



Preston Rowe Paterson

International Property Consultants and Valuers

Retrospective 2020

& what lies ahead in 2021

**It was Walt Disney who said:-
“Times and conditions change so rapidly that we must keep
our aim constantly focused on the future”**

With all that has occurred in 2020 **and more recently the pre-Christmas stark reminders of the fragility of the COVID-19 health and economic position** (Sydney’s Northern Beaches outbreak and the new UK strain impacting pre-Christmas travel), focusing on the future will be a continuous challenge as we react, adapt, and evolve in the COVID pandemic world.

2020 has certainly been a year of **rapid and unplanned change** for all of us in a year that has been marred by many disruptive events.

Despite the disruption and encouragingly in a real estate context, the ANZ/ Property Council of Australia (PCA) survey just released has commented that confidence has surged back to pre-pandemic levels with strong improvement in sentiment for the December 2020 quarter.

The ANZ/PCA survey attributes this in part to the Commonwealth and State and Territory Government economic stimulus and business support measures having done their job in supporting our industry and the economy through the worst impact of COVID-19.

Falling mortgage rates have also assisted in supporting the housing sector where the Survey reports that confidence is also back to pre COVID levels.

The speed and extent to which the NSW Government can contain and extinguish the COVID cluster on Sydney’s Northern Beaches may perhaps challenge the growing confidence in the immediate term.

In Australia, we were set to have an almost normal Christmas holiday period with people travelling freely intra and interstate to be with family and friends. However, with the re-emergence of the virus, many plans for the holidays have been dashed and are in turmoil.

The stark reminder of the emergence of COVID in Australia is going to make focusing on the 2021 near term future more difficult. It is also going to require a tough resolve and continuous reaction, adaptation and evolution as we will be dealing the disruptive events (listed below) into the new year.

The somewhat Armageddon-like events in the aggregate that have disrupted us all in 2020 include: -

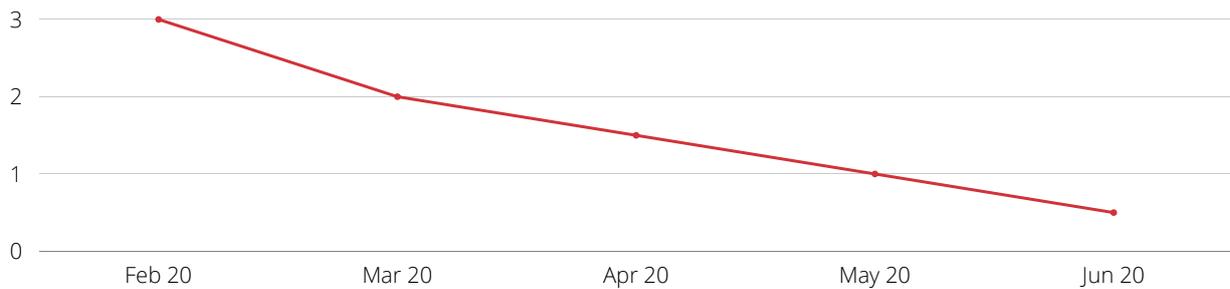
- The **COVID-19 pandemic** (declared by the World Health Organisation (WHO) - on 11 March 2020);
- The **economic impact of COVID lockdowns** within Australia (most impacted in Melbourne and Victoria who had the world's longest lockdown) as well as **Country and State Border closures** (only re-established in the last few days);
- The **anticipation of and waiting for a COVID Vaccine or Vaccines**;
- Significant **macroeconomic and sector-based upheaval and uncertainty**;
- **Challenges to the way we have traditionally thought about some real estate asset classes (particularly office)**;
- **Bushfires burning 18.6 million hectares** (46 million acres or 186,000 square kilometres) with 34 lives lost and at a cost expected to exceed \$4.4b with obvious significant damage to our natural flora and fauna;
- Following the fires **extreme rain and flood conditions** delivering over 200mm or 8 inches of rain to parts of Australia's East coast in just 24 hours and 500-700 mm in the week that followed in February. Further extreme weather and flood conditions are being experienced in December 2020 at the date of writing;
- The **turmoil of the lead up to, and which followed, the USA Presidential Election** with the Electoral College only ratifying Joe Biden's Democrat win on 16 December 2020, then followed by the Senate Majority Leader Mitch McConnell (Republican) congratulating Joe Biden as President-elect – Trump has still not conceded;



Deteriorating geopolitical and trade conditions between Australia and China during the year with China introducing tariffs and bans on a range of Australian imports, including wine, barley, lamb, beef, coal, lobster and timber, with fears more industries could be impacted including certain classes of coal and iron ore;

- Unprecedented levels of **Commonwealth, State and Territory levels of fiscal economic stimulus and support**;
- **Brexit not yet resolved and a continuing saga for trade between the UK and the balance of Europe**;
- **JobKeeper and JobSeeker economic and fiscal support** during 2020 and into 2021 being introduced with the weaning off these measures having commenced (also the **JobMaker incentive** (ATO) to employ staff in 2021);

- Because of **COVID Commonwealth initiated and State legislated economic support obligations on landlords within the Commercial Leasing Code** and its various incarnations in each State; the cost imposed on landlords (rental loss) and the significantly increased management cost that had resulted from this;
- Within Australia **short term during 2020 restrictions (just lifted) on Foreign Investment;**
- **Interest rates at historic lows;**



- In Australia, **into and out of a recession within 12 short months;** and
- **Working remotely from home and running businesses through Teams, Zoom** and other video conferencing platforms changing the way we work.

These events and in particular the impact of the COVID-19 pandemic on the economy and real estate markets made valuation and property management difficult in the first half of the year.

Valuation initially because there was a short-term slowing in market activity and significant uncertainty. The later part of the year saw market activity recommence (allowing direct comparison valuation methodologies to be applied) and an improvement in confidence into the end of the year.

Property management workloads intensified significantly following the onset of the property economy impact of the Virus and the announcement of the Commonwealth Commercial Leasing Code which was later ratified by the States and Territories. The process of negotiating Government ordained - landlord funded rental waivers and deferrals created a challenge for all investment real estate owners and managers.

As we have reacted, adapted and evolved during 2020, we have necessarily developed an unprecedented level of resilience that can only be compared to, or rivalled by, that of the World Wars of the first half of the 20th Century.

In Australia, our Government (Commonwealth, State and Territory and Local) initiatives from both a health perspective and an economic stimulus perspective, have positioned Australia better than most other countries, even though hard lockdowns (particularly Melbourne and Victoria and more recently Sydney's Northern Beaches at the date of drafting) and State and Territory border closures have been met with local economic bewilderment and criticism.

Yet the measures have worked in comparison to other countries such as the UK, Europe, US and India.

Our front-line health and first responder workers are also to be commended for their tireless efforts in dealing with the pandemic, particularly in Victoria at the height of the 2nd wave pandemic crisis as well as in the bushfires and floods.

Focusing on the future in 2021 will much depend on how several things play out early in the new year. They, of course, include continuous quashing of any locally acquired COVID case outbreaks such as Sydney Northern Beaches, the role out of effective vaccines, and from Australia's perspective, a speedy resolution to the unnecessary China trade wars.

Real Estate in the 2020 COVID Economy and Beyond

Ultimately the rental and capital value of all real estate asset classes is underpinned by:-

- 1. The supply of accommodation and tenant demand; and**
- 2. The supply of investment stock and investor demand.**

Robert Harley (AFR) commented mid-way through the year that the COVID-19 induced economic/real estate crisis was very different to the GFC in that it was a crisis of short-term income and not one of capital.

Whilst there was a short-term winding down of market activity in March, April, May and June as we all considered the potential risk impact of the crisis, the second half has seen a number capital market and specific asset class transactions occur which is an indicator of market resilience. Let's hope the Northern Beaches cluster only demonstrates a short term minor impact on business and real estate market activities as well as confidence.

Transactions In Review for 2020

The main 2020 transactions in the Office, Retail, Industrial, Hotel and Residential Development markets, as well as the Capital Markets, are included in our annual Transactions in Review series which are linked as follows:-

- [Commercial](#)
- [Retail](#)
- [Industrial](#)
- [Hotels & Leisure](#)
- [Residential Development](#)
- [Real Estate Capital Markets](#)
- [Specialised Properties](#)

A few notable major transactions include:-

Deka office acquisition of 452 Flinders Street Melbourne at \$454.5 million (100 percent) in September; (see images below)



GIC office acquisition of 222 exhibition Street Melbourne at \$411.35 million (50 percent) in June;

Dexus/GIC acquisition of Rialto, 525 Collins Street Melbourne at \$1.288 billion (50 percent) in April;

Haben acquisition of The Pines Shopping Centre in Victoria at \$160 million in July;

Haben acquisition of the Caloundra Shopping Centre at \$97 million in July;



Keppel REIT purchase of the Pinnacle Office Park 6 Giffnock Avenue, Macquarie Park NSW 2113 from Goodman in a \$306 million deal; (See image above)

Home Consortiums Daily Needs REIT has purchased of the Glenmore Park Town Centre, Glenmore Park NSW 2745 in Sydney's west from Village Fair Shopping Centres for \$150 million;

Charter Hall has purchased an industrial facility in Sydney's Erskine Park (40-66 Lockwood Drive, Erskine Park) for its Charter Hall Prime Industrial Fund and Charter Hall Direct Industrial Fund No. 4 for \$115 million;

Stockland has purchased a 293-hectare master-planned site, known as 'The Gables' Box Hill NSW in a \$415 million transaction; and

Singaporean sovereign wealth fund GIC in partnership with Charter Hall has acquired a 49% stake in the Ampol Property Trust for \$682 million.



The **real estate asset classes** (commercial office, industrial, retail, hotel, aged care, and special purpose) and the businesses which occupy them, have been affected in different ways during the year, some negatively, some positively and some have held the status quo because of the various issues set out above.

Some of the effects may flow into 2021 for certain asset classes. At the commencement of the pandemic, those asset classes most affected were those where people aggregated in proximity such as **hotels, shopping centres, offices, aged care facilities, childcare centres, and sporting venues etc.**

Industrial real estate and residential real estate not only have shown resilience to any COVID-19 economy effects but also have seen increased demand and therefore growth running into the end of 2020. However, this may be temporarily impacted by Sydney's Northern Beaches cluster.

The office sector will remain a key focus going into 2021 as it has been significantly and adversely affected by the "work from home" logic. It has also been the subject of several articles during the year from **prominent AREIT and fund managers** supporting the fundamentals as to why we need to be in offices. In addition to reasons such as collaborating face to face with colleagues, learning and career development, an important factor in the future of our office markets is promoting healthy and vibrant cities which need people occupying buildings.



It was encouraging recently to have heard from a major corporate capital city occupier that they have been developing, as a part of their **corporate social responsibility strategy**, a policy on **getting back to the office to support the CBD**.

In conjunction with the **ANZ/PCA confidence survey**, recent market activity and transactions point to various assets values holding up well (sometimes notwithstanding the work from home logic for the office sector) in circumstances where sales have been occurring only just below 2019 book values.

The reported volume of transactions over \$10m in NSW in 2020 compared to 2019 demonstrates a level of market resilience that was not perhaps expected earlier in the year. 2019 saw a total of 364 properties sell for a total value of \$25.4b or an average price of \$69.6m whereas **2020 saw a total of 157 properties** sell for a total value of **\$8.2b or an average price of \$52.1m**. Whilst a lesser volume in dollars and property numbers these numbers are higher/ more than was expected at the beginning of 2020 in the COVID economy.

What Preston Rowe Paterson Sydney has been doing during COVID 2020

We have been constantly changing our approach to suit the emerging environment by empowering management and our teams to fit the new circumstances. From the 'working from home' policy to adapting to new regulations, to maintaining business stability and revenue, Preston Rowe Paterson has had to shift the way we were operating by implementing some key operational actions. We see this as constantly evolving as we deal with any new challenges.

Some of the things we have achieved in 2020 are set out below:-

Working from home and related IT development

We have quickly reacted to the evolving COVID-19 Government restrictions. As those restrictions have been constantly changing throughout the year, it has been important to us to follow Government directives, which include a system of rotation for some employees to work from home and others at the office.

We have been presented with two awards

- RICS Award for Real Estate IT Innovation

Preston Rowe Paterson received one of the RICS 2020 awards for partnering with Valocity to roll out an occupant assisted real estate inspection device App for valuations in the COVID economy.

This award puts us at the forefront of web services-based IT development for the delivery of real estate valuation services for all types of real estate.





- ISO 27001 Certification for IT Security

We have also been certified with ISO 27001, recognised as the international standard for best practices in information security management systems (ISMS), ISO 27001 certification clearly demonstrates PRP's commitment to providing their customers with the highest level of information security management.

This is fantastic news for our business, staff and clients and gives our Clients complete assurance that we at Preston Rowe Paterson are continually striving to operate to the highest quality standards. "It continues PRP's long history of putting our clients first" Greg Sugars OAM, CEO National Director of PRP said in making the announcement.



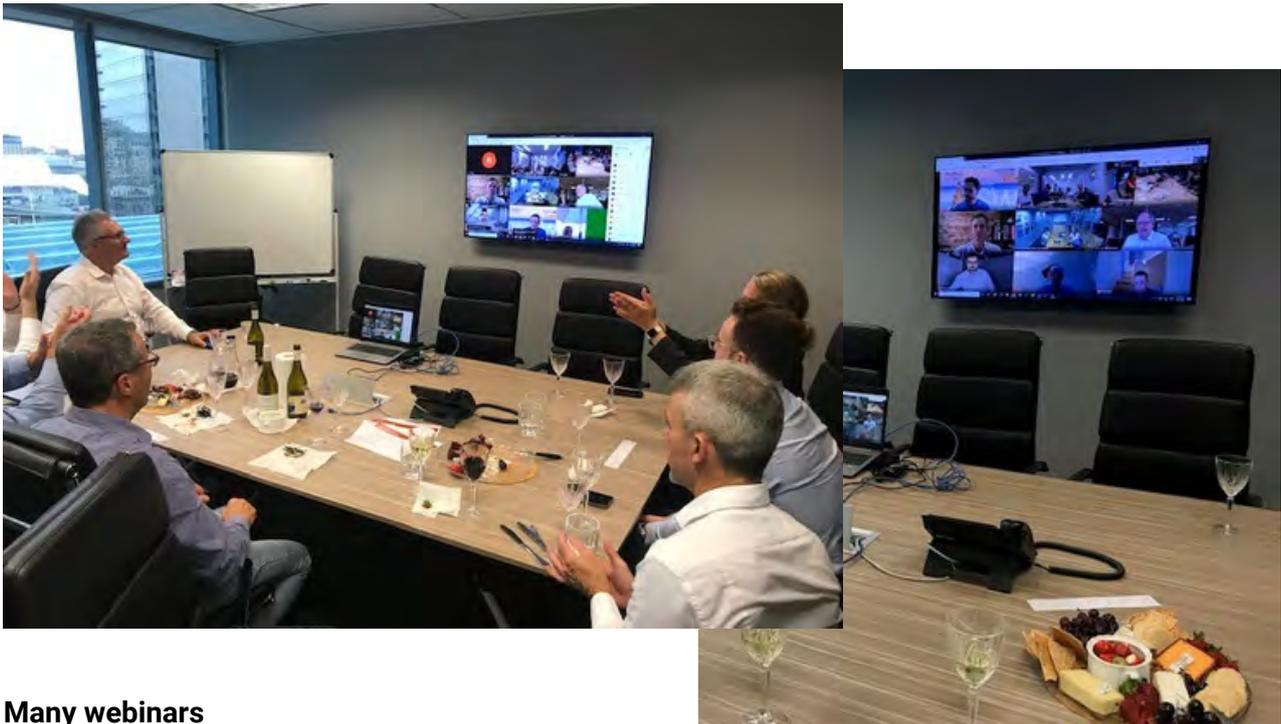
Melbourne Lockdown Support - Concerts from the Angels and Alex Preston

In support of our Melbourne and Victorian colleagues, we hosted two live lockdown concerts on zoom. The first was the Brewster Bros, guitarists of the veteran Australian Rock band the Angels. The second changed the genre gears with DJ Alex Preston playing the sounds of music he has written for Toolroom records in the UK. All our clients participated in these Zoom concerts.

Centuria Charity Trivia Night Event

Some of our team members and directors of Preston Rowe Paterson attended the Centuria Capital Limited's 2020 Annual Trivia Night for the benefit of St Lucy's School focussed on inclusive education for all children with disabilities. The event was running in a CovidSafe way with social distancing rules.





Many webinars

Preston Rowe Paterson Sydney has also been attending to many webinars, including a Wine Masterclass event organised on the Thursday 3rd December by the Property Funds Australia in partnership with Baumé Fine Wines owned and operated by Paul Manthey.

The team had the occasion to taste a fabulous '2019 'Chenin Blanc' from the Barossa Valley and an amazing 2018 'Greenstone Gusto' Shiraz from Heathcote, with their own cheese pairing. The Masterclass was held through Google Meeting with 30 other companies attending. We were happy to be supporting the Australian Wine Industry given the impact of the trade wars with China on the industry.



Webinars Focussing on AASB Accounting Standards and IVSC Valuation Standards

We have delivered webinar papers internally and for the Property Funds Association (PFA) focussing on the Valuation Uncertainty that prevailed in the first half of 2020 and reflecting on the lessons learned to form the Global Financial Crisis. Both the AASB Accounting Standards and the IVSC Valuation Standards provide valuable guidance to valuation approaches and methodologies in the times that we are experiencing.

Property Funds Association Webinar & Papers on Commercial Lease Code

As we were going through the COVID-19 up and downs, Preston Rowe Paterson Sydney kept an eye on changes and updates within the property industry, and especially for the Commercial Lease Code. We have created a special section on our website publishing updates on Valuation and Property Management issues in the COVID-19 economy. [See Link](#)

McMahon Clarke Toolkit for Funds Managers – Valuing Real Estate in the COVID-19 Economy

We participated in the McMahon Clarke toolkit for fund managers and prepared an article of Valuation in the COVID-19 Economy. [See Link](#)

We are a CovidSafe registered business

As part of our desire to all return to the office to support our cities and our client owners, while maintaining a safe and healthy environment within the office, Preston Rowe Paterson Sydney has now registered as a COVIDSafe business.



Since the beginning of the pandemic, Preston Rowe Paterson Sydney has operated under a COVIDSafe Plan to ensure our staff and clients remain safe while maintaining our business running. In order to follow the government guidelines, the company in Sydney has implemented some business rules such as:-

- We have adhered social distancing rules which are an ever-changing feast as we move through the intensification or reduction of rules as the pandemic response is managed;
- The rotation system of some staff working from home and some “core” staff staying in the office;
- Maintaining social distancing in meetings with the use of available technology software such as Microsoft Teams for all our meetings and communication; and
- Working with Investa, our building management company, to ensure a Safe Return to Work for all our employees.

Whilst 2020 has certainly been a year filled with surprises and many unique challenges, we can proudly say that we have achieved a lot throughout this tumultuous year. As a business in the property industry, we have strived for a **leading business model** for the benefit of our clients, staff and colleagues.

For Australia, we hope that the recent Sydney Northern Beaches cluster is extinguished as soon as possible, that our recent return to economic and real estate market confidence is maintained, that our rebound from short-lived COVID induced recession continues and that our geopolitical circumstances with China improve.



Preston Rowe Paterson

International Property Consultants and Valuers

Preston Rowe Paterson Sydney Pty Limited

ABN 61 003 139 188

Level 7, 1 Market Street
Sydney NSW 2000
Australia

Telephone +61 02 9292 7400

Facsimile +61 02 9292 7404

mailroom.sydney@prp.com.au

www.prpsydney.com.au

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