

WEEKLY REAL ESTATE UPDATE

What we have learnt this week - 24th April 2020

Anneke Thompson

National Director | Research

anneke.thompson@colliers.com

- ABS released a new data set which analyses weekly payroll data from one touch payroll from the ATO. This showed 6% of jobs were lost since mid March. Total wage bills have fallen by 6.7% since mid march.
- Preliminary figures for Retail trade were released on April 22nd and sales had increased by 8.2% compared to February with supermarkets growing 22.4%. This is the largest growth rate seen since prior to the implementation of the GST.

Office

- Colliers Capital Markets team released their 2nd Investor Sentiment and Intelligence Survey. The team have undertaken two surveys two weeks apart, to gauge investor interest and movements in sentiment.
 - » 50% of investors surveyed believe that the current 'working from home' arrangements will create permanent change to occupancy in the future. This is a slight increase in the previous survey.
 - » 43.6% of investors surveyed believe markets will stabilise in 12 months.
 - » Over 50% of investors surveyed are looking to acquire in the next 3-6months.

Industrial

- Last week, we launched our Industrial Investor and Occupier Sentiment Survey to obtain real-time insights into the issues and concerns influencing decision-making in the current market. Key insights include:
 - » Over 43% of investors intend to acquire their next industrial asset within the next six months while just 15% intend to divest over the same period. This highlights that the mismatch between supply and demand will remain.
 - » 54% of investors believe capital values will fall by up to 10% and 64% are expecting cap rates to soften by up to 50 basis points.
 - » Occupiers remain optimistic about current trading conditions with 53% expecting their volume of business to be better off or the same as it is now over the next

three months.

- » Despite the pace in which COVID-19 occurred, 45% of industrial occupiers had a plan to deal with the situation before the start of the crisis.
- » The biggest impact of COVID-19 on industrial occupiers has stemmed from revenue loss, increased cost of doing business and idle capacity which collectively impacted 55% of businesses. On the other hand, 21% of occupiers reported minimal impact on their business as a result of COVID-19.
- Defensive occupiers continue to be active with Vincent Cold Storage agreeing to a five year lease for a 8,655 sqm cold storage warehouse at 102-108 Bridge Road, Keysborough. The facility is owned by the Centuria Industrial REIT and was previously occupied by Montague Cold Storage (acquired by Emergent Cold before Lineage Logistics acquired Emergent Cold in 2019). Elsewhere, truck maker Hino have committed to 9,230 sqm within Frasers Property's Horsley Park Estate in Sydney's West for a 10-year period. The facility will be used as its spare parts distribution and training facility.
- Australia Post parcel volumes have almost doubled in the last four weeks, up by 80% compared to last year and highlights the structural shift towards online shopping. Woolworths have also reported a 320% increase in the use of its online shopping and catalogue browsing within its app.
- Highlighting a trend we anticipated last year, Kmart have closed three of its stores along the East Coast to covert them into fulfillment centres to cater towards growth in online orders. While the stores will only be closed on a temporary basis, it is likely that this trend will gather momentum over the coming 12 months and mirror the experience of the US where almost 800,000 sqm of retail space has been converted for industrial use. The lack of available industrial space in inner and middle ring locations is the catalyst behind the trend as retailers look to hold stock near a large population base.

Retail

- Metcash have undertaken a \$330 million capital raising and Charter Hall REIT raising of \$275 million at 8% discount
- Premier Investments have announced that their 900 stores will remain closed until the 11 May.
- Myer have seen brought back over 2000 staff to fulfil online orders, but bricks and mortar stores will remain closed until May 11.
- The Australian Competition and Consumer Commission has allowed retailers to share relevant information to rental negotiations with landlords which effectively allows for collective bargaining with landlords.
- Woolworths have announced a doubling of their delivery capacity to start serving non priority customers with a 'pop up' delivery hub set up in Melbourne's Notting Hill. Sherpa and Drive Yello have partnered with Woolworths to assist in Woolworths online delivery service and have employed 5000 drivers to service this partnership.
- Vicinity Emporium is reopening this week
- Radio rentals have announced that they will move to online stores only.

Agribusiness

- The ABARES Insights report released on 17th of April has confirmed that Australia is one of the most food secure nations in the world, producing substantially more food than it consumes. The report revealed that Australia exports about 70% of agricultural output and imports just over 10% of the food consumed by Australians. As the Australian Agribusiness sector has generally been able to provide secured long-term cash flows despite global disruptions caused by the COVID-19 outbreak, Colliers International has the view that the perceived risk profile of the sector has potentially lowered across domestic institutional investors, making it a more attractive investment opportunity for players like superannuation funds and REITs.
- The April 2020 ABARES Insights report also revealed that international food trading is crucial to ensure food security and affordability worldwide. Our view is that food production and agribusiness activity may be exempt from a future de-globalisation trend caused by the COVID-19 outbreak. This is because many countries do not have access to fertile land and climate conditions to support self-sufficient production of food on home soil. This provides a competitive advantage for the Australian Agribusiness sector and supports its improved investment-grade perception and reduced inherent risk profile. For example, when we assess the performance of the Agri-REIT sector in the ASX market, Rural Funds Group (RFF) is outperforming most of the ASX 50 and broader property market on marginal reaction measurement during a bear market (<https://www.asx.com.au/asx/share-price-research/company/RFF>).
- On 15th of April, the Federal Government announced the \$500 million COVID-19 Export Capital Facility to assist previously profitable Australian exporters whose businesses have been impacted by the pandemic. Under the facility, exporters could access loans in the range of \$250,000 to \$50 million from Australian banking institutions to assist them with working capital support, capital investment, international expansion and online growth. This facility could potentially provide financial support to agribusiness operators heavily affected by the pandemic like the Southern Rock Lobster and the seafood sectors.