[ROD CORNISH, HEAD OF REAL ESTATE STRATEGY, MACQUARIE ASSET MANAGEMENT] I'm Rod Cornish and I lead the Real Estate Strategy Team within the real estate division of Macquarie Asset Management Group.

So, why am I passionate about real estate? I'm a great believer in cycles and that they keep occurring. So, I spent a lot of time working out the trigger points for cycles, and it creates opportunities. But also, I'm really involved in changing demographics, changing preferences and what that means for real estate. And I get a lot of insight from speaking to our major investors.

COVID-19 has had a far-reaching impact on real estate. And some of those drivers include things like the lockdowns and the influence on listings. So, before COVID, we actually saw very strong growth – particularly in Sydney and Melbourne house prices – they were rising quite rapidly and recovering from a previous downturn. But listings fell very sharply after the lockdowns, they've now come back to, almost, the average levels of last year. The jobs market has been hit – we've got rising unemployment. Net migration, which is an important influence for real estate demand, has come off sharply. And that has an influence on things like CBD apartment rents, and also rentals close to the universities because a lot of students aren't coming through.

But at the same time, we've got to remember that there's big policy responses like we haven't seen before. So, there's income support from the government – JobKeeper. There's also support from the banks in terms of more flexibility on payments. Mortgage rates have come down significantly, and they're almost 1% below about where they were 12 months ago. And that's had a big influence on affordability, which is one of the major drivers of real estate demand. So, affordability levels have improved, getting back close to where they were in the global financial crisis.

HOW HAS COVID-19 IMPACTED THE OUTLOOK FOR INTEREST RATES?

So, interest rates have been cut, as we know, and quite significantly. They are well below where they were 12 months ago. The view of Macquarie Securities Economics is that these interest rates remain on hold for pretty much the next two to three years. And when you think the main drivers of interest rates is really wages growth, we're unlikely to see that filtering through for some time, so it makes sense. That will have an ongoing impact on affordability – a positive influence – which will help limit the falls. And when we do start to see recovery, we'll actually see a bit of a bounce and we typically see a relief bounce after we do see downturns. So, an important influence is affordability being maintained by continuing low rates.

WHAT IMPACT WILL COVID-19 HAVE ON DWELLING PRICES?

So, in terms of dwelling prices, at least in the short term, we have seen some falls particularly in Sydney and Melbourne. They've retreated some of those gains that we've seen previously. They're down relatively moderately, considering we're five months now into the declaration of a pandemic. I think they're down about 3-4%. All of Australia is down about 2%, which means that most of the falls have been in Sydney and Melbourne. Once we do see falls of around that 10%, I think there'll be some policy that would come in – at that time, if they got to that level – to try and turn that market around. And that has been successful, previously, and I don't see why it wouldn't be successful this time around.

In a more long term sense, all the stimulus that we're seeing now will really, kind of, bring forward some of the economic growth and wages growth that would have occurred over the next, sort of, four to five years and bring it forward to the next one to two years, which means that after we get that relief bounce – after things improve – that growth rates are likely to be more subdued – GDP growth rates.

If you look at the last, sort of, 20 years, house prices have genuinely been averaging about 6-7% per annum. I think that will be, you know, over the next sort of five to six years, a bit more subdued than that.

So, there are risks to that scenario. One of the most obvious is rising unemployment. Everyone knows that it has risen and it's likely to rise further. But I think equally as important – but unfortunately, these are unknowns – is how long the virus lingers for, how long until we get a broad vaccination, how long the income stimulus continues (for example, JobKeeper), but also how long the, I guess, the flexibility on the loan repayments occurs.

HOW HAVE POLICYMAKERS SOUGHT TO MITIGATE COVID-19'S IMPACT ON THE PROPERTY MARKET?

So, the government has given a lot of incentives, including income support, but also making sure that people can stay in their homes – both on the owner occupier side and also on the rental side as well. So broadly, these have been very widely accepted by the industry. There was some concern about the rental payments and how that would work because residential leases are quite short. Normally those rental relief sort of work if there are longer lease terms. On the purchase side, it's widely recognised that this has helped limit the downturn. I think normally, we'll be seeing by now a steeper downturn than what we have seen. More recently we've had a $25,000 home builder grant, as well, for owner occupiers. Either building new homes or substantially renovating homes.

This has actually influenced a very big jump in demand for new homes, and particularly in Western Australia, but also Victoria, and, interestingly, also in South Australia. So, it does prove that these incentives do work. Investor demand has come off very sharply, as has net migration into some of the inner-city areas. But I think policy will be keen to maintain, you know, relatively modest falls in detached housing construction.

HOW IS COVID-19 LIKELY TO SHAPE DEMAND FOR RESIDENTIAL PROPERTY LONG TERM?

So longer term in terms of the impact on residential property, big events, like COVID-19 do accelerate trends already in existence. The millennial group is a big bulge in population. They are getting older, they'll be having families, their careers are growing, I think there'll be a refocus on neighbourhoods and also, to some, in the suburbs. So, we'll get a shift – and we're starting to see this also in places like New York and San Francisco, in London. And also, some of a shift into, sort of, cheaper regional areas – and the ability to work from home is going to impact on that.

But I think probably a bigger shift – there will always be people, you know, a group of people that want to live close to the jobs in the city, and close to that lifestyle. But I think we will see some refocus because of what we're seeing linked to COVID. And that will be applying to that sort of neighbourhood feel, and, you know, sort of cheaper accommodation.

HOW HAS COVID-19 IMPACTED TRENDS IN COMMERCIAL PROPERTY?

So, for commercial real estate, the trend accelerators stemming from COVID-19 had been very marked, and they'll continue to be very marked. So, if we start with online sales growth – that was already increasing strongly, but I think this is really shaping a pull forward of that demand. What we would have seen from growth in online sales in the next three to five years, will now be happening in the next one to two years, and we're already seeing this. So that's really creating demand for industrial and logistics properties, at the expense of retail.

Again, some of those trends that we're seeing on retail, particularly overseas, those weaker trends are being amplified by COVID. In terms of data and technology, so things like the shift to the cloud – more use of the cloud. Things like the ability to work from home, but also the increased use of internet and mobile phones – particularly in Asia, and particularly in emerging Asia – is creating a lot more demand for data.