



COMMERCIAL REAL ESTATE ENQUIRIES DURING THE PANDEMIC - JULY 2020

© 2020 ADEPT BUSINESS SYSTEMS PTY LTD

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



BACKGROUND

This analysis investigates the pattern of enquiries for commercial real estate in Australia since the onset of the SARS-CoV-2 pandemic in early 2020. 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 submitted between February and June 2020 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 EARLY DAYS

Australia's first COVID-19 case was officially recorded on 25th January, with further viral seeding occurring throughout February. In March, case numbers began to grow exponentially before peaking on 28th March.

Significant interventions by the Australian government to suppress transmission took place in March, culminating in closure of the international border on 19th March. This was then followed by a general lockdown across all states and territories on 25th March. Many states, including Western Australia, Queensland, South Australia, and Tasmania also closed their internal borders, thereby preventing travel from one state to another.

THE RESPONSE

Measures directly affecting commercial real estate included a ban on in-person auctions, a mandatory code of rental waivers and deferrals for commercial leases, as well as severe restrictions on domestic travel and a complete ban on international travel. These restrictions on movement severely limited inspection activity.

In comparison with lockdowns in Europe and New Zealand, Australia's lockdown has been less rigid, but nonetheless resulted in successful prevention of community spread and a continuous drop in daily cases. From a global perspective, Australia is recognised to have executed a very successful pandemic control plan, largely driven by its ability to insulate its population from viral transmission sourced from international sources and to sustain high levels of testing. Until early July, average daily case growth was under 50, with most cases sourced from quarantined returned travellers. A recent outbreak in Melbourne is currently being managed with strict lockdown measures and extensive testing to control further transmission.



INSIGHT 1:

BY JUNE, MONTHLY ENQUIRIES SURPASSED PRE-PANDEMIC LEVELS

Our analysis of commercial leasing and sale enquiry levels, as shown in Figure One, reveals that enquiry momentum is strongly inversely correlated with COVID-19 case growth.

This is particularly true of lease enquiries as will show later. Enquiries collapsed at the height of the pandemic but subsequently recovered as case growth declined to manageable levels.

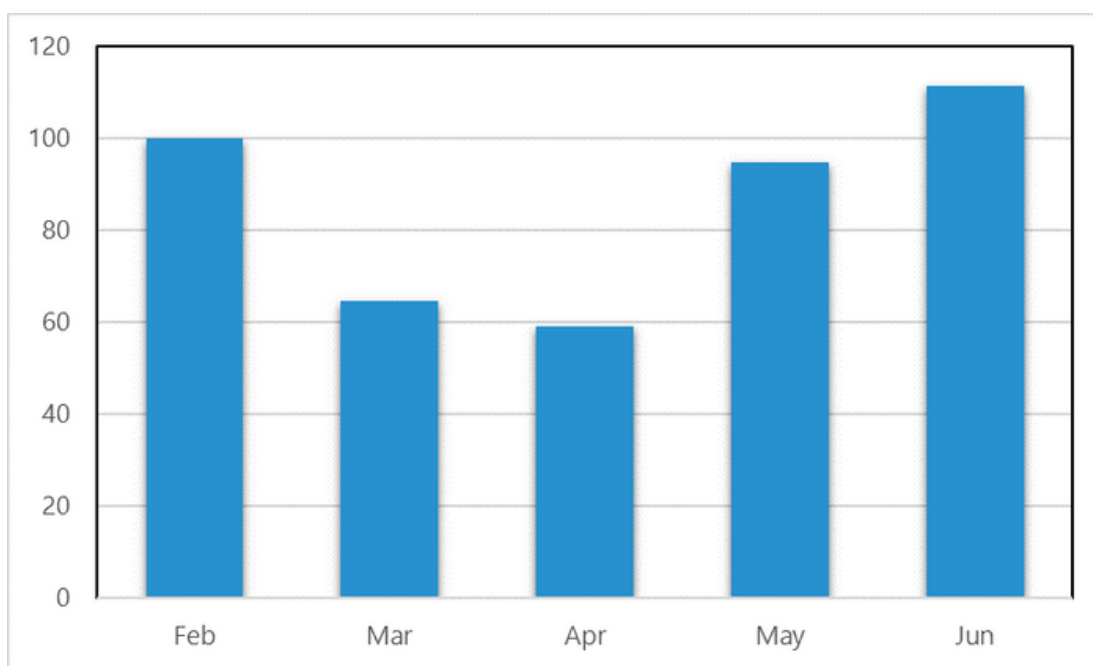


Figure One: Enquiries by Month (Feb 2020 Index = 100)

Compared to the level of enquiries in February, lease and sale enquiries fell by 35% in March and declined a further 6% in April, before staging a strong recovery in May and June as pandemic control measures took effect.

In June, enquiries stood 11% higher than their level in February. The strength of the recovery appears directly related to ongoing success in virus suppression. The July outbreak is therefore expected to reverse the market momentum until case growth is under control.



INSIGHT 2:

WEEKLY ENQUIRIES CRASHED AT THE START OF THE LOCKDOWN

A clearer pattern emerges when we examine weekly enquiry volumes (Figure Two). As anxiety about the pandemic escalated in March, enquiry volumes began to fall heavily from the second week of that month.

A trough was reached in the week of 22 March, coinciding with the date of the national lockdown. In that week, enquiry volumes crashed to a third of the level seen at the start of February.

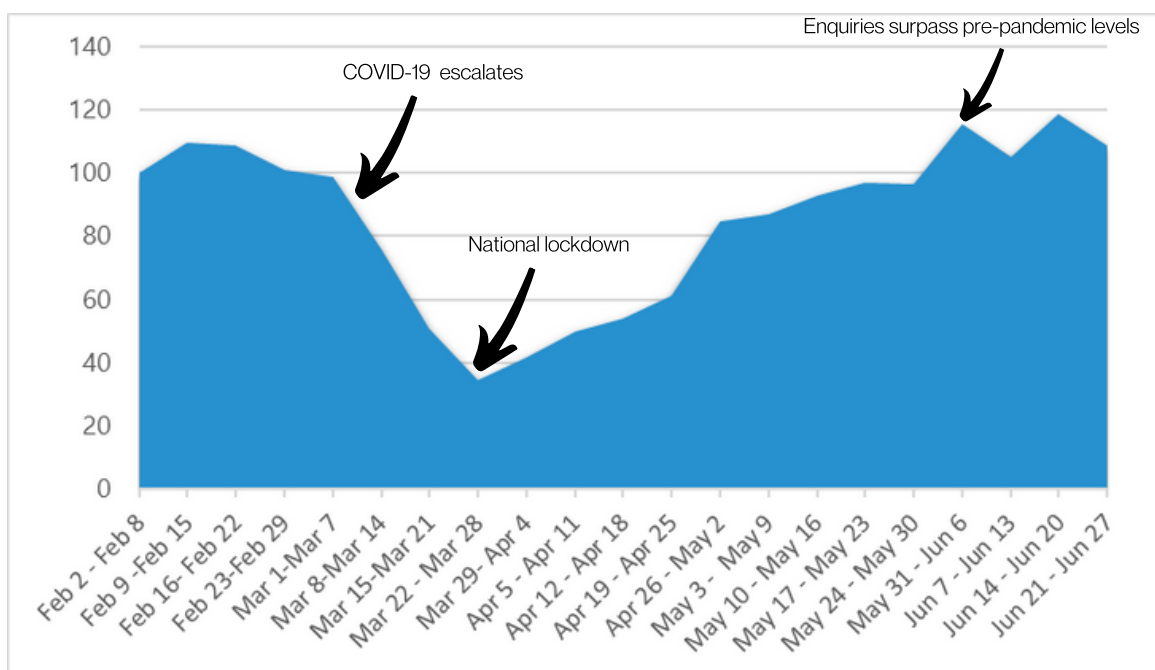
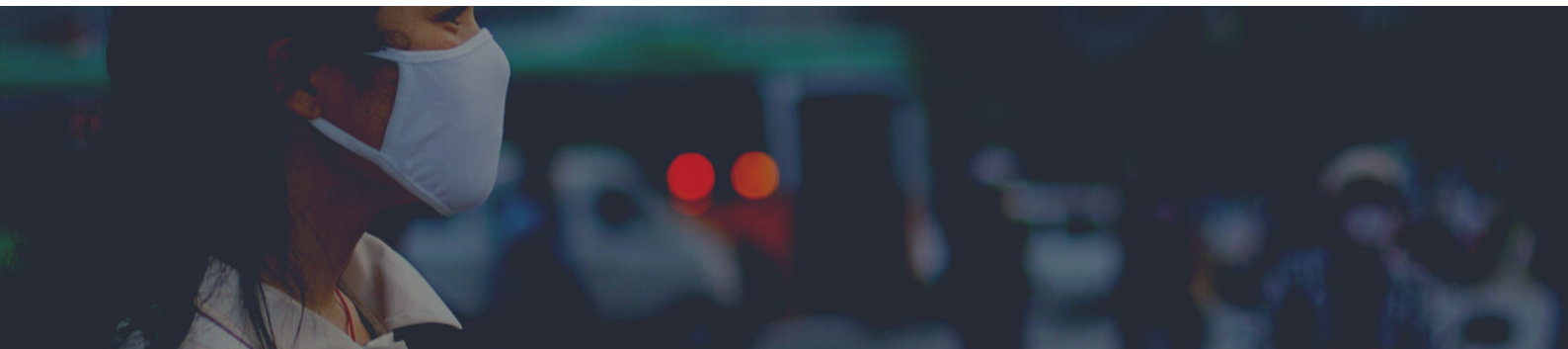


Figure Two: Weekly Enquiries Feb-June 2020 (Week 1 Feb =100)

A slow and steady partial recovery from the March trough took place during April. By mid-April, weekly enquiry volumes, as compared with those in early February, were around 50% lower, but only 15% below by the end of April. Further recovery throughout May saw enquiry volumes reach or surpass the early February levels each week in June. During the last fortnight of June, enquiry volumes were 8% higher than the start of February and in some weeks of June had trended as high as 12% higher



INSIGHT 3:

LEASING ACTIVITY WAS INITIALLY HIT HARDER THAN SALES

In the early phase of the pandemic, lease enquiries were initially hit harder than sale enquiries as shown in Figure Three. Lease enquiries collapsed in the second week of March, bottoming in the week of lockdown at just 27% of their volume at the start of the month.

A slow climb occurred thereafter, but it took until the middle of May for them to recover to the volumes seen in February. However, in each week of June lease enquiries trended above their pre-pandemic levels. In a remarkable turnaround, volumes in the second half of June were 10% higher than those in the first half of February.



Figure Three: Weekly Enquiries Feb-Jun 2020 Lease and Sale (Week 1 Feb =100)

Sale enquiries also fell sharply in March, but the depth of decline was not as pronounced as those for lease. Sale enquiries bottomed in the week of lockdown at 45% of the level seen at the start of March. It was not until the last week of April that both lease and sale enquiries recovered to just over 80% of their pre-pandemic levels.

Whereas weekly lease enquiries grew on a monotonic basis from the enquiry trough in late March until late June, weekly sale enquiries showed higher volatility from early May through the end of June. During this period they oscillated between 80% and 104% of their pre-pandemic level, ending at virtually the same level as early February.



INSIGHT 4: SALES ENQUIRIES SUGGEST SHREWD INVESTMENT ACTIVITY

What are we to make of these trends? In terms of sale enquiries, the more subdued initial fall points to an underlying strength in the floor of the commercial property investment market - at least while interest rates remain at historic lows. Volatility could be explained by the presence of investors taking advantage of opportunities to acquire distressed commercial property assets. Once these opportunities are exhausted, activity appears to decline to more subdued levels.

For both lease and sale enquiries, the evidence suggests that restoring confidence in the market is directly related to the ability to maintain control of the virus. Enquiries strongly correlate inversely with COVID-19 case growth. This is shown in Figure Four.

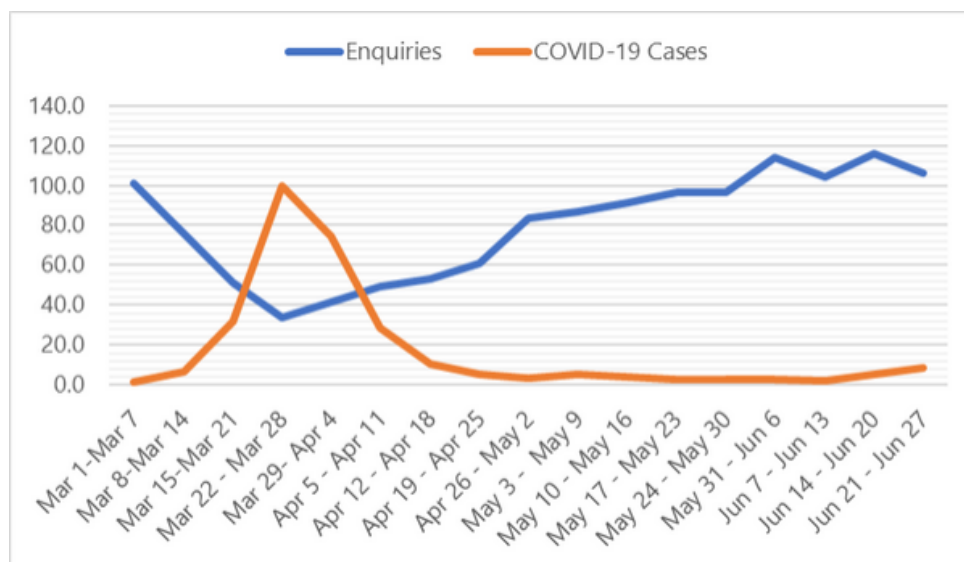
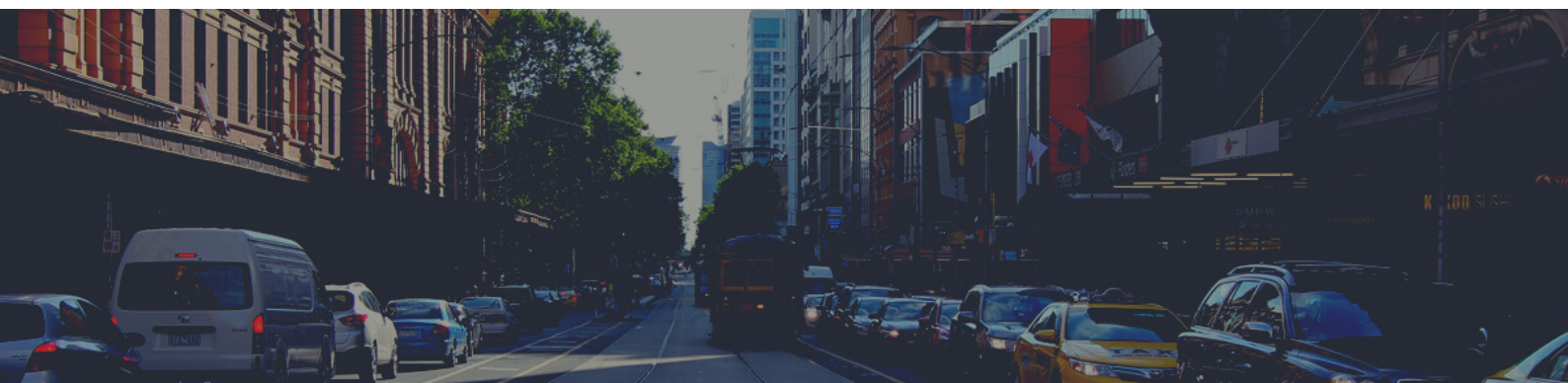


Figure Four: Weekly Enquiries vs COVID-19 cases Mar-Jun 2020 (COVID-19 Peak=100)

As the Australian government succeeded in driving daily case growth to under 50, business confidence returned and with it returned the market's appetite for commercial space. It remains to be seen what impact the recent outbreak in Melbourne will have on confidence in Victoria and elsewhere in July and beyond.



FINAL THOUGHTS

This analysis strongly suggests ongoing control of the pandemic will be critical in maintaining higher levels of enquiry for commercial property.

We have not considered the impact of the pandemic on rental and price levels or its effect on changing the overall level of demand – for example, by reducing demand for office space if more staff work from home or increasing it to permit greater social distancing at work. These topics will be reviewed in due course as businesses adapt to the risk of future pandemics.

Nonetheless, the surge in enquiry activity and recovery to pre-pandemic levels to the end of June suggests strong underlying strength of demand for Australian commercial property. A similar pattern has been noted in the UK, with Rightmove Commercial reporting an increase in key demand indicators for UK commercial real estate, with brochure views reaching – and in some cases exceeding pre-lockdown levels.

Suppression of the July outbreak in Australia is now vital. At the time of writing, although we are only partly through July, it is already clear that enquiry volumes will not be sustained in July. As the growth in COVID-19 cases continues in Victoria, we forecast that volumes will decline by around 10% from their June levels. Although this is far more subdued than was seen earlier in the year, we suspect that market confidence will be fragile until the outbreak is controlled.

