

# WEEKLY REAL ESTATE UPDATE

What we have learnt this week - 29th May 2020

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In this week's edition of 'What We Have Learnt This Week', we have included insights from Our Experts. Each week, we will ask Experts from around the Colliers Australia business what they are experiencing in their markets, and what trends are worth highlighting. This week, we have insights from Office, Industrial and Retail sectors, covering the Valuations and Real Estate Management service lines. We hope you find these additional insights from our team of value, in addition to our regular Research updates.

As tenants are gearing up to re-enter CBD office accommodation Health, safety and tenant wellbeing will play an important part of CBD office amenity. Larger tenants which occupy the whole or part of a building are exploring how thermal detection technology can assess the temperature of an employee upon entering a building to help ensure a safe and healthy workforce. Furthermore, discussions between Landlords and Tenants are including health safety measures relating to common areas, in particular receptions and lifts areas where we are likely to see an increase in 'voice activated' or 'touchless' services.

There is a shift away from shared office spaces and hot desking as health safety is playing an important part in employee wellbeing.

There is increased discussion on how social distancing measures will impact the current and future office workplace environment. Anecdotal evidence is suggesting private enterprise may be looking to reduce floor space ratios as a cost saving method while the public sector, on the contrary may be looking to increase floor space ratios to ensure the health safety of their workforce.



**Tom Blanch**  
Government Property Services  
Valuations & Advisory, SA

The industrial asset class to date has weathered the initial COVID-19 storm with very few physical building shutdowns and while rent relief discussions have begun, very few have been finalised.

At the larger end of town, the major distribution centres and logistics groups have been more focussed on keeping buildings fully operational to meet their supply demands rather than ask for relief when they know they don't qualify. Most of these larger tenants fall outside of the Code of Conduct (which we still don't have in its final relevant form) and rent relief discussions are morphing into negotiations around using incentives earlier, deferred rent and lease extensions.

The SMEs are a bit more fluid and have required more in depth discussions on rent relief – the overwhelming trend is that tenants are unable to supply the necessary information to legitimately assess whether they would be eligible for rent relief under the Code of Conduct. Uncertainty around the Code means that this will not speed up until the formal framework is in place.

Sentiment from tenants and owners is that the coming months will show a more visible downturn for many of our tenants and coupled with the finalisation of the Code, we will be able to negotiate targeted relief for those that qualify.

On the positive side a lot of businesses are starting to look forward and planning for post COVID-19. A few of the tenants who are in a position to think longer term are starting to talk about lease extensions and renegotiations – it is worth assessing all opportunities to secure good tenants for longer WALE.



**Daniel Shafferman**  
Industrial  
Real Estate Management, QLD

Retailers across different categories are starting to reopen as restrictions ease and centres are seeing growing footfall, although we're currently sitting at around 20% below pre COVID-19 levels.

While the easing of restrictions varies across states, the trend nationally is that the majority of stores are reopening and those not trading are either affected by the Government restrictions or are larger food retailers who cannot justify opening for 10 customers. In NSW circa 80% of our retailers are open, occupancy rates are strong across the Woolworths portfolio at an average of 92% and back to mid March levels, Victoria is sitting at around 80% and Queensland is at 93%.

Rent relief requests are being worked through across the country with both landlords and retailers working in good faith. Whilst states like NSW and Victoria have legislation in place, both Queensland and WA do not, causing additional pressure for the landlords and tenants to come to agreement on relief.



**Steven Schneider**  
Retail  
Real Estate Management, NSW

## Economic & Regulatory Updates

- Stage 2 lifting of restrictions to come into force over the next week, with cafes, restaurants, pubs, gyms and cinemas able to trade. Each state has differing start dates, however, most are lifting restrictions in early June.
- The JobKeeper program underwent a significant revision and is now expected to cover 3.5 million workers and cost \$70 billion, rather than the estimated 6 million workers and \$130 billion cost.
- The government released details of the JobMaker program which has a strong focus on vocational training, industrial relations reform, infrastructure spend and tax reform.
- The Value of Construction work done fell by 1.0% (seasonally adjusted) quarter on quarter and is the weakest since September 2010. Residential construction was the biggest drag, falling 1.6% on last quarter.
- to 25 basis points compared to just 22% in May.
- » Given supply chain disruptions, 31% of occupiers surveyed said they are now requiring more storage space as a result of COVID-19 and 31% of occupiers also said they are now storing more stock locally.
- » 13% of occupiers said they are now exploring automation provisions within their warehouse while 6% said they are exploring relocation options as a result of COVID-19.
- The South Australian Government have agreed to provide up to \$10,000 in grant funding for South Australian exporters as part of a new e-commerce Accelerator Program (eCAP). The program will allow eligible small to medium exporters to apply for the grant to diversify their business model to include an online platform to generate more revenue and create new jobs.

## Office

- Vicinity have announced plans for a 42,000 sqm office tower, and 366 apartment building as part of their mixed-use development at Box Hill.
- Mirvac and Cbus have been shortlisted for the Treasury Square mixed-use development which is currently controlled by Vic Track with final offers due in July.
- Major banks such as NAB and Westpac are gradually allowing their staff to return to the office, however, 'hot desking', is not permitted. Instead, staff will be required to book a workstation via an app.

## Industrial

- Last week, we launched our second Industrial Investor and Occupier Sentiment Survey. Key insights include:
  - » Industrial and logistics investors are now more certain on when they plan to buy - 64% of investors believe they will buy their next asset within 6 months compared to 43% last month and the number of investors who said they don't know when they will next buy fell from almost half in April to 25% in May.
  - » Investors are now more bullish with regards to capital growth and the outlook for cap rates within the sector - almost 60% believe that cap rates will only soften by up

## Retail

- Myer have reopened all their stores this week.
- Many states are starting to ease restrictions with NSW announcing that pubs, clubs, cafes and restaurants can cater for up to 50 patrons from the beginning of June.
- Online shopping penetration has accelerated, with Australia Post seeing penetration increasing close to rates in the UK and US.
- Beer wine and spirits sales have seeing the worst month in history with beer sales down 44% small wine producers down up to 70% and distillers seeing declines of up to 80%
- New sneakers are all the rage with young Aussies flush with cash leading the charge on discretionary spending according to the Accent group.
- ANZ and CAB card transaction data has showing a recovery with ANZ reporting a 2.3% increase on last year with CBA showing a 4% increase.
- City Chic have begun to reopen stores across Australia with a staged return. They have recorded a 57% increase in online sales which already accounted for two-thirds of their sales.
- GPT are reporting that 75% of their retailers are open and expect this to increase to 85% by the end of May, with foot

traffic increasing to 75% of pre pandemic levels. Vicinity are also reporting an increase in foot traffic in their centres.

- Consumer weekly confidence has improved off record low levels, however is showing signs of levelling out.
- Stockland have launched a delivery on demand service which is a personal shopping service to assist consumers who are still nervous about restrictions.
- David Jones have announced that UBS has been appointed to review their property portfolio to free up capital for repositioning their Australian brands.

## Agribusiness

- Despite the unprecedented supply chain disruptions caused by the COVID-19 pandemic, export data released by the Meat & Livestock Australia reveals that exports (measured in shipped tonnes) of beef and veal reduced only by 1.3% over the first four months of the year compared to the same period in 2019. Beef and veal exports in some countries like Japan, China, Canada and Singapore (measured in shipped tonnes) even reported an increase of at least 5% between January and April this year compared to the same period in 2019.
- Outbreaks of the pandemic at slaughterhouses continue to occur across the world due to combination of crowded working conditions and factories that have remained open during the crisis. France, Germany and Netherlands are some of the countries which have recently reported clusters at slaughterhouses.
- Cattle prices continue to trend upwards due to an increase in demand from processors in recent weeks aiming to support demand from end users in the United States experiencing reduced processing capacity.

