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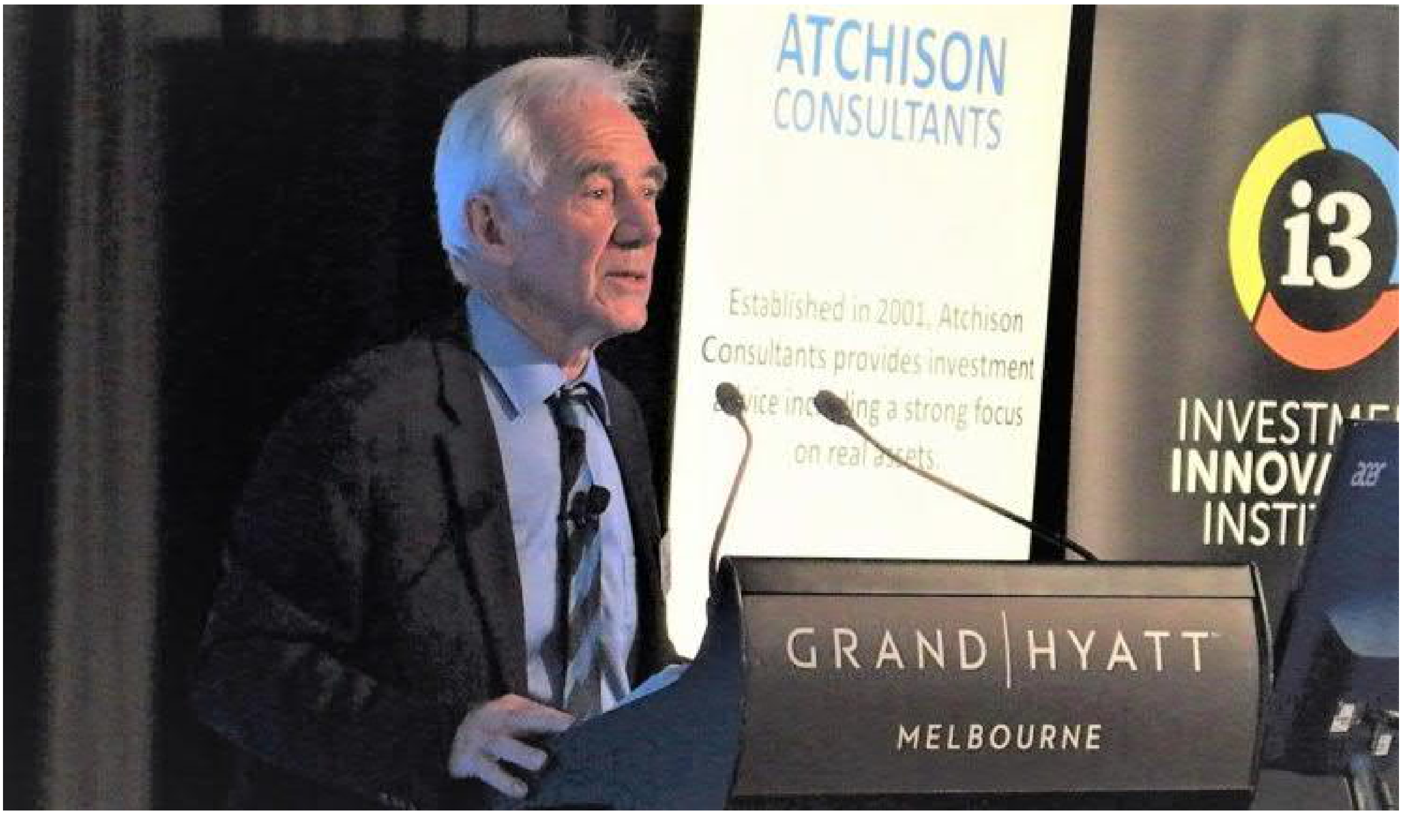

Ken Atchison, Managind Director, Atchison Consultants

Australian Property and COVID-19

Atchison is Carefully Optimistic

BY FLORENCE CHONG (HTTPS://I3-INVEST.COM/AUTHOR/FLORENCE-CHONG/) | AUGUST 5, 2020 **REAL ESTATE (HTTPS://I3-INVEST.COM/CATEGORY/REAL-ESTATE/)**

Having been through three deep recessions during his 40-year career, veteran asset consultant Ken Atchison is cautiously optimistic that the current COVID-19-induced recession will have a limited negative impact on Australia's property industry.

This recession, he says, will be unlike those of the early 1990s or the global financial crisis of the mid-2000s – which left a trail of wreckage in both listed and unlisted property markets.

Atchison (https://atchison.com.au/our-team/) believes that the property sector learned from past recessions, and that it can weather this economic downturn. An exception is the retail sector, which is in the throes of structural change.

The key difference this time, he says, is that there is no 'massive credit crunch' of the scale, which exacerbated previous recessions.

This crisis, says Atchison, has unleashed 'credit freedom', reversing the credit squeeze that was evident throughout 2019.

He points to a decision 'very early on' in the COVID crisis by Australia's Council of Financial Regulators, chaired by Reserve Bank governor, Phillip Lowe, that Australia's banking system have material capital buffers. The banks were urged to use their surpluses to provide a flow of credit into the economy.

Earlier Lessons

For the property sector in particular, Atchison attributes collective lessons learned from earlier recessions for the resilience of the sector today.

Atchison says the two key lessons the property (https://i3-invest.com/galleries/global-property-forum-2019/) sector learned from earlier recessions were sensible levels of gearing and a refocus on the home market. Excessive gearing was 'a critical issue' in the past.

Many will recall the pain and the massive write-downs suffered, especially by listed real estate groups, in the wake of global financial crisis (GFC).

Most listed real estate investment trusts (REITs) and unlisted property trusts entered this recession in much sounder financial positions.

The focus back to Australian assets has stood property companies in good stead, Atchison says. "There has to be a separation of capability. It is not possible to manage a portfolio in Europe from downtown Melbourne."

Additionally, he says, over the past decade more listed REITs have become internally-managed. "There is now a better alignment of interest in the sector."

With the exception of retail and hospitality, says Atchison, the property industry will recover 'quite quickly'. "We won't see a dramatic fall-off in property prices," he told *[i3] Insights*.

The impact of the crisis is being felt unevenly across the property landscape, according to Atchison. He says the pandemic has accentuated social changes – and that these changes are accelerating the disruptions that have already been felt in retail and hospitality.

The Beginnings

Atchison set up his consultancy firm more than two decades ago to advise asset managers on investment options, including property.

Today, Atchison Asset Consultants advises on $16 billion of super, insurance and foundation money. Seventy-five per cent of its business is in asset consulting; the balance is property-specific.

"At the end of March, we did a total policy review, looking at all data available at the time," he says. "We said: 'Stay long in equities'. We agree in principle with many of our clients, who have moved from the listed to the unlisted market to capture the premium that is available in the private market."

But despite the resilience of share markets, both in Australia and overseas, Atchison cautions against moving out of the unlisted market back to the listed sector.
"If you need liquidity, you should already have a policy on liquidity and anticipate the need for it," he says.

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"The perennial question is the validity of having property within a portfolio. We understand how property adds value to our asset consulting client base. We use analytics to support our thesis.

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E-commerce

The COVID-19 lockdowns have accentuated the trend to online shopping.

Within the retail sector, shopping centres catering to daily essentials, such as those anchored by Coles and Woolworth supermarkets, are trading better than those relying on discretionary spending, like clothing and entertainment.

Atchison expects shopping centres, which generally occupy attractive locations and have car parks sitting on large tracts of land, to be repurposed for other uses. Vicinity Centres recently unveiled a master plan to create a futuristic precinct at Box Hill, 15 km east of Melbourne CBD.

In what will be a decade-long project, the 5.5 hectare site will house a 25-level office tower, a 48-storey residential building with 366 apartments, new public space featuring a 'bustling' new town square amphitheatre — and, of course, a shopping centre. Some estimate the project value on completion to be around $2 billion.

Atchison says shopping centre owners have to go through quite a long process to get approvals to reimagine their assets, and to bring in co-living spaces and other uses.

Atchison describes hotels as the 'most challenging' of all property sectors. "Hotels are a tricky one," he says. "First, they faced the disruption of Airbnb, and now they are shut down of travel during the pandemic. While Airbnb affected occupancy, the shutdown in travel is having a much greater impact.

"Business travelers are the main users of hotels, more so than the broader tourism market. Reduced business travel translates to reduced business usage."

Aside from luxury hotels, Atchison says run-of-the-mill hotels lend themselves to residential conversion. "This has been done in the past. Hotels have become serviced apartments. But I agree there is no immediate opportunity for conversion, given uncertainty in the apartment market today.

"Our data shows that unit approvals are slowing and will continue to slow. Demand will come from domestic – not overseas – buyers. The data shows that a bit of oversupply in Brisbane, supply balance in Sydney, and a pending shortfall in Melbourne."

Atchison suggests that, given the time it will take to get approvals in place, converting hotels into residential use could be a viable proposition come 2021-22. It will take that length of time to get applications through.

Office Properties

The future of CBD office sectors has attracted an endless stream of negative commentary, with a chorus from commentators suggesting the new norm of working from home will reduce demand for office space.

Atchison, however, is not convinced. "Before COVID, four per cent of the workforce worked remotely," he says. "Will that increase dramatically? It is hard to say. We are in transition.

"My own view is that some companies will push to go down this (remote-working) path. But working from home does not foster teamwork.

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"Working from home is fine for a short period of time. (But) apart from top-end management, who live in big homes with space for working, most dwellings are not built for work from home," he says.

Anecdotally, families face increased tension when both partners are forced to work from home, says Atchison. "The community is not structured to work from home."

CBD offices are safe in terms of future demand, he concludes, but on the margin, some suburban locations could become more attractive. The sole reason for that is ease of commuting.

Atchison leans towards the Brookfield experience, which he believes is going to come into play.

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"Brookfield is actually seeing increased demand for office space because of the new social distancing requirements," he says. "Their major tenants are saying they need more space (not less)." (Brookfield is one of the world's largest asset owners.)

Logistics and industrial facilities have also been in demand and have benefitted from the crisis.

On the broader economy, Atchison is also optimistic, but say recovery will be gradual. He bases his expectation on three factors: credit, low interest rates, and supportive fiscal policy.

The availability of credit, he says, will have a huge impact on the recovery, and low interest rates will be a boost. More significant, he adds, is the role of government.

"The Australian response has been excellent. The federal government moved quickly to put money into the right hands. There is talk of the stimulus switching off in September, but that will be fine. The key is to spend – and to spend now.

"To my mind, there is enough in these three items to take us through the crisis, and, during the balance of 2020, the economy will recover."

But Atchison is strongly against the early release scheme to allow Australians access their super savings.

In his view, this undermines the very principle of retirement saving – which is to invest with a long-time horizon – 10, 20, 30 years.

He says the early release scheme has hurt some super funds. "They had no expectation that they need to meet redemption requests on a month's notice," he says.

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