

# Market Update Covid-19

21 April 2020



# Where Are We Now?

In January, Herron Todd White put together the 2020 property market outlook across the residential and commercial markets. At the time we stated that it was very difficult to predict due to a range of macro and micro economic factors impacting on the market. At the time one of the major concerns was around the impacts of the Bushfire crisis and the fallouts from this. There was also the impact of local and State elections during 2020 as future concerns. The underlying local market fundamentals were however strong and our overall thoughts were that we would likely see the market continue to show steady improvement during the year.

However, the Covid-19 pandemic, which was impacting China at the time, continued to travel through Asia as February rolled in and the first cases were being reported within Australia. Impacts to our overall way of life were limited until mid March when the first of a range of restrictions began to impact not only our movements, though also our relationship with property.

## Impacts on Valuation

One of the questions that we have been asked consistently over the past month is, 'how much has this changed the value of my property?'

The short answer is – not much!

The more detailed answer is that valuations by their nature rely upon market evidence, which is historical. So while there may have been some movement in values, it is difficult to prove at this time and we are relying upon the most up to date evidence to indicate what the impacts are.

*Despite the overall general improvement in confidence experienced across most markets during 2019, the current Coronavirus, COVID-19, pandemic is forecast to have a significant impact on global economic growth and the Australian economy and as a result may have detrimental impacts on the property market. The market more broadly will experience a greater level of uncertainty, and some, or all, sectors may experience a period of weak buyer demand, extended selling periods and potentially diminution in asset values. Recent stimulus packages and policies introduced by the Federal and State governments, as well as record low interest rate levels, may limit the impact of the pandemic on property markets however it is difficult to predict at this stage.*

The other questions being asked is, are you still working and how do you conduct inspections given restrictions?

Again the short answer – yes. We are open and continuing to do business to help support the local economy by allowing people to access equity within their homes, commercial properties and businesses to help see them through this health and economic crisis.

We have had to change a number of the ways that we undertake valuations. Herron Todd White have developed a contactless inspection tool, that allows our team to use a combination of self-verified and occupant-supplied information to reach a conclusion with the highest possible accuracy under current restrictions.

# Residential Considerations and Feedback

The following information is some of the most up to date market evidence that we are aware of within the residential market.

- Most markets on the Sunshine Coast experienced good levels of demand that resulted in increased sale volumes and upward pressure on values. When COVID-19 started to bite in mid March, we were coming off extremely low stock levels. This was different to the most recent market down turn being the 2008/09 Global Financial Crisis (GFC) when there was more stock on the market and there was some resistance to asking prices at that time.
- We have seen enquiry in sales fall. Early indications are that the buyers that are still around are serious purchasers and appear to have been in the pipeline, looking around for a while. Some sales over recent weeks are as follows
  - 'Buderim Meadows' (south east foothills). Mostly renovated dwelling with a pool. Property expected to achieve \$820,000-\$850,000. Was sold within the week for \$830,000 to an owner occupier.
  - Sunshine Beach. Large duplex unit that was listed since November in the low to mid \$3,000,000. Recently contacted in the low \$3,000,000. Previously sold for \$2,650,000 in May 2019.
  - Buddina canal front. Modern good quality dwelling on a south facing allotment. Expectations in the low to mid \$2,000,000. Sold at the higher end of the range at mid \$2,000,000.
- Typically in markets where there is strong enquiry we see premiums often being paid. These premiums can be in the order of 5% or 10%. With the fall in enquiry and in some areas where stock levels are slightly higher, some sales are showing results where this premium has evaporated. Some sales examples are
  - Maroochydore – Modern good quality dwelling on a smaller lot. Expectation was circa \$800,000. Sold for just under the mid \$700,000's.
  - Wurtulla – Semi-modern brick dwelling listed for \$569,000. Sold in the low \$500,000's.

N.B: It will be extremely important to understand the circumstances of any sales that transact in this period once there is a recovery. Then, like the virus, we will be able to in effect 'quarantine' those sales.

- Since the government shutdown of non-essential services and the temporary ban on auctions and open inspections, it has been interesting to see how agents, buyers and sellers have adapted. Feedback is that it's a bit of a mixed bag.
  - One of the leading agencies on the central Sunshine Coast recently took eight properties to auction with seven selling.
  - A \$2,000,000 plus purchase on the northern Sunshine Coast was completed to an interstate buyer via a video call and marketing material.
  - Have had advice that some properties have had limited interest because of the inability to physically inspect.



Agents have generally been indicating that there have been no signs of a significant increase in property listings. They have not been flooded with vendors that have been panicked into selling their property. Another point that is interesting is that there has been no increase to the number of owners with holiday rental properties wishing to sell.

For the time being, the lower listing activity and the already low supply, coupled with the softening demand, will help moderate any potential falls in value.

- On the rental side some holiday rental property owners have instructed their property managers to fill the void left by the non-existent holiday rental market and fill their vacancies with permanent rentals. We have also seen Air BnB holiday rentals being advertised for 3-6 month rentals on Facebook and other social media sites.
- The big take out of COVID-19 and trying to compare against the issues surrounding the GFC is that they are nothing alike. The state and federal government stimulus packages that are on offer, and continue to evolve, are unprecedented. The support that is being offered by the finance sector in business and home loan relief is also huge. The combination of all these strategies, and throw in a low interest rate environment, are playing a massive part in trying to minimise the damage to the economy in which property makes up an enormous part.

## Commercial Considerations and Feedback

The following information is some of the most up to date market evidence that we are aware of within the commercial market.

- A sale was conducted of the Coffee Club premises at King Street, Buderim which was contracted on 25 February 2020 and settled on 14 April 2020. The property was originally contracted for \$1.93 million with a 10% deposit paid. The tenant has had trade restricted and as a result requested a rent free period of 6 months. As a result, the purchase price was renegotiated to \$1.7 million plus costs of \$50,000 for a total purchase price of \$1.75 million including a 6 month rent free period for the tenant. The purchase price reflected a yield of 6.86% pre Covid-19 and a settled yield of 7.29% after taking into account the rent free period upon settlement. This sale indicates a circa 40 basis point softening of yield and circa 9.3% reduction on overall capital value.
- A lessee interest motel was contracted in January 2020. There were a number of conditions to be met by the lessee (vendor) to complete the sale. The sale process had moved to an unconditional phase prior to the Covid-19 pandemic with settlement due late March 2020. The purchaser was able to cancel the sale without any loss of deposit or financial impact due to a fire hose not being upgraded as part of the transfer. Typically, this would not impact a settlement, though indicates that a purchaser was not willing to take on the risk around cash flow.
- A Management Rights complex in Caloundra was contracted in January 2020 with an extended due diligence period. We note that after the contract had become unconditional that the Covid-19 pandemic disrupted the operation of the business. As a result the buyer undertook investigations into the possibility of not continuing with the purchase, however settlement occurred with no changes to the overall contract price in April.
- A good quality industrial holding at Kunda Park with a State Government tenant was contracted in early March 2020 at \$3.375 million indicating a yield of 6.78% with circa 3.5 years remaining on the lease. The contract is now unconditional and is expected to settle with no negotiations post contract.

- A large bulky goods centre with a strong tenant mix has been contracted off market for over \$15million in late March 2020. The contract has been negotiated to only settle after trading restrictions to businesses have ceased and appropriate amendments can take place. It is reported that either party can terminate the contract based on future amendments. This would have been highly unusual contract conditions prior to the Covid-19 Pandemic.
- A good quality holding has been taken to the market in April 2020 on an expression of interest campaign. The agent has reported three offers to date, though some potential buyers have been indicating concern around the lease covenant in the current environment. There are still some weeks before this campaign closes and it will provide a good indication of where the market is at for good quality assets moving forward.
- A number of high profile leases are currently being negotiated across the Sunshine Coast with start dates reported as being after restrictions are lifted. Some leases will include specific future crisis event clauses within the lease which will outline how rentals and lease terms will be handled by both parties. We have seen one clause which also allows for the tenant to vacate within 30 days if restrictions impact business operation for longer than 3 months.
- The industrial market has seen a number of smaller sub 300 square metre strata titled units contracted since mid-March 2020. Value levels are reported to be similar to late 2019 and therefore no market change has been reported. Demand has slowed slightly, though owner occupier buyers are still active in the market.
- Storage complexes are reporting that arrears and delinquency of payments has increased from circa 2% prior to March to circa 10% within April. A number of office and retail users also lease out storage space on long term agreements and operators are working with these tenants currently around rental abatements primarily.
- Overall occupancy for short term holiday accommodation complexes has fallen from 59.5% in March 2019 to 43.1% in March 2020. April numbers are not yet to hand, though our expectations are that these will fall further given discussions with a number of operators throughout the region and the impact travel restrictions are having.

## DEVELOPMENT

- The development market remains steady. Many developers are using the current environment to forge ahead with development approvals in order to be development ready when current restrictions are lifted.
- The major financiers of developers remain supportive of their existing clients. It is yet to be seen if lenders will fully support the purchases of new sites in the existing market and if so under what conditions. The market is reporting that the number of private lenders to the development market has reduced and interest rates from those remaining have increased, to reflect the increased short term market risk.
- Existing unit development is forging ahead as construction remains an essential service and the typical time frames involved to bring new units to the market is over extended periods. New projects will proceed based on obtaining presales hurdles. Presales for these projects will likely be achieved if the purchasers believe the market has stabilised and volatility from this point will be minimal.
- Residential land subdivisions have noted some reductions in overall sales rates, though given the lack of on site sales offices etc and travel restrictions, this is to be expected. Larger developers will likely commit to smaller stages going forward, however we understand most are proceeding with major infrastructure works so they are in the best position to maximise sales rates once restrictions are lifted.

# How Can We Help?

## NATIONAL STRENGTH

For more than 50 years, Herron Todd White has been helping our clients make the most of their property assets. As specialists in valuation and advisory services, with our extensive experience, our main objective is to look after our clients' best interests; upholding high standards of independence and professionalism that we believe are second to none. Valuing is our core business. We do not sell, lease or manage property, so you can be certain that our advice is always impartial and unbiased.

## LOCAL EXPERTISE

Herron Todd White has been operating on the Sunshine Coast since 1986. We are the largest valuation team across the area and have a range of specialists on staff with a combined experience of over 125 years valuing property on the Sunshine Coast. We also have a database of information extending across a range of market impacts from the 1989 pilot strike, the 1990-91 recession, GST impacts in 1999/2000, the significant value growth during the 2000's, the GFC impacts through 2008-2010 and the steady growth from 2013 noted.

As a result, we are uniquely positioned to be able to assist clients through this period of significant uncertainty. We can undertake a range of services including, though not limited to:

- Residential & Rural Residential
- Prestige Residential & Rural Residential
- Office
- Industrial
- Retail

- Hospitality & Leisure
- Education & Child Care
- Service Stations
- Other specialised property

## WHAT CAN WE DO FOR YOU?

### Valuations

- SMSF
- Stamp duty & accounting purposes
- Pre-purchase & pre-sale
- Retrospective assessments
- Portfolios
- Rental assessments & determinations
- Statutory land value advice & assessments
- Mortgage security

### Legal

- Family law
- Compulsory acquisition & compensation
- Single Expert Witness
- Shadow Expert Witness
- Deceased Estates

### Due Diligence

- Asset risk analysis
- Highest & best use assessment
- Feasibility analysis

### Research

- Supply & demand analysis
- Product & pricing mix analysis
- Competition analysis



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