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2020 Commercial Real Estate Review

COVID-19 IMPACT AND OUTLOOK REPORT

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When cities across Australia first went into lock-down earlier this year, few would have predicted the events to follow. Now as the year comes to a close, Australian rent collection and rental assistance from landlords are close to pre-pandemic levels.

This report summarises our 2020 findings across a host of key metrics, to offer a synopsis on a number of emerging trends. This data and market commentary has helped our customers, and the wider industry benchmark their own performance against the constantly-evolving market dynamics.

Tom Wallace

RE-LEASED CEO

01 KEY EVENT TIMELINE

Commercial Real Estate Timeline 2020

Key takeaways:

From baseline, rent collection dropped by over **20%** in April and May as the country went into lockdown

Retail was the hardest hit in April & May with a low of **54%** compared to a rent collection baseline of 86%

Dramatic increases in landlord subsidies and rent relief were seen during COVID-19. Rent credited peaked in May at **5%**

VIC remains the most affected state, collecting **79%** of rent in September

Recovery started in July with a **7%** increase on April's rent collection

Of the states NSW saw the lowest rent collected at **62%** in May

Office shows resilience as an asset class with **87%** of rent collected in October.

Industrial was **7%** off pre-COVID rent collection levels of 85% in October

Retail WALE in Australia has declined in the period of January 2020 to Nov 2020.

3% drop in the 11 months, and the avg WALE is now 31.7 months

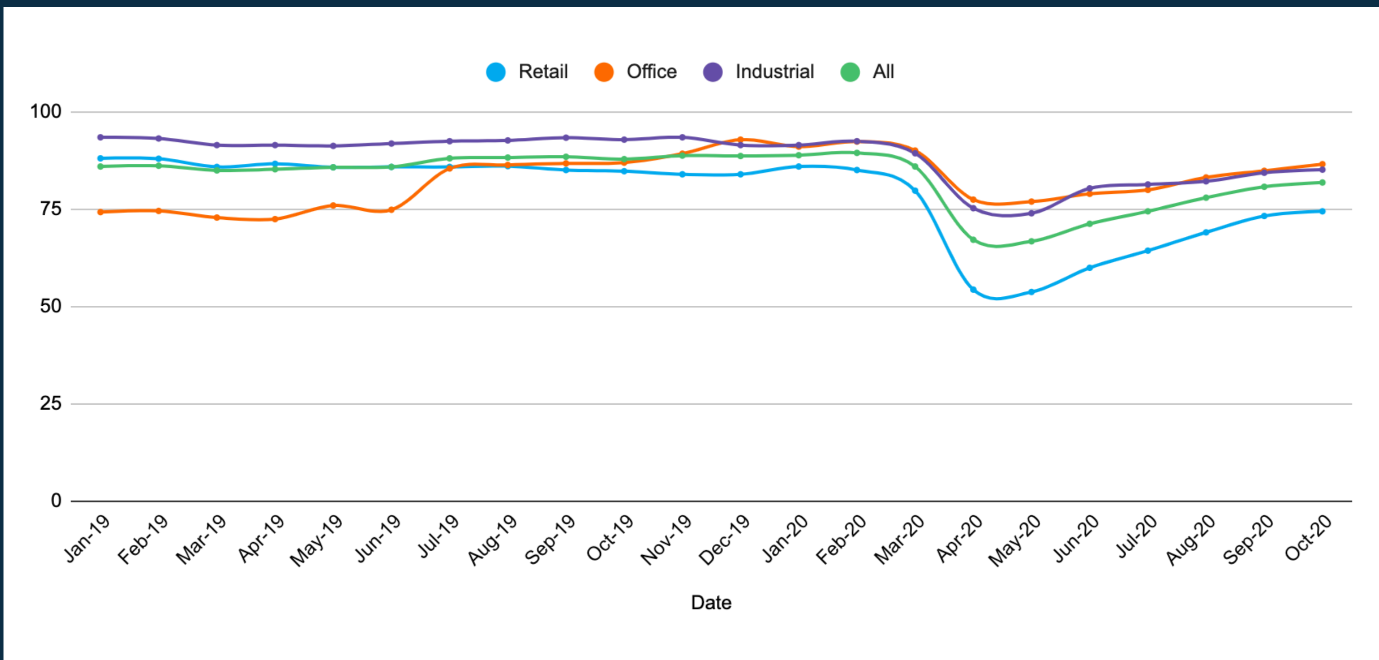
Total commercial rent collected was **82%** in October compared to a baseline of 90%*, showing a slow but steady recovery

* Baseline is the average over the 2 years of rent collection data

02 RENT COLLECTION

Australian commercial rent collection nears pre-pandemic levels

MONTHLY RENT COLLECTION FOR 2019 AND 2020 ACROSS KEY SECTORS



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As the pandemic hit in March, rent accounts across Australia were vigilantly watched by property agents and landlords alike, and with good cause. Rent collection took a hit in the first half of the year, plunging by 15% in March compared to the previous month. However, rent collection has steadily climbed since April, and is now very close to pre-pandemic levels.

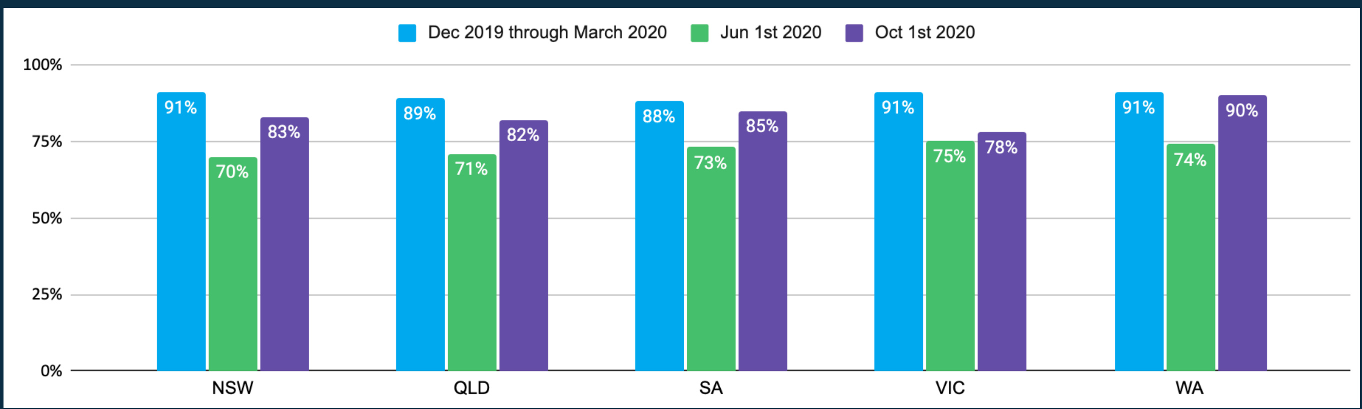
Over the year, industrial and office properties have seen strong recovery with rent collection for October at 85% and 87% respectively. This is up from a low for the year of 74% and 77% of rent collected in May. The robustness of these asset classes have proven valuable for landlords as they have maintained greater cash flows despite the trying conditions.

Retail properties experienced the largest drop-off in rent collection in 2020, dropping to just 54% in April and May. However, following steady month-on-month improvement, the retail sector experienced its highest rent collection since the pandemic commenced, with 75% of rent collected in October.

NATIONAL TREND | MONTHLY RENT COLLECTION FOR 2019 AND 2020 ACROSS KEY SECTORS

Date	Retail	Office	Industrial	All
Oct-19	84.8%	87.0%	92.9%	87.9%
Nov-19	84.0%	89.3%	93.5%	88.8%
Dec-19	84.0%	92.9%	91.5%	88.7%
Jan-20	86.0%	91.1%	91.5%	88.9%
Feb-20	85.1%	92.4%	92.5%	89.5%
Mar-20	79.8%	90.1%	89.4%	86.0%
Apr-20	54.4%	77.5%	75.3%	67.2%
May-20	53.8%	77.0%	74.0%	66.8%
Jun-20	60.0%	79.0%	80.4%	71.3%
Jul-20	64.4%	80.0%	81.4%	74.5%
Aug-20	69.1%	83.2%	82.2%	78.0%
Sep-20	73.3%	84.9%	84.4%	80.8%
Oct-20	74.5%	86.6%	85.2%	81.9%

NATIONAL TREND | ALL COMMERCIAL MONTHLY RENT COLLECTION BY STATE

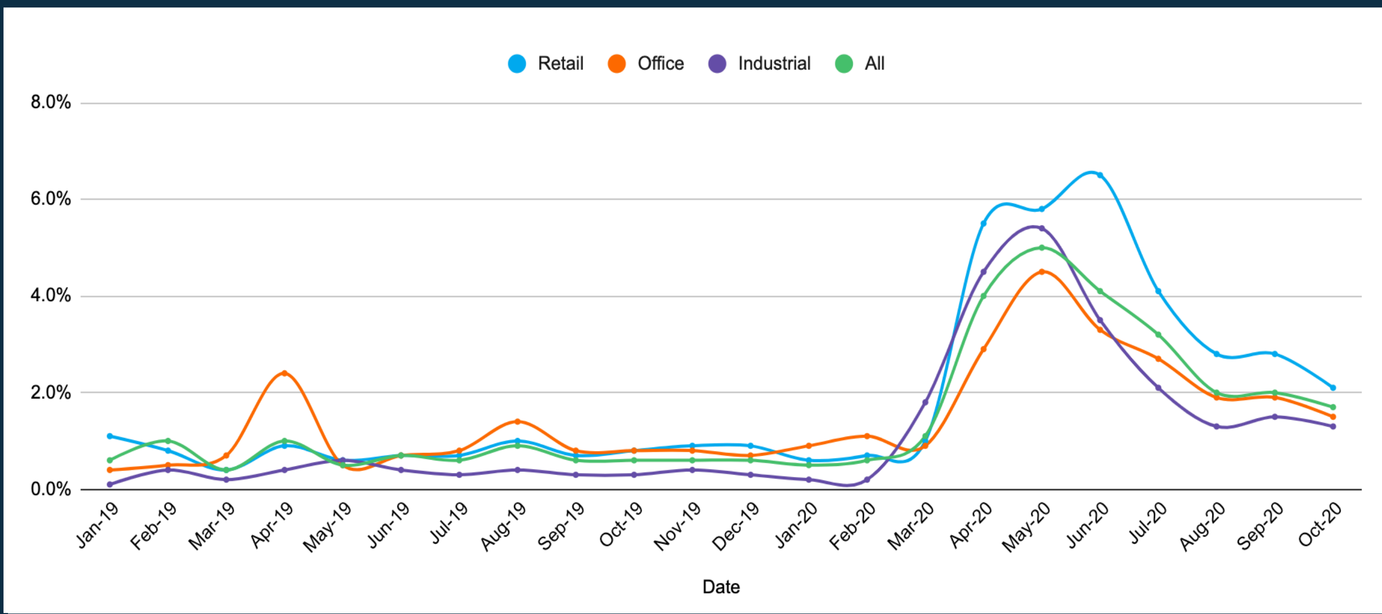


03

LANDLORD SUBSIDIES

Rental assistance from landlords drops to near pre-pandemic levels after May peak

MONTHLY RENT CREDITED ACROSS KEY SECTORS



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Landlord subsidies and credit notes became a focus throughout the year as property managers and landlords worked with tenants to manage the impacts of the pandemic. Landlords and property agents reported that their staff were inundated with tenants requests, ranging from rent holidays to deferments or subsidies.

By the 1st of April, the number of credit note allocations increased dramatically, reaching a peak of 5% of rent credited in May, before steadily decreasing to pre-COVID levels.

The level of relief provided to tenants over the year showcased property owners' awareness of the challenges facing tenants. It demonstrates a recognition by long-term focused landlords that the value of their portfolio is heavily reliant on their ability to secure occupants and encourage tenant longevity, not just short term cash flow.

NATIONAL TREND | MONTHLY LANDLORD SUBSIDIES ACROSS KEY SECTORS

Total Credited (as of day 30)	Retail	Office	Industrial	All
Oct-19	0.8%	0.8%	0.3%	0.6%
Nov-19	0.9%	0.8%	0.4%	0.6%
Dec-19	0.9%	0.7%	0.3%	0.6%
Jan-20	0.6%	0.9%	0.2%	0.5%
Feb-20	0.7%	1.1%	0.2%	0.6%
Mar-20	1.0%	0.9%	1.8%	1.1%
Apr-20	5.5%	2.9%	4.5%	4.0%
May-20	5.8%	4.5%	5.4%	5.0%
Jun-20	6.5%	3.3%	3.5%	4.1%
Jul-20	4.1%	2.7%	2.1%	3.2%
Aug-20	2.8%	1.9%	1.3%	2.0%
Sep-20	2.8%	1.9%	1.5%	2.0%
Oct-20	2.1%	1.5%	1.3%	1.7%

“The rate of credit notes issued illustrates a larger proportion of rent is being forfeited by landlords to ensure tenant longevity. Earlier in the year, we believed that the volume of rent credited was indicative of the worst-hit sectors. However, as the year has progressed, it now suggests that credits are awarded by landlords in situations where tenant relationships have been, for the most part, transparent and collaborative.

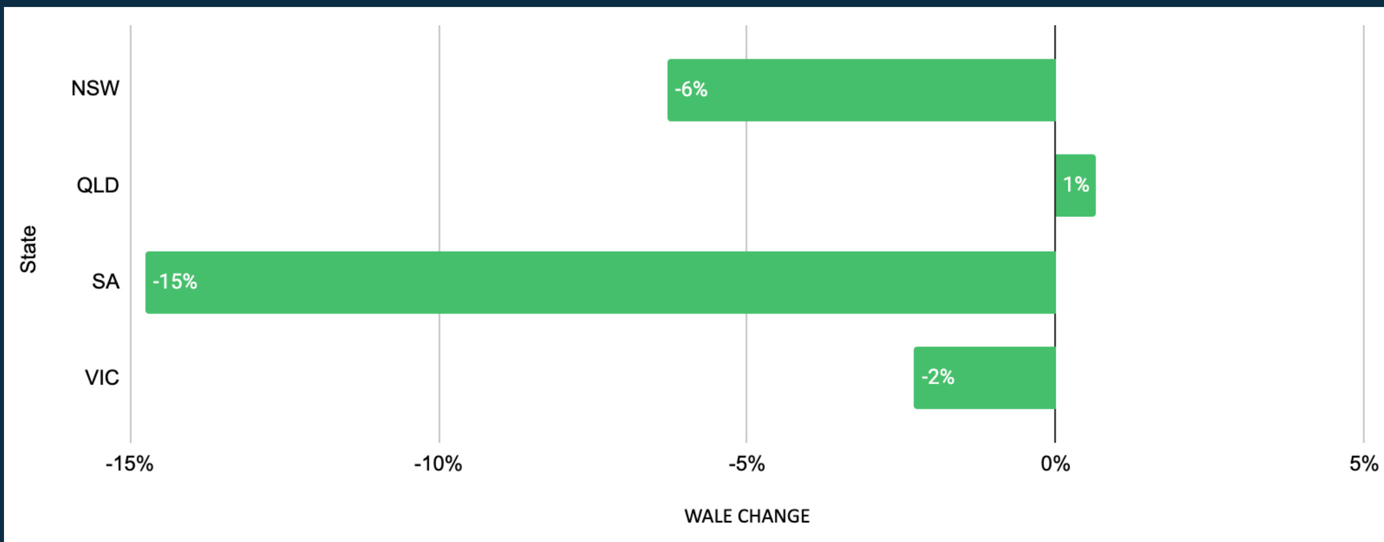
CALEB DUNN

Commercial Analyst, Re-Leased

04 WALE

Landlords exposed as Australian retailers experience weaker Weighted Average Lease Expiries

RETAIL WALE PERCENTAGE CHANGE BY STATE



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The aftermath of COVID-19 has manifested as a drop in tenant confidence, as they are search for greater flexibility in their lease terms. With downward pressure on lease lengths, there is a strong indication that landlords will need to compromise on their leasing strategy. Landlords will need to understand and react to tenant sentiment or face longer periods with vacant space as they may struggle to sign leases with term lengths that were commonplace pre-pandemic.

The average WALE (weighted average lease expiry) for Australian retail leases fell by 3% to 31.7 months between 1st January and 1st November. This trend indicates that landlords of retail properties have less certainty around future cash flows heading into 2021. WALE is often used as a measure of portfolio health, but with evolving leasing dynamics at play, historic attitudes to WALE may need to be reconsidered.

When looking at retail specifically, widely regarded as the hardest hit sector, South Australia and New South Wales saw the greatest percentage decrease in WALE this calendar year, 15% and 6% drops respectively. Landlords of retail properties will likely look to new measures when communicating the value of their portfolio in the future, as enticing tenants into lengthy agreements will be harder to execute.

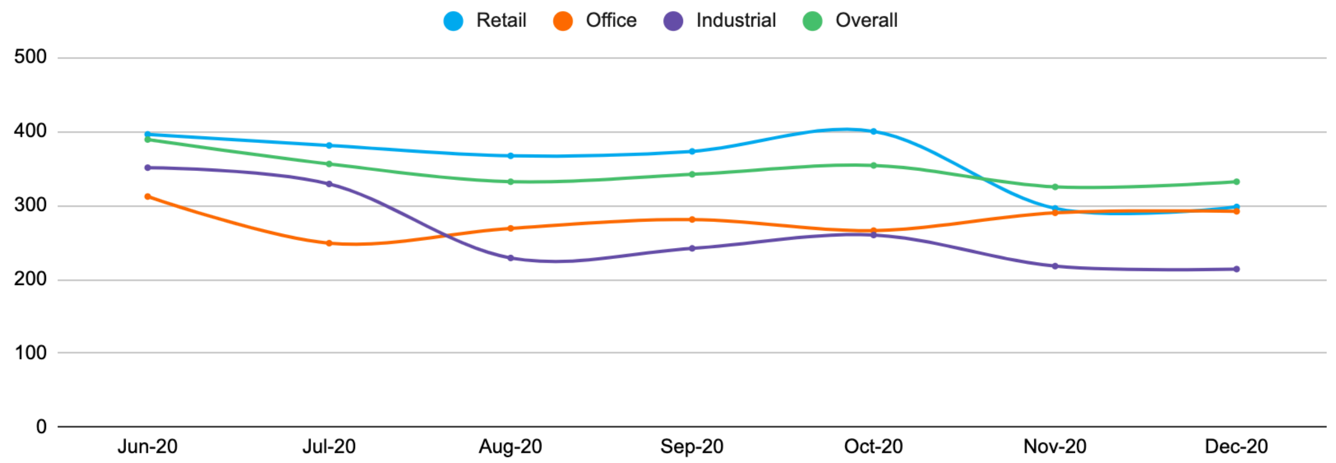
NATIONAL TREND | WALE FOR RETAIL

Date	Jan-20	Nov-20
NSW	36.5	34.2
QLD	30.5	30.7
SA	39.3	33.5
VIC	30.4	29.7

05 AVERAGE VACANCY LENGTHS

Vacancy lengths continue to decrease following June peak

NATIONAL TREND | AVERAGE VACANCY LENGTHS (DAYS)



Date	Retail	Office	Industrial	Overall
Jun-20	396	312	351	389
Jul-20	381	249	329	356
Aug-20	367	269	229	332
Sep-20	373	281	242	342
Oct-20	400	266	260	354
Nov-20	296	290	218	325
Dec-20	298	292	214	332

Landlords can be buoyed by the improvement in average vacancy lengths compared to six months prior. Retail properties experienced the longest void periods throughout the year. However, retail is starting to gain parity with office and industrial as the year concludes.

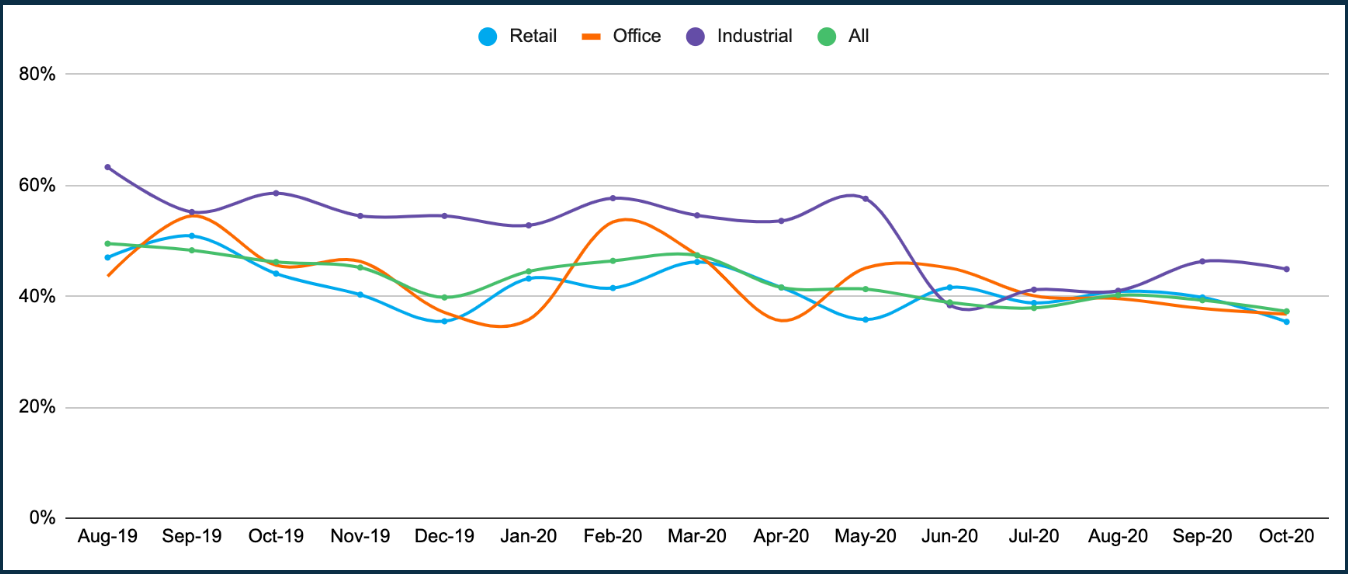
Industrial property owners can be encouraged that their average vacancy periods are continuing to fall.

Empty premises not only represent a loss in revenue but often mean that landlords are forced to pick up the tab for business rates and other costs associated with the management of the property. The longer the length of a vacancy or void area, the greater financial consequence for landlords.

06 LEASE RETENTION

Tenants are less likely to renew leases upon expiry as 2020 concludes

NATIONAL TREND | AVERAGE LEASE RETENTION BY SECTOR



Date	Retail	Office	Industrial	Overall
Oct-19	44%	46%	59%	46%
Oct-20	35%	37%	45%	37%
Difference	-9%	-9%	-14%	-9%

Tenant longevity is at the forefront of many landlord's minds, however, when comparing October 2020 to October 2019, there is a distinct reduction in Australian landlord's ability to retain tenants.

The Lease Retention figures establish the rate at which tenants renew or extend their lease when presented with either a term expiry or break option. Currently, just over a third of tenants will renew or extend their lease following an opportunity to walk away from their premises, a 9% decrease from 2019. As landlords need to gauge the likelihood of future vacancies and the impact on cash flow, the Lease Retention metric provides a retrospective view of how similar situations have played out in the recent past.

Throughout 2020 there has been a slow but steady fall in the average retention rate, across all sectors. This highlights a potential fragility within these assets to secure long-term income, and signals that occupiers are looking to adapt as COVID-19 has forced many tenants to reconsider their physical space requirements.

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GO TO THE CREDIA INDEX

This data has been collected, anonymised and aggregated directly from over 45,000 leases in Australia. It does not rely on surveys or secondary collections.

Re-Leased Software Company Ltd are confident in the validity of this data as its formation is a direct result of bank statements entries being matched and reconciled to rental invoices.

All data that has been aggregated for this report is in line with the following Re-Leased Terms and Conditions as at the time of publishing.