Market Commentary

NATIONAL MARKET FORCAST
COVID-19 December Update

By Scott Keck, Chairman, Charter Keck Cramer

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Over the last nine months, in my July and again in my October commentaries, I strongly foreshadowed the impact of COVID-19 on the property markets would not be as severe as most commentators were suggesting and that the recovery would be relatively strong and fast. I rationalised that the fundamentals, both economic and social would not be so dramatically disrupted by events as to result in significant permanent change. I still hold to that view yet believe that as the pandemic fades, we will return to some of the pre COVID-19 economic challenges of under employment, stagnant wages and low inflation and productivity.

Much of the uncertainty about the direction of the economy generally and the real estate markets in particular, is now giving way to growing confidence that we are returning to normal conditions, not a new COVID 19 normal, but conditions as they were prior to the pandemic intervention. Whilst there is genuine sympathy for those who have been adversely affected, I think nonetheless that the consequent dramatic surge in the application of effective and user friendly IT in our society during this period will have lasting positive legacies.

For many businesses, doing things differently, pivoting their operations and embracing innovation will lead to leaner cost, more profitable enterprises with employee workplace flexibility. The record low interest rates, globally and in Australia, in part due to Government revival monetary strategies, now provides the availability of extremely useful, low cost debt, which in the private sector, supports real estate generally and particularly the housing market when coupled with Government grants and incentives, but which is also an extremely powerful tool to assist Federal and State Governments strengthen the economy with infrastructure and other strategies providing the debt is invested wisely. Cheap debt can be an extremely useful resource.

The current rhetoric with China will pass as there are social and economic imperatives necessitating good bilateral relationships with China. In one sense the current spat is nothing more than a brief argument in what should be a long and strategic marriage. Consequently, support for the residential markets is on the horizon, with the inevitable return to appropriate rates of population growth boosted by immigration mainly from Asia, including China and the return of foreign students.

As the virus contagion fades and health protocols improve with the expectation of a vaccine, confidence is surging, domestic tourism is strengthening, economic activity generally is recommencing and there is now even the prospect of a return of international tourism mid to late next year. These are all positive influences which are removing the anxiety from the minds of property investors and financiers. It needs to be appreciated that with commercial property, investment yields or capitalisation rates will stay at their current levels, the only adjustment to value being on the income side, in respect of which rent concessions are fading, incomes are stabilising and values are emerging relatively unaffected.

For most retail properties the locations remain strong, appropriately zoned and central and the improvements relevant for continued use. Accordingly, most retail holdings will survive current pressures and emerge with new and varied occupancies meeting wider community needs and expectations. Office buildings will also maintain their important role and whilst there may be some interim tenancy churn, future development and renovations will be paced to ensure a supply/demand balance.

From a property or real estate perspective, I do not believe that the events of the last 12 months have in any way been significant enough to change the ground rules, or cause lasting structural change endangering the prospects for fundamental performance and reliability of investment returns. In the residential markets there are primarily three groups: those who own properties; those who aspire to own properties; and those who, less fortunate, will probably never be able to be owner occupiers but will always be tenants. Those three groups existed prior to COVID and those three groups will exist after COVID without great change. Online retailing, working remotely and the trend of moving to regional centres was all happening for some years prior to COVID and to a degree accelerated during the COVID period. Those trends will continue - no surprises there really. Population growth remains a top priority for our economic prosperity and Government strategies will ensure the resumption of immigration at the needed numbers as early as possible and foreign students will return for the reason that as a destination, Australia is now more attractive than ever before. Tourism, both domestic and international, will also reliably return.

Over the last 12 months, I have remained confident about real estate's resilience to the economic consequences of COVID, and as there was so much pessimism, my confidence seemed relatively very optimistic, but really was only born of objective analysis and research. Whilst there remains an agenda for economic reform to ensure Australia's future, its sustainability and its independence for those that understand real estate and its debt markets, there is now an immediate opportunity over the medium term to work with very low cost levels of debt and the arbitrage that offers to secure healthy returns.

So, in conclusion, whilst we are rapidly emerging from COVID-19, I think it is nonetheless realistic to recognise that there is a degree of "make-up" or camouflage currently in the economy due to the various support initiatives. So whilst probably not "in the eye of the storm", we should accept that the economic challenges that existed prior to COVID largely remain, predominantly, significant under-employment, stagnant wages and low productivity, which all need to be addressed and now there will be the added need to pay back the recent vast Federal and State Government borrowings drawn down to kick start the economy. The reality however is that any economic burden may be largely avoided by those fortunate to have income or capital as they will, at an individual level be able to weave amongst the pervading threats and with good management and advice secure returns, maximise income and grow wealth.

Strategy has always been important but more so now than ever before. We invite you to contact our firm for your strategic property needs.

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