

Economic Recovery Series



The Road to Economic Recovery

As we hopefully pass the peak of the COVID-19 outbreak in Australia, focus is turning to the road back for the economy. How will we repair the damage to our economy? What sectors will recover most quickly? What role will the property industry play?

The API's recent Economic Recovery Series explored these topics and more over three webinars. Host Elysse Morgan of the ABC moderated panels comprising a range of experts as they explored current data trends, long-term effects, major projects in the pipeline, and innovative strategies being used to respond to the pandemic.



Episode 01

Episode 1 of our Economic Recovery Series focused on the future for retail and office markets, two sectors that have been among the hardest hit as a result of the COVID-19 pandemic.

Our speakers shared their thoughts on the challenges and opportunities for these markets:

The Current Landscape

[Vanessa Hoey, Manager, Retail at Herron Todd White](#) acknowledged that retail spending growth is likely to be subdued for an extended period.

While there was a slight rebound in retail trade in June 2020 (in comparison with May 2020), weak consumer sentiment remained due to uncertainty around the longer term impacts of COVID-19 and the effect on the economy when Government stimulus (particularly JobKeeper and the extra support for JobSeeker) ends.

Simon Scott, International Leasing Manager at Subway pointed out that the impacts of COVID-19 on retail outlets varied widely based on a store's location – something Subway is seeing evidence of among both their Australian and international franchises.

Those in locations where foot traffic has fallen dramatically (such as stores in CBDs, airports and shopping centres) have suffered, while those in suburban locations, where many Australians are spending more time as they work from home, have been able to adapt. Stores that have been able to pivot to takeaway orders and change their business style have also been more successful.



[Jason Stevens, Director at Herron Todd White](#) focused on the outlook for office markets. While he was confident the office market will bounce back,

Jason believes we're not yet in a position to define the 'new normal.'

The amount of office space needing to be leased in the next few years will be largely impacted by whether there is a permanent trend of working from home. Jason acknowledged that the amount of office space becoming available in Melbourne and Sydney was already substantial pre-COVID, so the market would be difficult.

[Peter Spiller, Head of Property Risk at Westpac](#) believes:

Australians were already evolving the ways we used and interacted with offices and shops pre-COVID, with the pandemic simply bringing these changes forward sooner.

He also agreed with Jason, believing it is too soon to make predictions about the impact on markets over the long term and that ultimately until a vaccine is found the final consequences would be unknown.

National cabinet mandatory code of conduct for commercial leases during COVID-19

The panel's discussion turned to the introduction of the National Cabinet's Mandatory Code of Conduct, designed to help the retail industry through the pandemic.

Simon discussed the application of the Code among Subway's franchises across Australia. He said that there have been mixed

responses from landlords; while some negotiations regarding rent reductions were resolved quickly, others were still ongoing. Generally, negotiations with large corporate landlords have been more difficult as they first need to agree on a broad company policy which may not work for a broad range of tenants with varying needs.

Simon believes that while an agreement for a tenant to defer a portion of the rent to a later date is beneficial in the short term, it's proving difficult in locations such as Melbourne, where there is a longer-term downturn.

Deferred rent needs to be paid out of future sales, which are likely to still be low in comparison to previous periods, making it difficult for tenants to meet deals they agree to with landlords.

Jason emphasised that it is not only tenants in a difficult position, as landlords must balance a fiduciary duty to their investors with a need to retain tenants wherever possible to prevent an even worse outcome for their business.

Predictions and opportunities

[Host Elysse Morgan of the ABC](#) asked Peter to share his thoughts on which areas of the retail market have transitioned well during this period of economic turmoil. Peter pointed out that the logistics sector is doing well, partly due to an increase in online shopping since March 2020. This provided an opportunity to develop high quality logistics assets, which Peter identified as an area needing improvement.

But with more Australians than ever working from home, what will be the long-term impact for large organisations with vast amounts of CBD office space?



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Jason Stevens, Director at Herron Todd White

Peter predicts that many firms will move to a three-hub model – a suggestion Simon agreed with. This means that organisations will retain their CBD head office (though with a smaller floor space), allow employees to work from home regularly, and also open multiple suburban locations, either independently or by leasing co-working space.

Peter also suggested that vacant retail spaces could be repurposed into co-working spaces (with proper planning approvals). This would allow landlords to recover lost income as well as offering suburban locations for employers looking to implement a three-hub model. By using office space within a shopping centre, employees would be close to home with less commute time, have access to plenty of parking and avoid public transport, and wouldn't need to use elevators or other small spaces which can increase the risk of contracting COVID-19. It would also likely result in more patronage for food court retailers who have suffered in recent months.

With regards to the level of commercial transactions in 2020, Peter pointed out that transactions for Q1 and Q2 were only about 40 per cent of the expected volume. Some have predicted that by the end of 2020, the total transactions for the year will be approximately one-third of previous expectations.

Peter believes transactions will remain at a reduced level until investors are confident that the market has either hit the floor, or that we are confident of where the floor is.

Jason said commercial values and yields are still holding up now, but the minimal level of transactions made it difficult to gauge what was coming next. It's taking longer for transactions to be completed, and office incentives are starting to increase.

While not willing to attempt predicting the future, Jason believes it's more likely that values will fall the longer that COVID-19 lingers and long-term sublease requirements probably won't be apparent for approximately 12 months until businesses begin to come out the other side of the crisis and better understand their requirements. He expects that better quality buildings will fare better, while C and D Grade stock will suffer most.

Vanessa agreed, stating there was a large disparity between quality and secondary stock. She believes retail strips with longer-term issues unrelated to COVID-19 will continue to struggle and it is likely we will see increasing vacancies in many other retail precincts in the coming months.

However, like Jason, she believes there is still good purchaser demand out there, due to a lack of quality stock on the market currently. Vanessa believes neighbourhood shopping centres and supermarkets are the most secure and in demand.



Vacant retail spaces could be repurposed into co-working spaces (with proper planning approvals). This would allow landlords to recover lost income as well as offering suburban locations for employers looking to implement a three-hub model.

Peter Spiller, Head of Property Risk at Westpac



Episode 02

The second episode of the Economic Recovery Series focused infrastructure investment, with host Elysse Morgan joined by a new round of sector experts.

The current landscape

The discussion was opened by [Romilly Madew, CEO at Infrastructure Australia](#) who stated that:

Before COVID-19, Australia had the highest levels of infrastructure investment ever seen in the country. Infrastructure in the coming months will be focused on ‘screwdriver ready’ projects, meaning those that don’t need huge planning processes to get underway and can immediately start supporting local economies, with \$500 million allocated to local government for maintenance projects.

[Michel Masson, CEO at Infrastructure Victoria](#) touched on the ‘three Ps of economic growth’

1. population
2. participation
3. productivity

Michel believes

Productivity will be the centre of economic recovery this time around.

Both Michel and Mark Redmond, Director at Treasury NSW named some of the upcoming projects that will be fast-tracked in their respective states, designed to create jobs and increase productivity and participation.



Productivity will be the centre of economic recovery this time around.

Michel Masson, CEO at Infrastructure Victoria

The positives

Romilly pointed out that while times were tough, it was important to keep in mind that we are in an economic recession brought about by the impacts of a health recession.

While there are opportunities to reform both public and private capital, the Australian Government is in a good position to both lend and borrow money for projects. [Nikki Robinson, National Practice Group Leader – Real Estate at Clayton Utz](#), added that

the Government's asset recycling is now much more efficient than it was during the Global Financial Crisis, offering benefits for the funding of new infrastructure assets.

[Tracey Gibson, Executive Director, Infrastructure at Commonwealth Bank of Australia](#) agreed, reminding webinar attendees that

rates remain at historic lows, and there is no shortage of private sector funding available for projects.

Multiple speakers highlighted one of the achievements coming out of this difficult period was an increasing alignment between local, state and federal governments. Nikki mentioned seeing red tape cut to fast track projects and deliver benefits faster. Michel agreed, stating that

cooperation between the different levels of Government and other bodies would last long after the crisis and create a new paradigm when integrating new plans in the future.

Opportunities for the property industry

Tracey named several projects currently under construction including:

[Western Sydney Airport, Melbourne's Metro project and Brisbane's Cross River Rail.](#)

These projects will see infrastructure and property come together, particularly in relation to precinct developments around these projects.

Romilly also mentioned that there were opportunities for property professionals to upskill in other areas, given that skilled migrant numbers have reduced significantly since the borders were closed, and capacity and capability shortages are growing.

An increase in regional projects, along with increased working from home opportunities meaning it is no longer necessary to live in a capital city, which should also create opportunities for regional Australians and those willing to relocate.



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Romilly Madew, CEO at Infrastructure Australia

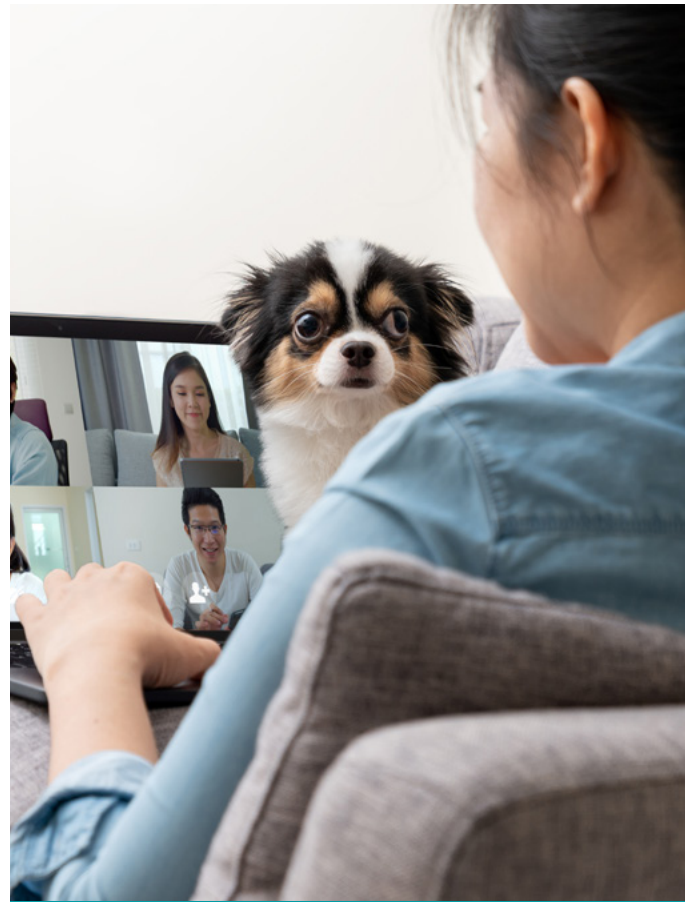
The challenges of planning in an uncertain time

One of the central themes of this discussion was how to plan for a future that is so uncertain. How does COVID-19 fit into a 30-year infrastructure strategy that Governments need to deliver? Michel described this situation as both a huge challenge and an enormous opportunity. He said that

a good plan isn't about predicting, committing and constructing – it's about looking at different scenarios and determining which is the most likely future.

Michel believes the trend to working from home will have the biggest impact on infrastructure strategies, with consequences for transport and land use planning. He also saw an increasing need for open spaces and green infrastructure.

COVID-19 provides the opportunity to decide which aspects of society we want to stay and which things we don't want to return to in the long-term. What reforms can be made that let Australia move to a 'better normal' instead of a 'new normal'?



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Michel Masson, CEO at Infrastructure Victoria



Episode 03

In Episode 3, Elysse led a discussion focused on domestic travel and tourism, pointing out that it's been a tough nine months for the industry, with the bushfires preceding COVID-19. She began by asking participants how the industry was looking now:

The current landscape

[Baden Mulcahy, National Director at Colliers International Valuation and Advisory Services](#) described the impact as 'swift and severe.'

The demand for overnight accommodation has fallen dramatically, as have nightly room rates and room revenue. Owners have attempted to reduce costs by cutting staff, renegotiating supply contracts and undertaking other cost cutting measures to minimise operating losses and the impact on their balance sheets.

[Jim Macey, Director Hospitality and Leisure at Herron Todd White](#) said the impact was similarly devastating for hotels and other venues, particularly in Melbourne.

While for many owners the first lockdown provided an opportunity to rethink, refine and reopen their businesses to a strong market post-lockdown, the second lockdown for Melbourne venues has been devastating. He also noted that social distancing requirements have been particularly difficult for smaller venues.

[Chris Mills, CEO at Queensland Airports Limited](#), reflected on the unforeseen influence of COVID-19 travel restrictions, saying in the early days of the crisis overseas, it was thought the Australian impact would be limited.

Even once the virus began to spread across Asia, the domestic travel market had the potential to remain strong, with high expectations for Easter travel through Gold Coast Airport. Once the Queensland border closed on 25 March, it became clear the crisis would have a significant impact on passenger numbers.

When the border reopened on 10 July air traffic immediately picked up – increasing from three flights a week out of the Gold Coast to eight in the first afternoon. However, this was short-lived.

Chris believes the Government's decision to re-shut the border will make things harder when the border eventually reopens again. He believes that the general public will be hesitant to book an interstate flight for some time, worried that borders will shut again with little to no notice.

The recovery phase

[Jeff McAlister, Deputy Director General, Tourism & Major Events at the Department of State Development, Tourism & Innovation](#) discussed the opportunities for Queensland.

Jeff said that while the border closures were having a large impact on Queensland tourism, the state has done well in the fight against COVID-19 as a result. He expects some regions will take longer to recover than others, as was the case during the Global Financial Crisis, when North Queensland took some time to recover financially.

Baden agreed, stating that regions which are more dependent on domestic tourism will recover better than those reliant on international tourism.

He is fairly confident that domestic leisure short haul travel will recover quickly once borders are reopened, pointing out that most interstate travellers come from Victoria and NSW. He believes the brief reopening of the Queensland border in July was probably a good insight into how travel will recover eventually.

Baden believes the recovery phase will be drawn out, with

most market forecasts anticipating revenue to return to 2019 levels by 2022 or 2023 (or in Melbourne's case, 2024). He expects demand to return in layers, with domestic leisure travel expected to ease the recovery.

Baden pointed out that the corporate sector will be slow in returning to the office, let alone returning to business travel. He also stated that the domestic meetings and events business is not expected to recover until the second half of 2021.

Opportunities

It was generally agreed that regional Australia would benefit most once borders reopened nationwide. Chris pointed out that Qantas's sale campaign when the Queensland border first opened was very successful and pricing would again be key to restimulating the travel market once borders reopened.

Jeff saw an opportunity for some Queensland regions to rethink how they market themselves to tourists. Many Australians choose to travel overseas for tropical holidays, but there is no reason this experience couldn't be recreated in Queensland, particularly if cultural experiences could also be incorporated.

Jim saw opportunities for the caravan park and camping industry, as it offers affordable family accommodation in regional Australia that can avoid plane travel.

Baden saw development opportunities in old hotel stock.

He pointed out that older hotels are often sitting on good sized land, and in some cases, the value of the land would surpass the value of improvements to the hotel. Baden believes the removal of these hotels would also help the broader hotel accommodation sector recover more quickly. He saw greater challenges for hotels in Sydney, Melbourne and Adelaide, with new hotels already planned which would likely slow recovery.

Hotel sales

Baden stated that capital markets have gone into hibernation. Transaction activity in this area is expected to pick up towards the end of the year, if the future for Australia looks more certain.

Baden says most accommodation owners don't want to sell in the current environment unless forced, however there may be people trading out of the markets they think will recover more slowly and using it as an opportunity to invest elsewhere.

Jim agreed that most people didn't want to sell, but that there were many reasons people might sell regardless.

This presents opportunities for both buyers and sellers to think outside the box. Jim believes there is still reasonable investor demand in the current market.

In his closing comments, Chris said he was positive about the outlook for the sector in the longer term. While the volume of international travel to Australia and the resulting spend by travellers is significant and difficult to replace, Australians are ready to get out and travel interstate which will play an important part in recovery.



Want to watch the full episodes?

Did you miss out on listening to these conversations live? You can still register to watch the recordings and hear all the details of these fascinating discussions.

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