COLLIERS RADAR

WEEKLY REAL ESTATE UPDATE

What we have learnt this week - 3rd April 2020

Anneke Thompson
National Director | Research
anneke.thompson@colliers.com

The National Cabinet agreed at their meeting on 3rd April 2020 to a mandatory code for commercial landlords and tenants in financial distress. The mandatory code will apply to tenants where they have a turnover of less than $50 million and are part of the JobKeepers program. The turnover reduction of the tenant needs to be reflected in the rental waiver of the landlord. This mandatory industry code of practice for commercial and retail tenancies is yet to be agreed upon, and is likely to be delivered next week.

Capital Markets

- There continues to be a lack of evidence of any movement in yields in all asset classes. This, however, is due to the early stage of the shutdown period we are in, and we continue to await the first transaction which completes through the shutdown
- Stock coming to is market is limited to that which is on a 'need to sell' basis
- The monetary screening threshold for all FIRB purchases has reduced to zero. This means that all proposed transactions by foreign buyers will be scrutinised. Australia, does, however, remain open for business to foreign purchasers.

Office

- Landlords and occupiers continue to work collaboratively to maintain occupancy throughout the shutdown period. Strategies we have seen used include:
  - 'blend and extend' i.e. reducing rent obligations over the next 6 months and blending over the remaining lease term
  - Bringing rent rebates that are spread over the lease term forward
  - Occupiers with lease expiries over the next 2 years considering a negotiation now to capture savings and incentives, while landlords get the security of tenure
- Discussions around reductions in outgoings are also common, as there are numerous cost reductions in cleaning, running costs, electricity and potentially relief in statutory charges
- Landlords are coming up with solutions to ascertain the financial hardship of their tenants, including surveys and financial disclosures, as there are varying levels of hardships at this point in the shutdown
- The 'job keeper' program will go some way to shoring up occupancy through the shutdown period. Cost considerations remain the number 1 focus for occupiers, with employee costs the largest cost on nearly all balance sheets
- We have seen co-working groups offering 3 months' rent free on memberships to entice companies back in to their facilities. In some facilties, occupancy is estimated to be around 10% at this stage, bearing in mind only workers deemed essential are permitted to be in workplaces across the country

Industrial

- We have noticed a large spike in enquiry across most major markets, particularly the Eastern seaboard states for short term overflow space and fulfillment centres (mostly from fast moving consumer goods retailers and their logistics providers). A recent example is a 3PL group leasing approximately 10,000 sqm on a short-term basis at 50 Eastern Creek Drive, Eastern Creek which will be used as overflow space for a confidential supermarket chain.
- We have seen government intervention and a relaxation of the regulations around 24-hour heavy vehicle movements and deliveries to assist moving product to consumers. Moving forward, this will likely change planning outcomes around the industrial sector particularly in more densely populated areas;
- Private investors have become increasingly active in the investment market; and
- Across the board, occupiers are starting negotiations with their landlords for rent free periods while others are seeking extensions to their existing lease term in return for incentives.

Retail Capital Markets

- Investment demand in Retail Capital Markets has stalled amid uncertainty around the length of current market disruption caused by COVID-19
- Demand for convenience based assets still remains strong as expected.
- The current attention of major owners is being turned to retailer support and an attempt to underwrite what the next few months look like (will it be longer / shorter?)
- Real Estate investors are looking at listed Retail Investment markets and seeing generational buying opportunities with Top tier Retail REITS trading at 20%-65% discounts to NTA, which represents a significant discount to where these assets would trade if offered to the direct market.
- Australian Retail REITS are seeing far greater levels of daily trading activity than Global peers reinforcing the this is very much "sentiment" driven at this point.
- Scentre Group and Vicinity have seen daily trading volumes of up to AUD$75 million and AUD$46 million respectively compared to just USD$12 million for Simon Property Group, HK$17 million for Link REIT and SGD$10 million for SPH REIT.
- Premium Retail REITS in Singapore and Hong Kong are currently trading at circa 20%-30% discounts to NTA.
- The Australian direct retail investment market is expected to continue in a "holding pattern" pending certainty around COVID-19 lockdown times.

Agribusiness

- Agribusiness is a vital part of the economy and classified as an essential service by the Australian Prime Minister. This has positioned the sector as an attractive market for private domestic high-net-worth investors seeking superior long-term earnings while other property sectors are under earning pressure due to stage 2 shutdowns and the 6 month FIRB timeline potentially precluding foreign buyers to acquire Australian assets without considerable delays.
- On Tuesday 31st of March, the Federal Government announced $170 million support package for the international export sector to deal with pandemic supply chain disruptions. About $110 million have been assigned to coordinate flights from Melbourne, Sydney, Brisbane and Perth to China, Japan, Hong Kong, Singapore and the United Arab Emirates. Return flights are expected to import medical supplies and equipment. Also, as part of the package $10 million has been allocated to waive Commonwealth fishery fees and almost $50 million will fund the export grants program to reimburse the marketing costs to exporters.
- Aquaculture and Sugar sectors have been the most impacted by the COVID-19 outbreak to date. The impact on Aquaculture is related to the halt in demand from restaurants and export activity to China and Asia broadly, so the recovery of this sector is dependent on the pandemic being contained. Sugar has been in a long-term declined for four years as a consequence of the healthy living trend.
- Some rural and remote indigenous communities have requested tighter border controls. Whilst these measures are not in place nationally only in the NT & WA presently at this stage, the implementation of these measures could have a negative impact on the broader labour force movement requirements for the agribusiness sector, albeit they may be needed to contain the virus spread to the farms. Most of the large scale Horticulture and Cattle stations have onsite living facilities to ensure they remain operational in case of the severe weather but are now useful to prevent the spread of the virus on property specific sites.
- The Horticulture sector is cautiously recruiting, being under pressure due to disruptions in the arrival of traditional offshore labour as a consequence of international border closures.
- The valuation and transactions teams are conducting convoy inspections inside their own 4WD's using UHF or mobile phone to communicate and adhering to social distancing laws.