COMMERCIAL REAL ESTATE ENQUIRIES DURING THE PANDEMIC - SEPTEMBER UPDATE

WWW.ADEPT.COM.AU // WWW.SURGACENTRAL.COM

BACKGROUND

This is an analysis of commercial real estate enquiries in Australia covering the eight-month period between the beginning of February and the end of September 2020. It provides insights into how the pandemic has affected enquiry levels, and the varying impact of COVID-19 on enquiries between the two largest States – Victoria and New South Wales.

The findings are drawn from a sample of tens of thousands of enquiries submitted to Australia's leading commercial portal - Real Commercial. The sample covers all states and territories in Australia and includes all capital cities. Enquiries were captured using the Surga Central PropTech platform. Surga Central provides commercial agencies with the means to automatically capture enquiries from leading commercial portals, including Real Commercial in Australia and Rightmove Commercial in the UK.

THE PANDEMIC IN AUSTRALIA

Australia's first case of COVID-19 was officially recorded on 25th January, but case numbers remained low in February as the virus seeded in the major Australian cities. Rapid case escalation occurred in March and led to a series of major government interventions to slow community spread. In the second half of March, International borders were closed, and a national lockdown imposed. Several States and Territories also closed their borders to domestic travellers thereby further insulating their populations from the threat of viral spread.

The success of these measures was quickly seen as case numbers declined rapidly throughout April and were maintained at low levels during May and most of June. However, in July, an outbreak of COVID-19 in Melbourne gained momentum throughout the metropolitan area and proved difficult to suppress. In early August, the authorities in Victoria announced a strict lockdown, initially for a six- week period. This second wave, largely concentrated in Melbourne, took longer to suppress and daily cases did not fall into the teens or below until the final two weeks of September.

During the three-month period between July and September, the major battle against COVID-19 in Australia has occurred in Victoria and New South Wales, with the remaining States and Territories isolating themselves behind closed borders. New South Wales, which closed its border with Victoria in early July, managed to maintain low levels of spread thanks to highly efficient test and trace strategies, and avoided the need for a strict lockdown.

The pattern of COVID-19 cases in Australia is shown in Figure 1 and reveals a classic two-wave pattern, with the second wave peaking higher than the first. The second wave also has a higher standard deviation, indicating that the outbreak has taken longer to suppress.

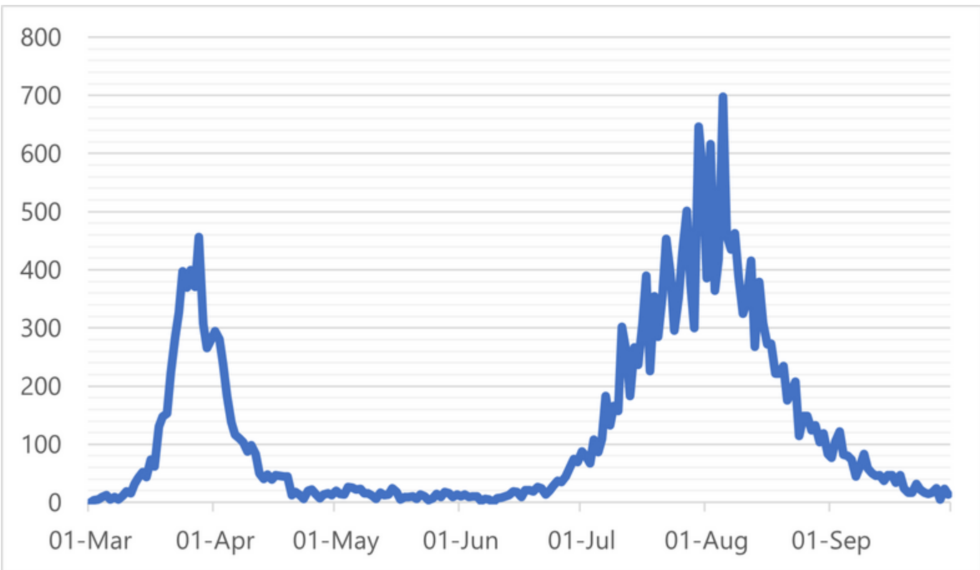


Figure 1: Covid19 Cases in Australia (sourced from covid19data.com.au)

INSIGHT 1:

SECOND WAVE NATIONAL IMPACT HAS BEEN MORE SUBDUED

As shown in Figure 2 below, the first wave of COVID-19 cases led to a substantial drop in commercial enquiries in March and April throughout Australia. A rapid recovery ensued, resulting in a strong June performance, where enquiry volumes exceeded pre-pandemic levels.

As the Victorian outbreak escalated, national volumes dipped in July and fell further in August, before staging a recovery in September and ending around 7% below their pre-pandemic levels. As compared with the first wave, the impact of the second wave has been more subdued, with the monthly trough being down around 14% as compared with 40% in the first wave. However, the impact of the restrictions in Victoria has led to another significant fall in that State.

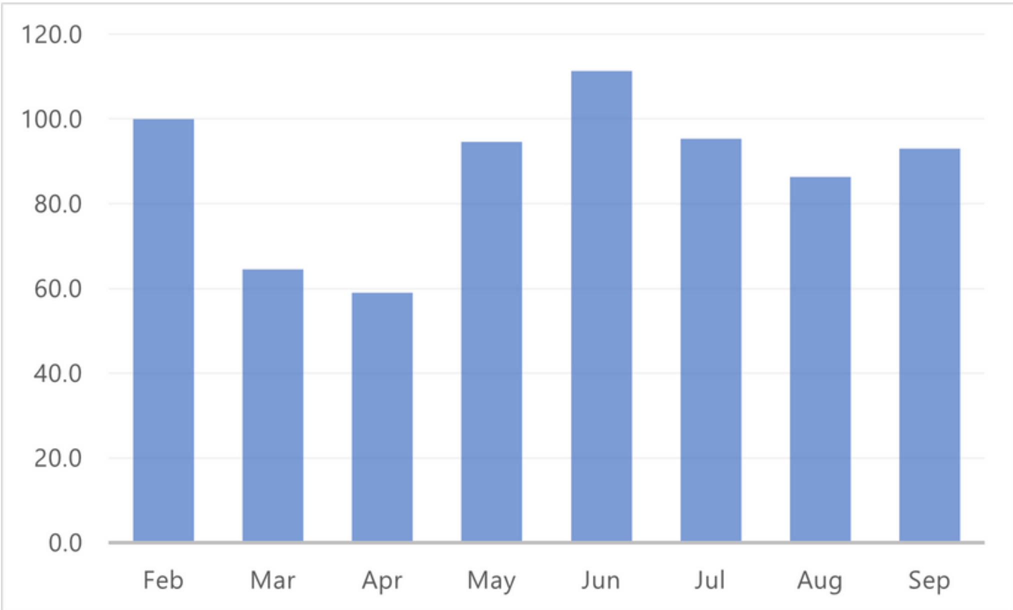
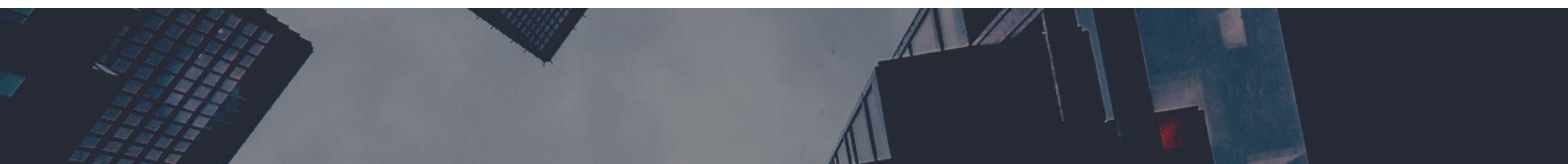


Figure 2: Enquiries by Month - February to September (Feb 2020=100)



Weekly enquiry volumes also clearly show the more subdued national reaction to the second wave, which has been largely confined to Victoria. A sharp V-shaped recovery occurred as the first wave subsided, growing to a peak in June.

As the Melbourne case load increased, enquiry volumes fell, reaching a trough that coincides with the introduction of the Melbourne lockdown in the first week of August. Suppression of the outbreak appears to have led to a boost of confidence in the second half of September.

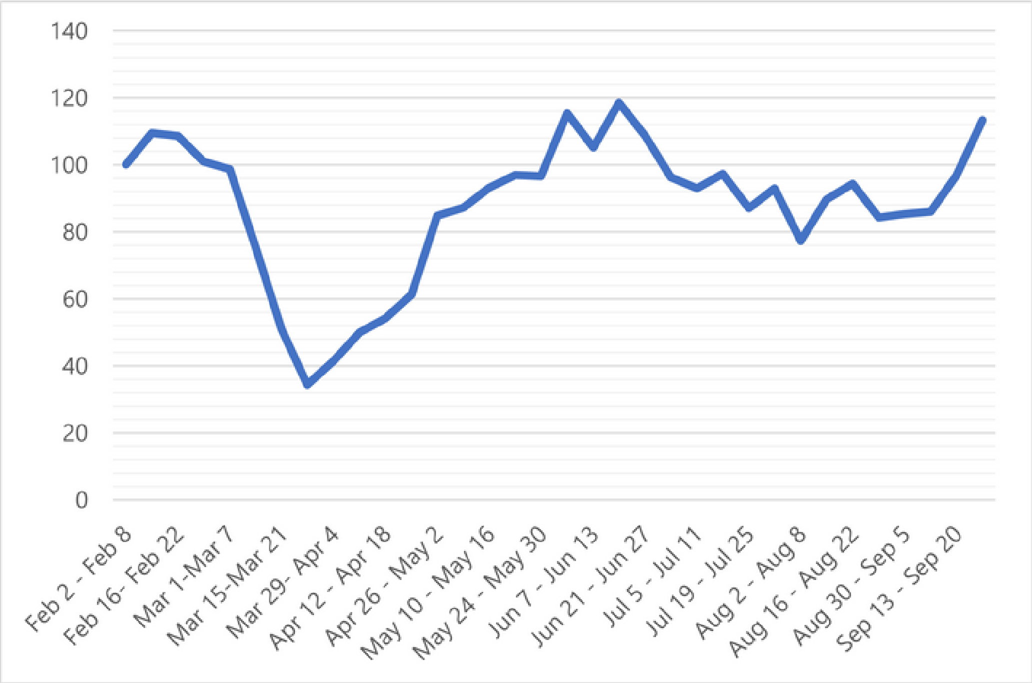
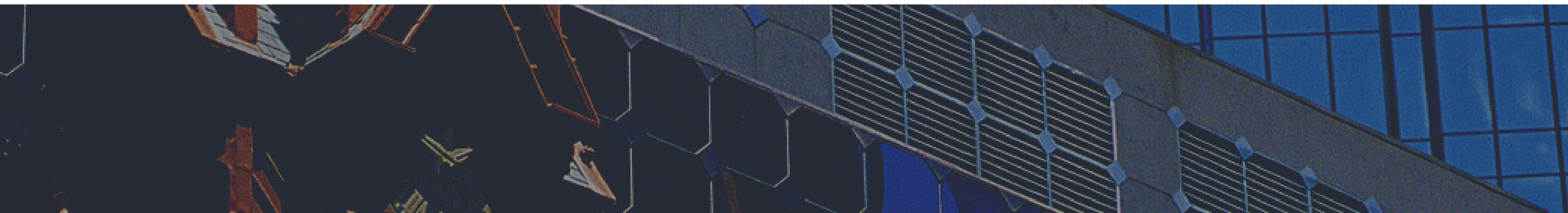


Figure 3: Enquiries by Week - February to September (Feb 2020=100)



INSIGHT 2:
VIC ENQUIRIES HAVE BEEN HIT HARD IN THE SECOND WAVE

COVID-19 in Australia has turned out to be largely a tale of two States – Victoria and New South Wales. Victoria's far more difficult experience with COVID-19 has led to a dramatic disparity in enquiry volumes between the two leading markets for commercial property in Australia. This can be seen in Figure 4 below.

During the first wave, both States experienced a sharp drop in enquiry volumes in March, but it was more pronounced in Victoria. Whereas volumes in Victoria fell further during April, they stabilised in New South Wales, before both staged a remarkable recovery in May and June as the threat of the virus receded. June was an exceptional month in New South Wales, with enquiries ending at close to 40% above pre-pandemic levels.

In July, the outbreak in Victoria led to an 18% fall in that State, and the threat of a wider outbreak also spilled over into New South Wales where volumes dropped by around 15%. Thereafter, the disparity between the two States has further accentuated. In August, Victorian volumes fell again to around 66% of their pre-pandemic level, while those in New South Wales began to recover. Victorian volumes stabilised in September and finished at 70% of pre-pandemic levels. Meanwhile, those in New South Wales grew again and ended September within of a whisper of being 40% above pre-pandemic levels.

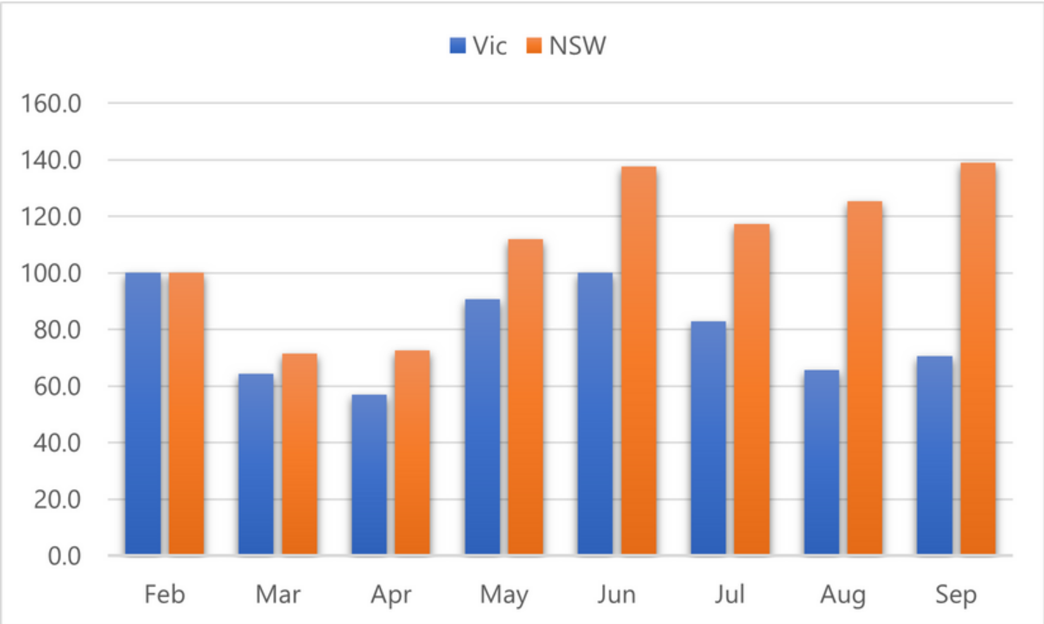


Figure 4: Enquiries in Victoria vs NSW (Feb 2020=100)

INSIGHT 3:
THE REST OF AUSTRALIA HAS RECOVERED

Outside of Victoria and New South Wales, in States and Territories where COVID-19 cases have been few and far between, the level of enquiries have been stable over the last quarter.

Queensland and Western Australia continue to have their borders closed to both Victoria and New South Wales and we suspect this is inhibiting closure of commercial deals due to decision makers being unable to travel for inspections.

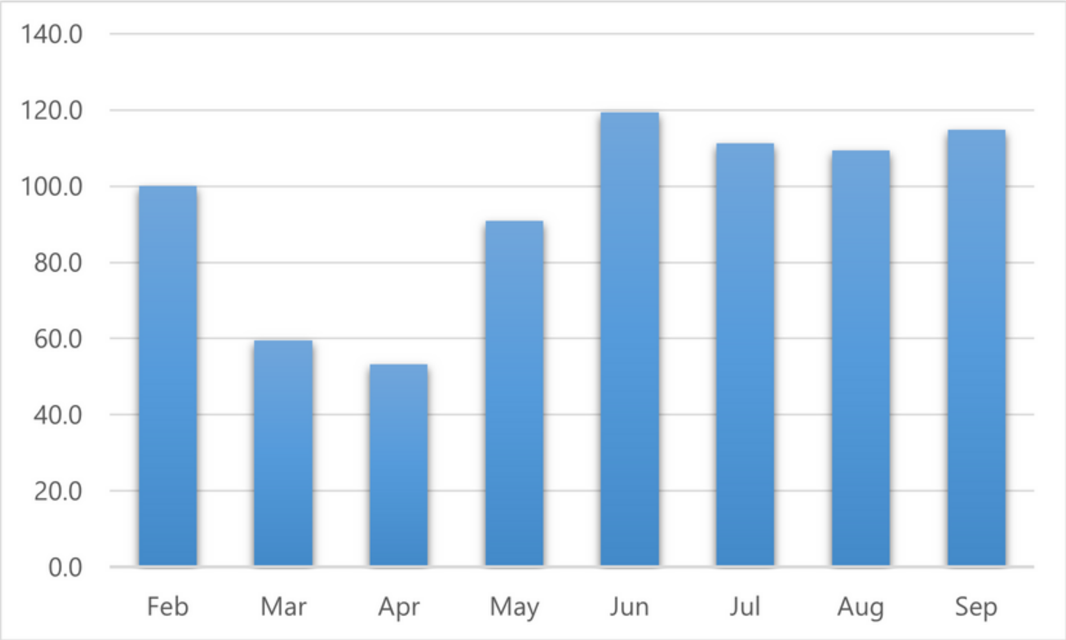


Figure 5: Enquiries outside Victoria and NSW
(Feb 2020=100)

INSIGHT 4:
VIC SALE ENQUIRIES ARE LAGGING LEASE ENQUIRIES

In Figure 6, we show the comparison between lease and sale enquiries in Victoria. During the first wave, lease enquiries fell more heavily than sale enquiries, but this is not so coming out of the second wave.

Sale enquiries in Victoria were relatively stable between May and July, but have fallen in each subsequent month. During September they stood at only 54% of the pre-pandemic level. In contrast, lease enquiries staged a recovery in September and finished the month at around 77% of their pre-pandemic level. This may indicate growing confidence among tenants that the outbreak is coming under control, whereas investors may be taking a more cautious approach or awaiting a realignment of prices.

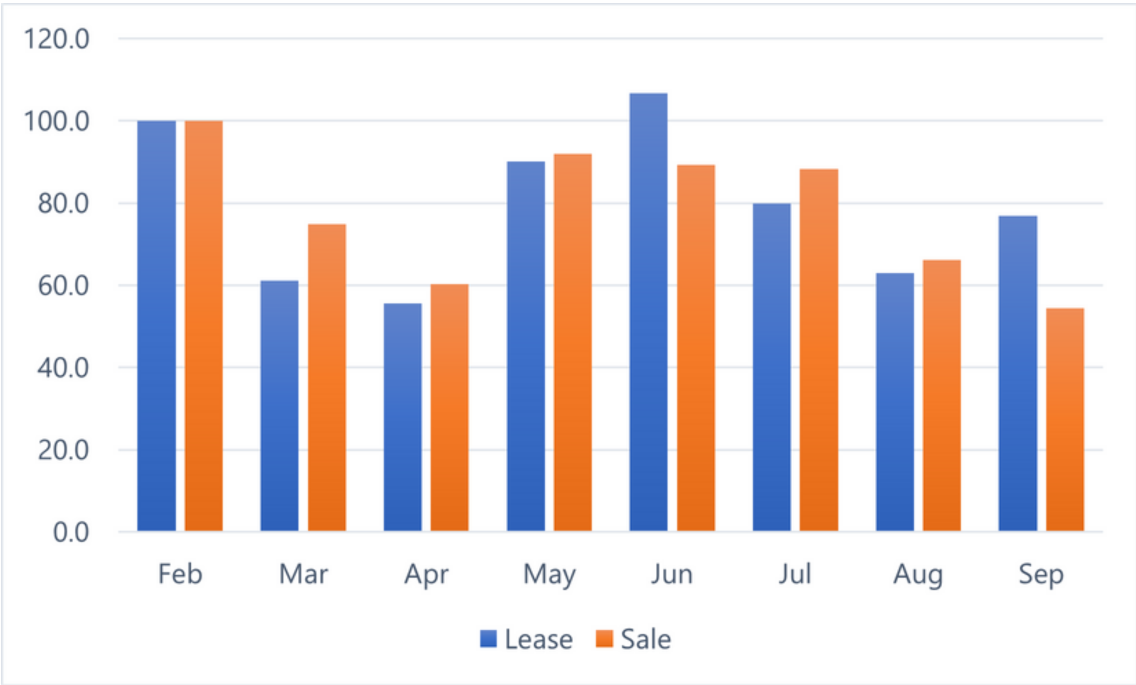


Figure 6: Lease vs Sale Enquiries Victoria (Feb 2020=100)

FINAL THOUGHTS

This analysis again underlines the clear relationship between commercial property enquiries and COVID-19 cases.

Based on the experience of the first wave, we expect enquiry volumes to improve sharply in Victoria during the fourth quarter as restrictions ease. Investors awaiting a realignment of prices may also be disappointed if the experience of other States is repeated. This suggests that there is strong underlying demand for commercial property, particularly in an era of low interest rates.

In New South Wales, significant infrastructure projects, such as construction of the second airport at Badgerys Creek, are stimulating demand for industrial assets that are poised to benefit when these projects come on-stream. Success in virtual elimination of the virus in New South Wales is also likely to encourage more office workers to return to work instead of working from home.