

MEDIA RELEASE

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The sleeper issue that could collapse the commercial property market

In the enthusiasm of Governments around the nation to be pro-active with financial support for COVID-19, commercial landlords have been abandoned – particularly those who rely on small to medium sized enterprises for their income.

Contract law has been tipped on its head. Commercial property lessors now must bear the burden of the financial stress of their tenants. In the context of COVID-19, this seems, superficially, a case of sharing the pain in the “unprecedented” economic situation. But the precedent is now established - and it is dangerous.

What will the impact on the value of commercial property be? Do property owners need to now factor in a special risk premium for failed businesses or future lockdowns?

When a small business tenant starts to feel the financial pinch – are commercial contracts for the lease of property worth the paper they are written on? What will be the impact on Superannuation portfolios – almost all of which are exposed to commercial property as a core component of any balanced fund?

In other sectors, Governments have sought to provide more comprehensive support. The CashBoost Payments support small the medium businesses. JobKeeper payments support employers and employees. JobSeeker payments offer support for those who are laid off work.

But when it came to commercial property owners, they were told to “negotiate” with tenants. No requirement of proof of loss of income from the lessee. A simple ban on the evictions for six months and the unhelpful suggestion that rent be waived and/or deferred.

And for all the glorified exaltation of the Banks’ moratorium on loan repayments (mostly coming from the ABA), a deferred loan must still be paid off. In fact – there has no talk of banks waiving the additional interest that accrues during the “moratorium” period. And yet commercial property owners are required to waive or reduce rent!

There is a domino effect here. When rents drop, the value of the property drops. When the property value drops, the capital value that underpins a mortgage can fall below the minimum ratio required by the bank or the mortgage agreement. That alone could cause a commercial landlord to go into default. Then you add the pressure arising from the government mandated period of landlord funded social welfare for small-medium enterprises, and you start to see the potential for a medium-term collapse in the market.

The value of Superannuation funds and investment trusts drop – everyone hurts – all because dealing with commercial leases properly was just *too hard* for our political leaders.

How did the Prime Minister, the Premiers or the National Property lobby groups lend their names to the “Code of Conduct”? It smacks of a rushed process with a very poor result indeed, then was flicked off to the States for inconsistent and generally ill-conceived application.

The commercial property sector will cop a hammering from COVID-19 without this mandated re-draft of commercial contracts. Demand for office accommodation will be hit, and there will surely be an impact on retail sales (not least from unemployment, let alone ongoing requirements for social distancing – and let's not even think about a second wave or a second closedown!).

It's time that Treasurers and policy makers took another look at this.

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The above can be attributed to Tom Forrest, CEO, Urban Taskforce.

*The **Urban Taskforce Australia** is a property development industry group, representing Australia's most prominent property developers and equity financiers.*

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