

COVID-19 Considerations and Recommendations

On March 21st a COVID-19 alert system was introduced. Less than a week later, we were at level 4 and entering a 'lockdown'. In a very short period of time, everyone has had to consider a lot and change their approach to 'business as usual'. There are many different and unique situations, but some commonalities for businesses and property owners have emerged, enabling us to provide some considerations and recommendations.

Economic considerations

- The impacts of COVID-19 are still being felt across the world. Locally, economic output in New Zealand is forecast to decline significantly in 2Q20 but most are hinting at an annualised economic recovery in 2021, at this stage. Further commentary and data at [ANZ](#), [ASB](#), [BNZ](#), [Westpac](#) and [Kiwibank](#).
- There are typically 'V', 'U', 'L' (and some 'W') shaped economic recoveries, which are all being discussed highlighting the amount of uncertainty. Read more about the COVID-19 economic shock and 'shock geometry' from [HBR](#).
- While businesses and property owners will need to focus on immediate solutions in the short-term, the medium and long-term outlook will also need to come into focus very soon.

Government, insurance and legal considerations

- The Government's COVID-19 relief package and the Reserve Bank's record low monetary policy stance and quantitative easing will help to support our economy and fiscal markets. Find out more at the [Government](#) and [RBNZ](#) websites.
- The Government wage subsidy is expanding rapidly. More information on this is obtainable at [IRD](#). There have been many positive stories on the full payout being received quickly, in some cases within 2-3 days.
- The reintroduction of depreciation on commercial and industrial buildings will also be available in 2020/2021 along with a number of other [tax relief initiatives](#).
- There are growing concerns that given the prospects of limited revenue and significant job losses as noted by [BNZ](#) and [Westpac](#) recently that more stimulus will be needed, and quickly.
- Current advice from the Government and the Reserve Bank is that they will act. This will inevitably mean our fiscal position will be quite different in the future, necessitating some new ways of thinking to lift our productivity to make up what we have lost. Importantly, we're going into this situation in a much better position than many [other countries](#).
- Rent relief/abatement and Clause 27 of an ADLS lease agreement have been the most discussed topic over the past couple of weeks. There are a wide variety of responses and outcomes across the spectrum from not paying any rent to paying rent in full. Many lawyers are providing advice on their websites and [PCNZ](#) have also made some statements. Colliers team has some other options for occupiers to consider on page 3.
- The government is likely to assist with a commercial and industrial [rent relief package](#) - maybe next week?
- Due diligence and settlements have been disrupted due to the lockdown. The Law Society have recommended the use of a [new clause](#) to amend existing Agreements of Sale and Purchase or Auction Agreements during the lockdown period. Colliers agents are also working through conditional contracts with additional clauses to enact upon removal of the level 4 lockdown status.
- It is most likely that business insurance policies for rental income will have an infectious disease exclusion clause, but this should be checked as there are anecdotes of this not always being the case.

Office sector considerations

- For a considerable period of time, the office sector has been in favour of the landlord with limited supply and strong demand. This could change, but by what extent is too early to tell.
- If job losses are high and economic growth is slow to rebound, higher vacancy rates and longer leasing periods could eventuate. The experience of other downturns suggests this would be in lower grade space.
- Vacancy rates have hit record lows recently. If the economic recovery is quicker and firms look to reemploy sooner rather than later, this will help insulate the sector.
- The reduction in the proposed development pipeline due to the uncertainty will assist or limit the potential for a major oversupply.
- The world's largest trial on remote working has been undertaken. If firms see this as a successful outcome, this could mean a longer-term change in behaviour potentially reducing total demand for office space in the future.
- A focus on distance and cleanliness may also filter into any new or existing office designs, which may also lead to some changes in the coworking sector.

Retail sector considerations

- The lockdown is likely to severely impact the majority of retailers who are not considered an essential service or are not able to provide their goods in a safe and secure manner. Given uncertainty of the length of the lockdown and border control measures, it is too soon to understand the longer term impacts for the sector.
- While many companies have successfully employed a more omni-channel approach to retailing, online shopping will be a major focus for retailers going forward, including click and collect. Retailers already in a position to provide this service will excel once the lockdown is removed.
- The retail sector may need to incorporate appropriate distance and hygiene measures into their operations in the future.

Industrial sector considerations

- The industrial sector has many defensible qualities. While there could be some disruption in the short-term, history shows the resilience of the industrial sector over the long-term.
- Vacancy rates were at extreme lows and the supply pipeline was limited pre-COVID-19 which will provide a buffer against any significant rise in vacancy that may occur.
- The rise in online retailing will create new opportunities for new and existing businesses as well as logistics and warehousing on a massive scale. Some of this activity is already underway.
- Manufacturing is a key driver of innovation and R&D, which will be a major focus to assist with GDP growth and productivity gains.
- Infrastructure looks set to be a prominent focus for the Government to stimulate economic growth after the lockdown.
- Non-income generating assets such as vacant industrial land could face a decline in values, albeit significant value appreciation in the last few years will help assist some investors.

Investment sector considerations

- Uncertainty brings risk in the investment landscape. The less uncertainty and risk associated with the purchasing opportunity, the smoother the process is likely to be.
- There continues to be a lack of evidence in any movement in yield. There will be a significant flight to quality, which may see the yield gap between prime and secondary assets increase.
- Some investors are undertaking a 'wait and see' approach, and looking at the potential for opportunities that could arise if any forced situations arise.
- While 'easy credit' will be impacted, many funding issues can be resolved with the right advisors. Banks will have access to capital that wasn't available in other economic declines such as the GFC.

Top strategies for considering rent relief/abatement

Below is a sample of strategies for occupiers to consider. Many of these could apply in reverse and be discussion points for landlords to consider.

For occupiers looking for other workplace strategies from around the APAC region, there is the Colliers International webinar

[COVID-19 Recommendations for APAC Occupiers in Changing Market Conditions](#)

- While every situation is different, occupiers with the best results are empathetic to their landlords' situation, have thoughtfully prepared their case and financials, demonstrated they have taken action, know what lease considerations and strategies could be undertaken and have good advice.
- Establishing contact: reaching out to your landlord to discuss the situation. There could be significant focus on what 'fair and reasonable' proportion of rent and operating expenses means for both parties. An occupier may need to consider their stance on business operation versus inaccessibility, damaged or destroyed and storage of stock amongst other factors. Professional advice should be considered.
- Opportunities for immediate rent relief: There is a wide variation in stances. Some landlords may consider a proportion of rent and operating expenses payment or anywhere from 30 to 180 days of rent deferral and are typically either looking to (a) amortize those months into the remaining lease term or (b) add those months to extend the term of the lease.
- Short-term lease renewals, and/or reduced sizes of spaces leased: Landlords may be willing to consider month-to-month or short-term lease renewals/extensions, possibly at a discount as well, versus no renewal at all.
- "Blend and Extend": Reduce ongoing rental rate in exchange for an extended/expanded lease commitment.
- Evaluate existing lease agreements for additional variable commitments. Many landlords will already be revising operating expenses now, but it is an area to follow up on.
- Sale/leasebacks: A potential for immediate capital infusion depending on the creditworthiness of the tenant.
- Third-party logistics providers for supply chain solutions: For supply chain facilities with upcoming lease expirations, consider third-party logistics providers (3PLs) options at least as a stop gap until conditions are more stable. Many 3PLs specialise in integrated operations of warehousing and transportation services that can be scaled to customers' needs.

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