Bringing our workforce out of the CBD's and in to the Suburbs.

Our new era of displaced workforce...

Suburbanite

360° Property Advisory

Asset 360 Report - December 2020

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Executive Summary

The Asset 360 Report takes Clubs, Not for Profits (NFP's) and broad portfolio investors behind the property market.

With changing working behaviours now settling in and looking like they will be here to stay, our CBD offices are become empty and the cafes in the suburbs are bursting at the seams with business people trying to squeeze in meetings closer to home. 2020 has brought about a new era of displaced workers, looking for ways to work from home and be impactful and effective in suburbia. Businesses are now faced with a new set of challenges, providing spaces for their displaced work force to do business in suburbs and not the CBD. Shared work spaces took off in a big way through our buzzing CBD's pre COVID, but now they need to adapt and move into suburbia to survive and to thrive. Clubs can position themselves to leverage this opportunity and capture the displaced workforce of 2020 and make it the income diversification of 2021 for clubs.

Like childcare centres and gyms have been over the past decade, the co-work hub in the 'burbs' will be the next wave of demand and a solution to a growing business problem.

In this edition, we explore the changing workforce dynamics, feeling the financial pinch, distressed asset sales, commercial investing, the current state of the equities market and more.

Anna Porter from Suburbanite Asset Advisory is joined by commercial property expert, Steve Palise and two Partner's from Koda Capital.

Bringing our workforce out of the CBD's and into the Suburbs. How Clubs can lead the shift of our new era of displaced workers…

With changing working behaviours now settling in and looking like they will be here to stay, our CBD offices are become empty and the cafes in the suburbs are bursting at the seams with business people trying to squeeze in meetings closer to home.

Anna Porter, Suburbanite Principal and market commentator believes 2020 has brought about a new era of displaced workers, looking for ways to work from home and be impactful and effective in suburbia.

> "Businesses are now faced with a new set of challenges, providing spaces for their displaced work force to do business in suburbs and not the CBD."

In this edition Anna Porter explores how clubs can lead the shift of our new era of displaced workforce.

Work spaces took off in a big way through our buzzing CBD's pre COVID, but now they need to adapt and move into suburbia to survive and to thrive. Porter believes clubs can position themselves to leverage this opportunity and capture the displaced workforce of 2020 and make it the income diversification of 2021 for clubs.

"Like childcare centres and gyms have been over the past decade, the co-work hub in the 'burbs' will be the next wave of demand and a solution to a growing business problem," says Ms Porter.

"Businesses are reducing overheads, becoming nimbler and offering a work from home model in to the future."

However, this comes with its own set of challenges for large and small business alike. Some of the challenges business face with the new world of working from home include;

- Professional meeting spaces for employees and clients
- Break out spaces for employees to work away from the home from time to time
- Socialisation and training of the team
- Staying connected to the local and business community

According to Anna Porter, this is now more than ever leading business to co-work and shared working solutions, but in many cases, they are still predominantly in the CBD's.

She says bringing these co-works into the suburbs and finding a home for them is a solution that many clubs should look to offer and embrace.

Clubs are uniquely positioned to drive this trend as they can offer;

- Parking
- Professional meeting rooms
- Socialisation
- F&B
- Training facilities
- Connection to the community and business community

We are working with a number of clubs to explore the options to partner with co-work providers so they can create a revenue stream from their underutilised spaces and bring in a whole new corporate clientele in to the venue during the quieter hours of the day.

Clubs and major projects - what you need to know

Clubs feeling the financial pinch – how to do a JV the right way

We meet with many clubs that are feeling the financial pinch. Many of them have lazy or underutilised property assets and know they can be doing more but aren't sure where to start. Some come to us too late to do anything of value and others sign off a deal with a developer that is not a good deal, but once they are at a point there isn't much we can do to get them more out of it. Below are a few of the common misconceptions and FAQ's we get around doing a JV include;

Time Line

Many clubs contact us when they only have a few months of trading revenue left and are looking to partner with a developer. My suggestion is to allow at least 6 months to find a JV partner and ideally 12 months if you can to find a suitable JV partner and explore all your options thoroughly.

<u>You need a big budget to do a major project</u>

Many clubs want to do a major project on their lazy land assets, or to get a new club or more capital, and to do this a lot of due diligence around a proposed project and JV partner is required, but all too often they just don't have the budget for this. They find themselves in a position where they can't afford to do the DD but also can't afford not to. They know their Governance dictates that they have to, but their budgets won't allow. In most projects, we have worked client side (we don't work developer side) we negotiate in to the deal a robust DD budget for the club, at the cost of the JV partner/developer to allow the club to do all they need. There are some strict T&C's that need to be developed around this so that the developer doesn't create any conflicts of interest or interfere with the advice or process, but this is all a problem that can be solved with the right advice.

Some of the clubs we have worked with have spent less than $100,000 out of their own pocket to get the project up signed off.

The club has to 'sell the farm' to the developer

Most of the deals we put together for clubs with developers, the club retains the land, retains a lot of control and we push as much of the risk back on to the developer as we practically can. This is a tricky one to get right, and every deal is a little different, but there are some great strategies that can be implemented to reduce the club's risk and retain the land and control.

Does it always have to be a developer?

No! It absolutely doesn't have to be a developer in the traditional sense. Some clubs have partnered with aged care providers, retirement village organisations, disability providers and much more.

If you need advice or guidance around a major project or better use of your lazy property assets, Suburbanite Asset Advisory can assist. Contact us on 1300 245 490

360 Degrees on the assets in a nutshell – Anna Porter, Suburbanite Asset Advisory:

1. Clubs can lead the shift of our new era of displaced workers
2. Income diversification
3. Create a co-work space on your own or by partnering with a provider
4. Learn how to do a JV the right way

NFP's – Feeling the financial pinch

We have seen some NFP's thrive during COVID-19 and some barley survive. It is no secret that corporate sponsorship and donations have declined and hosting gala events and the like to raise much needed (and budgeted for) funds has been impossible for 2020 – and the outlook isn't too promising for 2021. This has left a gaping hole in many NFP's budgets.

Suburbanite Principal, Anna Porter, has been working with a number of NFP's to use their property assets to generate additional revenue and plug some of those cash flow holes.

According to the property professional, some of the strategies includes;

- Reducing costs of offices and moving to a flexible and nimble work model that has a blend of work from home, co working and other solutions
- Renegotiating leases to reduce overheads of fixed leases
- Negotiating exit strategies for leases

- Negotiating new leases at much more competitive rates and terms
- Reviewing properties in current portfolio and ensuing revenue is maximised
- Repurposing under-utilised property assets (ie: the carpark that you have that is not used to its full potential)

"Some of the NFP's that are in a strong financial position are seeing this is the opportunity to get their money working for them and invest in property," says Ms Porter.

"We have helped them develop a sound property and investment strategy that the board are comfortable with and reduces their risk,"

If your NFP is seeking to adapt, contact Suburbanite today to learn more about ways to survive.

360 Degrees on the assets in a nutshell – Anna Porter, Suburbanite Asset Advisory:

1. Generate additional revenue by plugging into cash flow holes
2. Reduce costs of offices by moving to a co-work and renegotiate leases
3. Negotiate an exit strategy for leases or negotiate a more competitive rate for a new lease
4. Review current portfolio and repurpose under-utilised property assets

Is the wave of stressed sales on its way?

There has been speculation since the start of COVID that September 2020 would be a fiscal and property cliff for the country to fall off.

But much to everyone's surprise, here we are, well in to the silly season of December and the cliff was more of a speed bump.

Anna Porter, Suburbanite Principal and market commentator is not here to tell you something you already know, but in summary, for anyone who hasn't seen the news, property prices are still strong, interest rates are low (soon I will have to pay the bank to store my money) and the economy is generally stable.

> So, for those sophisticated investors, and the family offices looking for the opportunity, you may be wondering where the opportunities are if September didn't bring the pain it was supposed to?

Some say that the new financial cliff is March 2021, and that a wave of distressed sales is on the horizon. However, according to Anna Porter, all data points to that not being the likelihood.

"Loan repayments are commencing, lenders are seeing the rate of default or extended payment pauses coming in lower than expected, property prices are still strong enough that most people can sell their home and wipe out the debt and take some capital with them, so there is no reason they would be pushed into default," she says.

"They will simply sell and take their equity out to reposition themselves,"

"Having worked in distressed asset valuations and advisory over the GFC, many of the indicators we saw then aren't present now."

This brings Porter back to her earlier question, where are the opportunities?

Below are some of the areas we are seeing as the best opportunities

- Commercial and industrial assets
- Medical assets in regional areas are certainly worth exploring
- Development sector will struggle, so for an investor with a higher risk appetite this can be an opportunity if you can hold through the pain
- Unfinished development projects (this is where the pain will be most felt)
- Capital city investment as there is a disparity now between capitals and regional and the regional push has left capitals falling a bit behind. This will rebalance and now could be the opportunity in some areas (not all)
- Work from home and co-work solutions will be the next wave of property trends and behavioural change that will drive a growing sector
- Struggling Air BnB properties may go cheap as hosts/investors have taken a hit in this sector

The above sectors aren't for everyone, but there could be some opportunities you haven't explored and now more than ever, it is time to think outside the box.

360 Degrees on the assets in a nutshell – Anna Porter, Suburbanite Asset Advisory:

1. Property prices are still strong, interest rates are low and the economy is generally stable
2. It is unlikely there will be a wave of distressed asset sales
3. There is opportunity in other areas such as commercial, industrial, medical assets in regional areas and more
4. It’s time to think outside the box

Is commercial investing about to change forever?

There is no secret COVID-19 has changed the way we live and work. One of the most heavily hit sectors has been the commercial property space as workers were sent home and offices left empty.

Yet according to CBRE, in Q1-Q3 of 2020 more than $7.8bn was invested into offices in Australian from offshore investors.

Could this be the start of a foreign investment boost?

Suburbanite's commercial property expert, author and property entrepreneur, Steve Palise, believes off shore investors are picking Australia to be a massive migration hub for lifestyle.

In this edition of the Asset 360 Report, Steve expands on the changing demand for commercial property and forecasts what is to come.

As Australians shift from the capital cities into the suburbs, the commercial office sector is noticing a sales shift also.

To begin with, Mr Palise draws on Colliers office stats for the first half of the year which indicates Sydney's B-Grade stock has actually tightened.

"The fact that residential real-estate close to the CBD is so expensive means that workers are moving further out, enabling businesses to move to cheaper, smaller office locations," says Mr Palise.

"We could hypothesise that business owners are downgrading for more affordable rent, or that the B Grade properties are typically out of the CBD,"

"The biggest influence on demand for office space is the job sector, which affects rental rate growth and the construction sector,"

"Offices usually thrive when the economy is growing and companies are expanding – quite frankly the opposite has occurred this year."

It is no secret on the other hand, the office market struggles during flat and declining job growth.

Whilst COVID-19 has shifted the way we work, it's been a long time coming that technology has been playing a large role in changes to offices.

"In recent times, it has become clear that physical space is becoming less important, with a shift to more flexible working arrangements and locations, and this has been accelerated due to the COVID-19 pandemic," says Palise.

"This will occur not only in specific buildings, but in the design and mix of uses for larger-scale precincts,"

"We are starting to see a growing demand for flexible work spaces and a shift towards higher-density workplaces to make property assets more efficient."

Overall, there's a shift away from the more traditional use of office space to more creative uses that allow for socialising and in-person idea exploration. This affects the fit-out and layout required to allow for co-working and open-plan designs.

With working from home becoming more accepted, it's likely that in the coming years, there'll be an increased focus on mental wellbeing and on integrating educational facilities within office environments to enrich the occupier experience, according to the commercial property expert.

"Office facilities will need to offer an enjoyable experience to get employees to attend," says Mr Palise.

"When looking to invest in commercial property, consider how your property type can be adapted to suit the more modern requirements,"

"For numerous industries, floor space is becoming less important and the consideration of business type has never been so important."

As for a global influence, when Biden takes the Presidential Office and as projected, mends US/China tensions, we could also see Australia pressured into mending offshore relations and thus loosen its property restrictions for international investors, especially in the commercial property space.

Commercial Investing in a nutshell – Steve Palise, Head of Commercial Property at Suburbanite:

1. Billions of dollars have been invested into offices in Australia from offshore investors
2. Offshore investors are picking Australia as a massive migration hub for lifestyle
3. *3.* Business owners are downgrading their offices for more affordable rent and locations out of the CBD
4. Design principles are set to change

The current state of the Equities Market according to an investment expert

When investing in the post COVID economy, it is important to consider both property assets and equities. We turned to Koda Capital for their view on the current state of play in the equities markets.

According to the private wealth management firm, there is heightened risk in equities in the current landscape and risk markets have rallied in recent weeks on the US election outcome and COVID-19 vaccine trial news.

"Such a rally is unjustifiable relative to the evidence that is required for the end of the global pandemic and an improvement in investment fundamentals," says Brigette Leckie, Chief Investment Officer and Partner at Koda Capital.

"The US economy is softening as fiscal support has run out and a new package is held up in Congress – probably until after inauguration,"

"The escalation of COVID-19 cases (globally, not just in the USA) is again seeing mobility restrictions with resulting knock-on effects for economic activity and confidence."

It appears both the winners and losers from COVID-19 are expensive.

Stocks benefitting from the pandemic are not only well above those levels recorded in recent years but their Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) is significantly weaker than in 2019.

"Investors have sought out companies that will benefit from the resulting structural shifts in the post pandemic world, known as the winners," Ms Leckie said.

"Such industry groups include logistics, fintech, life sciences, online shopping, explainable artificial intelligence, cloud computing and collaboration tools."

On the other hand, the "losers" grouping includes the travel, tourism, hospitality, arts, culture, and sporting industries.

According to the firm, the losers have fallen sharply and more importantly this grouping will not snap back to pre-COVID-19 EBITDA levels as structural behavioural changes have occurred.

With these losing stocks the risk is high relative to the expected returns even though they are on face value significantly “cheaper” than those stocks in the winning sectors.

Recent media has indicated Australia has left the recession behind and from an equities perspective, looking ahead into 2021, the view is that the world partially returns to its pre-COVID state of economic activity.

The Koda Capital Chief Investment Officer however believes behavioural changes such as reluctance to attend large gatherings and to travel will not reverse to pre COVID-19 activity levels until there is demonstrable evidence that the effectiveness of the COVID-19 treatment is widespread and enduring.

Globally, across the US, COVID-19 daily cases have soared – doubling again since the end of October and five-fold from the September low. Europe is facing a more difficult scene, with case numbers across the Continent spiralling into consistent new record numbers.

In regard to standard risk market valuation the metrics are elevated.

"The S&P 500 price-to-earnings ratio is tracking at more than 2 standard deviations above its long run average – a traditional red flag signal," says Ms Leckie.

"Other markets are showing similar trends."

Koda portfolios are biased towards investments (diversified across asset classes) that are well placed to generate mid- to high-single digit annualised returns and are less dependent/exposed to broader market indices with elevated valuations. Having tracked the 2020 rally well, now is not the time to be over-risking portfolios.

It is important to always have a good balance of property assets and equities in any portfolio, and getting the cycles and timing right and knowing which leaves to pull when is an important aspect of any sound investment strategy. Having the right advisors to guide you on this is critical.

If you are interested in a discussion with Koda Capital, reach out to Adam Horton, Adviser and Partner on 0407 069 380 or adam.horton@kodacapital.com

Equity Markets in a nutshell – Adam Horton – Koda Capital:

1. There is heightened risk in equities in the current landscape
2. Winners have been industry groups like logistics, fintech, life sciences, online shopping, explainable artificial intelligence, cloud computing and collaboration tools
3. Losers have been travel, tourism, hospitality, arts, culture and sporting industries
4. It is important to always have good diversification of assets in your portfolio

Suburbanite - Anna Porter

Anna Porter (Grad Dip UEM, CPV AAPI) is the principal of Suburbanite and a qualified property valuer. Dynamic, knowledgeable and ethical are three words that are often used to describe Anna.

She leads a team of highly skilled consultants to ensure her clients achieve their investment goals and avoid costly mistakes along the way.

Anna's is often sought after by media for her expert commentary and has featured in Australian Property Investor Magazine, ABC National Radio, 2UE Radio, Sunrise, Channel Nine's the Mornings Show, Studio 10, Sky News Real Estate, Fairfax Newspapers and many more media platforms.

Anna also had her own segment on Your Money.

She has shared the stage with Mark Bouris and Andrew Morello as the property expert on the 2016 and 2017 Prosperity Through Property Australian Tour. She also runs education programs for companies like Caltex, Optus, Flight Centre and Cricket NSW to name a few.

As an accomplished valuer for 10+ years, Anna worked on many institutional portfolios with thousands of assets across various property sectors. She also taught Property at Sydney Institute and was involved in helping them develop their new Degree Course in Property Valuation.

She still works with organisations and NFP's to develop their property strategies and ensure that their current assets are aligned with the outcomes of the business. But also enjoys working one on one with 'Mum and Dad' investors and first- time investors to help them start their investment journey the right way.

The Contributors

Suburbanite - Steve Palise

Steve is a licensed Real Estate Agent. He started his career as an engineer, and soon found a passion for commercial property investment.

Eventually stepping out of engineering to became a qualified property professional, he has helped thousands of clients secure and purchase properties in every capital city and all major regional towns in Australia.

He believes property investing should be not only smart, but enjoyable along the way! He has acquired an impressive property portfolio that allowed him to leave the corporate world to pursue his passion of property investment professionally. He's now passionate about helping others to achieve their goals and financial freedom. His philosophy is that investments should increase your wealth and passive income with as little risk as possible.

KODA - Brigette Leckie & Adam Horton

Chief Investment Officer | Partner
Brigette Leckie has worked in financial markets since the early 1990s. Previous roles have included Chief Strategist, Chief Economist and Head of Research at Australian, New Zealand and multinational firms including BNY Mellon, Alliance Bernstein, Perpetual and BNP. She has also worked in New Zealand Treasury and served on numerous public and private sector committees.

Adviser | Partner
Adam Horton is an Adviser and Partner at Koda Capital and has worked in financial markets and wealth management since 2005. He is passionate about working with and understanding his clients and knows that they each have different aspirations, objectives and priorities. It is when strong connections are made that truly successful relationships are built and great outcomes are achieved.