again – with inflation looking more manageable and rates significantly lower and stable, the financing climate should become more favourable, boosting investor demand. In short, 2026 represents a classic inflection point: the optimal time to invest is when conditions are just starting to improve but pricing still reflects the past downturn. Those who step into Brisbane's market now stand to capture the upswing before it becomes fully priced in by the broader market.

CONCLUSION: OUTLOOK AND INVESTMENT POSITIONING

Brisbane's office market in 2026 presents a rare alignment of cyclical and structural positives. The city offers high yields and strong growth prospects – an unusual combination that neither Sydney nor Melbourne can currently match. While the southern capitals are hampered by either low yields or high vacancies, Brisbane has already entered its upswing: vacancy is tightening, rents are rising, and new supply is scarce. Moreover, the Olympics-driven decade of infrastructure is underway – all signals of an expanding office demand base in the years to come.

FOR INVESTORS, THE STRATEGIC RECOMMENDATION IS A TWO-PRONGED OFFENSIVE IN BRISBANE'S OFFICE SECTOR: (1) DEVELOP OR ACQUIRE-TO-DEVELOP PRIME ASSETS TO HOLD AS NEXT-GENERATION CORE, AND (2) ACQUIRE AND REJUVENATE SELECT SECONDARY ASSETS TO CAPTURE CYCLICAL GAINS. IN PRACTICE, THIS MEANS BUILDING OR BUYING INTO PROJECTS NOW THAT CAN DELIVER MODERN, ESG-FRIENDLY OFFICE SPACE BY THE LATE 2020S, AND SIMULTANEOUSLY ACCUMULATING VALUE-ADD OPPORTUNITIES IN AGEING STOCK THAT CAN BE UPGRADED AND LEASED UP AHEAD OF THE RENTAL UPSWING.

By acting in 2026, investors can lock in Brisbane opportunities ahead of the pack. As one report noted, "upcoming office supply remains low… providing scope for vacancy rates to fall and rents to grow" – savvy investors will buy or build before those falling vacancies and rising rents are fully reflected in pricing. The expectation is that by 2027, with Olympics buzz building, institutional interest in Brisbane offices will be at an all-time high. That should provide a favourable exit environment for those who moved early. Being disciplined about exit timing – harvesting gains once the thesis plays out – will be key to maximising returns.

In conclusion, Brisbane offers a compelling investment thesis in 2026. It is the right market at the right time, combining high yields, improving fundamentals, and clear growth catalysts. Meanwhile, build-to-core and value-add are the right strategies to ride this wave of recovery. With a research-driven approach and active management, an investment in Brisbane offices today is positioned to deliver outsized returns and potentially become a flagship success story as the market's narrative transforms from recovery to growth.

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