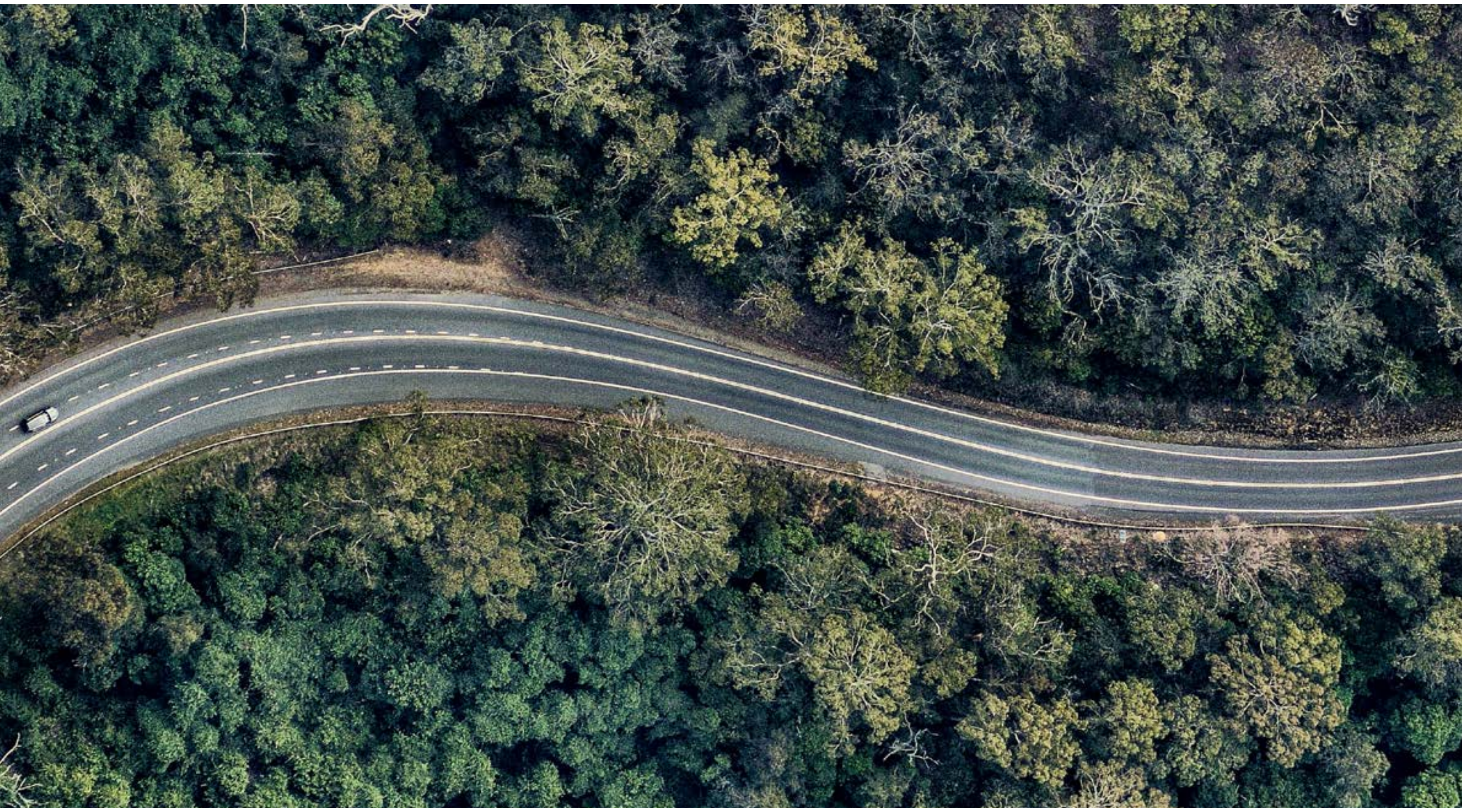
Australia and New Zealand
take their first steps towards the next normal

Contents



Executive summary

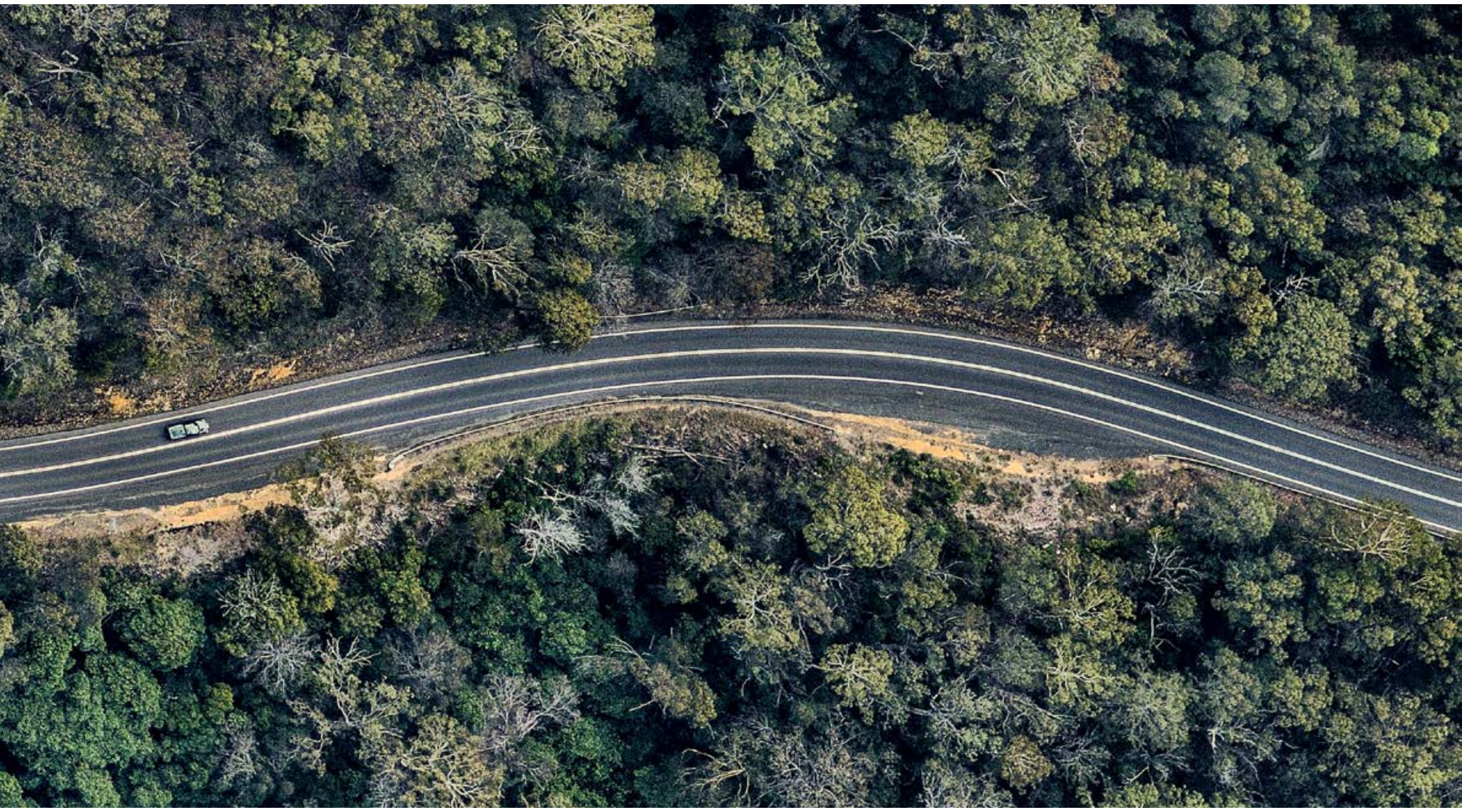
The introduction of Sesame Street economics: The uncertain outlook has led to real estate market participants adopting a scenario planning approach to the economic outlook. The range of scenarios, like Sesame Street, are best explained by the adoption of a specific letter – V, U, W or L.

Navigating a pathway for transaction volumes: Transaction volumes are likely to fall sharply in 2020. However, unprecedented policy measures have provided support to global equity markets, limiting the denominator effect relative to 2008/09. As a result, we see the potential for an earlier pathway back towards pre-crisis transaction volume levels.

The office sector is highly sensitive to employment changes: We have revised our office sector net absorption projections lower for 2020 and 2021. The next phase of the cycle will be led by the expansionary activity by organisations in the technology, healthcare and public administration industry sectors.

Retailer business models will continue to evolve: The first phase of re-opening has led to a notable increase in foot traffic and modest recovery in discretionary spending. Shopping centre owners will need to have a deeper understanding of the retailer business model to ensure a good tenancy mix and create the framework for positive trading performance.

New sources of demand in the industrial & logistics sector: A structural increase in the e-commerce penetration rate supports the underlying demand for the industrial & logistics sector. Furthermore, an evolution in Australia and New Zealand's industrial policy could lead to the onshoring of higher value manufacturing activities.



Introduction

COVID-19 was declared a global pandemic by the World Health Organization (WHO) on the 11th March. What started as a health crisis quickly morphed into an economic crisis with Global GDP projections revised down significantly for 2020. Most base case economic forecasts have a deep recession in 2020 followed by a recovery in 2021 and 2022.

Every economic downturn has led to changes in consumer and business behaviour. Some of the changes are temporary, while others are structural and influence public and private sector investment and consumption patterns. Post the financial crisis of 2008-09, we had the New Normal, while the post COVID-19 world is being called the Next Normal.

The trajectory of the economic recovery will have significant implications for commercial property markets in Australia and New Zealand. In the short-term, space dynamics will soften as tenant demand is lower and vacancy is likely to increase across most sectors and geographies. A clear hierarchy is emerging with prime grade industrial & logistics and commercial office proving to be the most resilient sectors. The greatest income risk is in the retail sector, while secondary grade assets across all sectors are expected to experience higher vacancy and income challenges.

In this paper we look at the economic outlook and implications for capital markets and physical market conditions as Australia and New Zealand take their first steps towards the Next Normal.

What shape will the recovery look like?

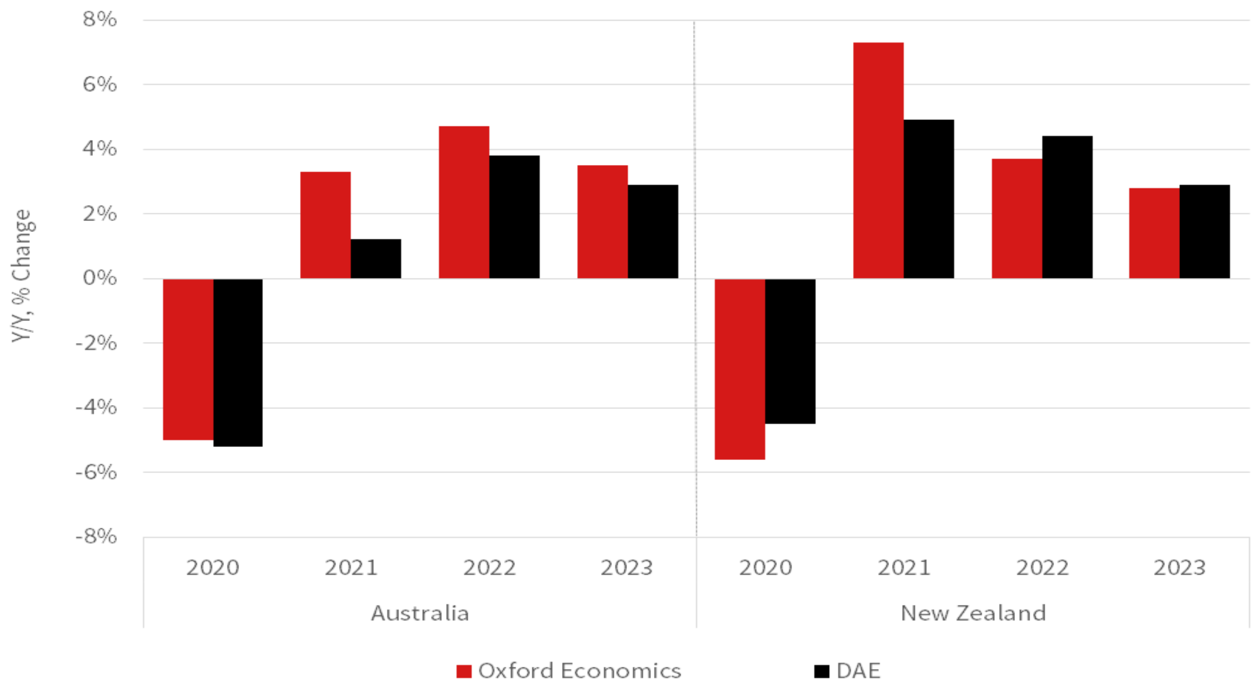
COVID-19 has evolved from a health to economic crisis and both Australia and New Zealand are likely to experience a technical recession in 2020. Oxford Economics forecast the Australian economy will fall by -5.0%, while New Zealand's contraction is more pronounced at -5.6%.

The variance in economic growth projections for 2021 and 2022 remains wide reflecting the uncertainty associated with a health crisis. Most countries will emerge from lockdown in a structured manner and continue to embrace social distancing, ensure high levels of testing and temperature screening.

The Commonwealth of Australia has launched a COVIDSafe app to slow the spread of COVID-19. The app provides confidence that Australia can find and contain COVID-19 outbreaks quickly and ensure governments can ease restrictions. The New Zealand Ministry of Health has released the NZ COVID Tracer app that supports fast and effective contact tracing by creating a digital diary of the places people visit.

Oxford Economics has adopted a V Shape recovery for the Australian and New Zealand economies (Figure 1). After a sharp contraction in 2020, Australia is projected to rebound with GDP growth of 3.3% (2021) and 4.7% (2022). New Zealand follows a similar trajectory rebounding to 7.3% in 2021 and 3.7% in 2022. Deloitte Access Economics has forecast a shallower downturn in 2020 before a modest recovery in 2021 and a return to trend growth in 2022.

Figure 1: Australia and New Zealand GDP projections, 2020 to 2023



Source: Oxford Economics, Deloitte Access Economics, JLL Research

The introduction of Sesame Street Economics

We have coined the phrase Sesame Street Economics to articulate the scenario planning approach required by real estate market participants towards their asset management and investment strategies.

In Sesame Street, the closing credits told viewers that the show was brought to you by a specific letter and number. From an economic perspective, we believe economists projections are underpinned by one of four letters:

V Shape: A sharp correction, but the economy reaches a trough and recovers quickly. Typically viewed as the best case scenario.

U Shape: A sharp correction followed by a period of stagnation. The economy then experiences a healthy rise back to its previous peak.

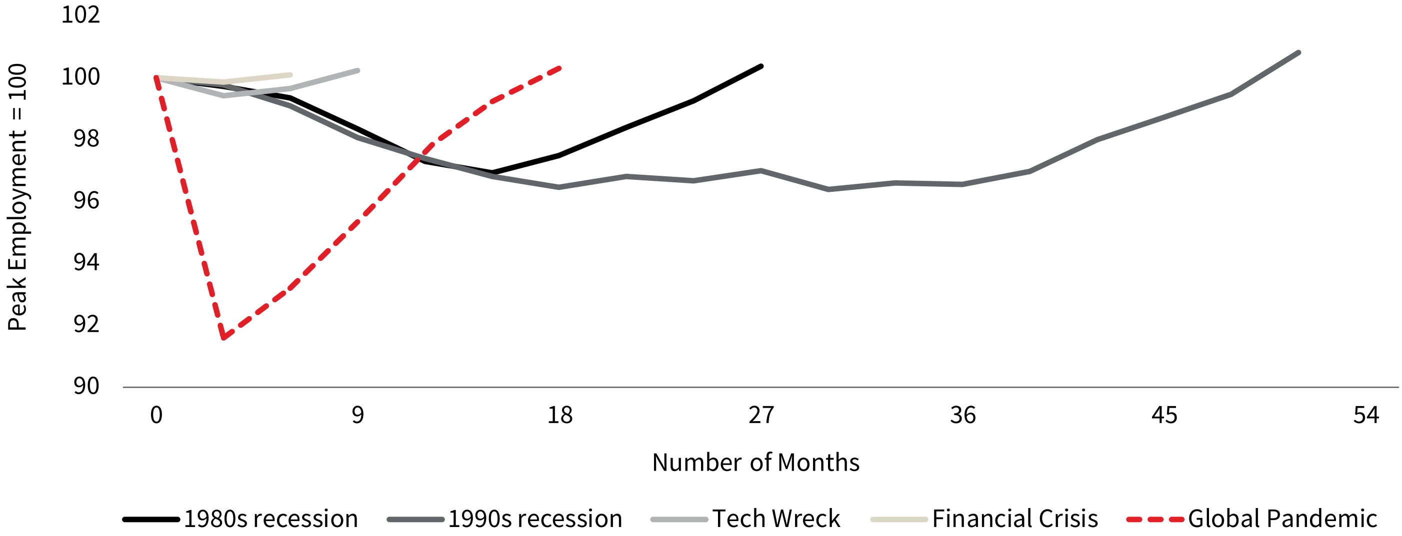
W Shape: Starts in a similar manner to a V shape, but turns lower as false signs of a recovery are experienced. A sustained economic recovery takes longer to achieve.

L Shape: after a sharp correction there is an elongated period of weak economic growth. Typically viewed as the worst case scenario

The policy response in Australia and New Zealand has been unprecedented and provided some downside protection to the economy. Most policies were aimed at maintaining jobs and limiting the potential for a sharp rise in the unemployment rate. Oxford Economics project Australia's unemployment rate will hit 10.0% in the middle of 2020. Prior to the announcement of the JobKeeper payment, unemployment rate projections sat in the 12% to 15% territory. New Zealand is expected to follow a similar trajectory with unemployment reaching a cyclical peak of 8.0% in 3Q20.

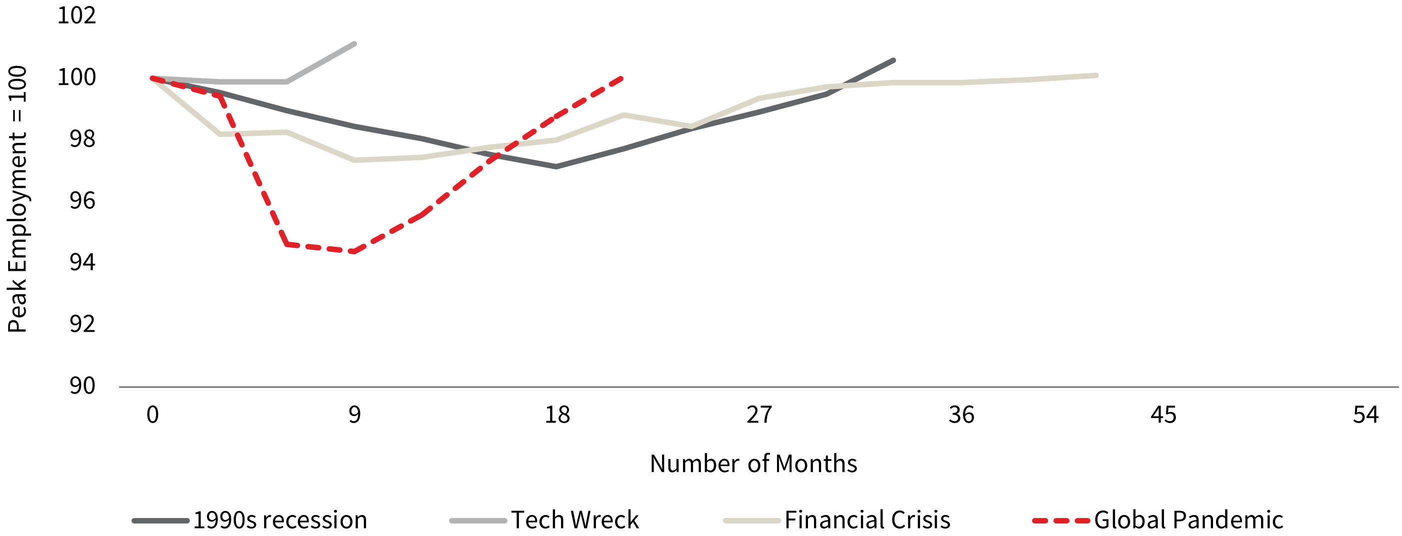
Australia is experiencing its first significant contraction in total employment since the early 1990s recession (Figure 2), while New Zealand is likely to have a deeper contraction in total employment than what was recorded in the financial crisis (Figure 3). In the first phase of the contraction, job losses have been concentrated in the retail & accommodation, construction and arts & recreation sectors. However, other industry sectors will not be immune and we expect to see a reduction across some sub-sectors of professional services, financial services and administration services.

Figure 2: Australia employment contractions in economic downturns



Source: ABS, Oxford Economics, JLL Research

Figure 3: New Zealand employment contractions in economic downturns



Source: Stats NZ, Oxford Economics, JLL Research

We have undertaken an employment comparison between the early 1990s recession and the COVID-19 precipitated downturn. In the early 1990s recession, it took Australia 51 months and New Zealand 33 months to return to peak employment. Oxford Economics forecast both Australia and New Zealand will not hit pre COVID-19 employment levels until 3Q21. Based on this outlook, labour market conditions will deteriorate as a faster rate, but the recovery will be quicker than what was experienced in the early 1990s and early 1980s recessions.

What are the risks to the economic outlook?

The pathway towards a sustainable economic recovery contains several risk factors which have the potential to negatively impact the outlook. Three risk factors we consider are:

Lower population growth: Australia and New Zealand are attractive destinations for migrants and net overseas migration is an important component of population growth. Population growth has been revised down in both countries for 2020 and 2021. However, any significant changes to migration programs over the medium-term would structurally lower population growth and potential GDP growth.

A sharp reduction in house prices: House prices are sensitive to changes in labour market conditions. A reduction in house prices would negatively impact household balance sheets, lead to a deterioration in the wealth effect and have an adverse impact on consumer spending.

A move towards protectionism: Australia and New Zealand are small open trading economies. Any move towards a protectionist trade policy which allows a country to promote domestic producers would have a negative impact on export-orientated countries.

Capital markets moves towards the next normal

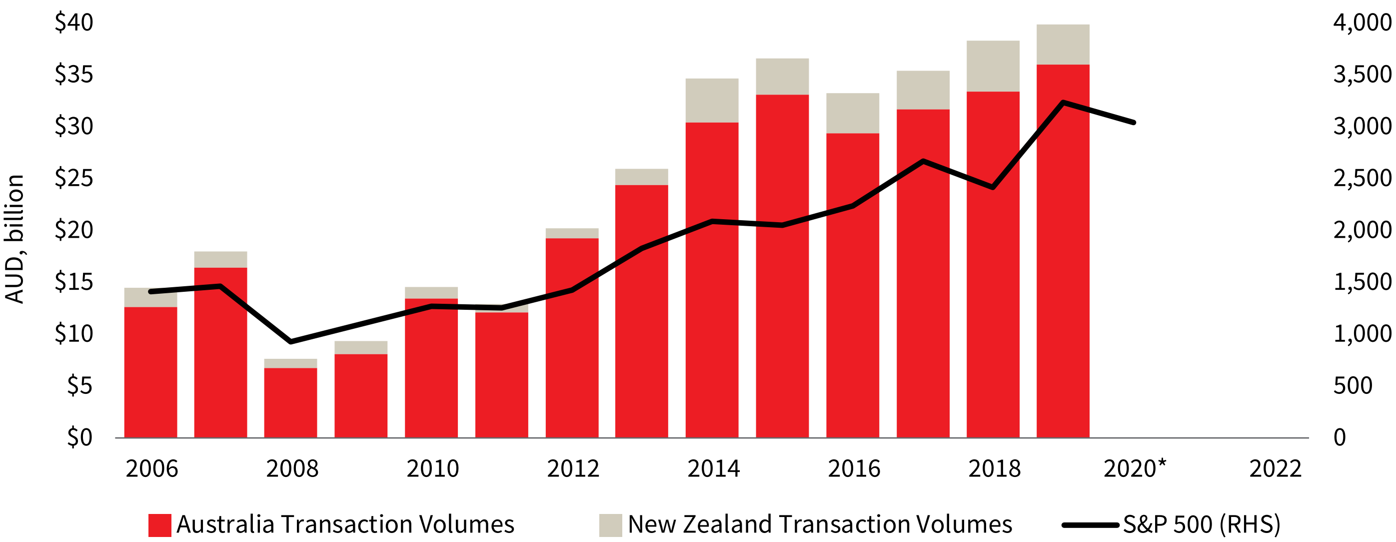
Transaction volumes – mapping the recovery path

The Australian commercial property market transaction volumes reached an all-time record high in 2019 (AUD 36.0 billion). New Zealand also had a flagship year recording NZD 4.0 billion worth of activity – 28.4% above the 10 year average. Economic uncertainty and potential risks to the income profile will lead to a significant reduction in transaction volumes for 2020.

We have reviewed the financial crisis impact on transaction volumes to plot a pathway for the 2020 to 2022 period. In 2008, Australian commercial property transaction volumes were only 41% of the level recorded in 2007. If we experienced a similar observation for 2020, then Australian transaction volumes would be approximately $12.5 to $16.5 billion. Based on the current pipeline and few potential mega-deals which inflated the 2019 figure, transaction volumes are likely to be lower and we estimate a range between $10 and $12 billion in 2020.

Transaction volumes in 2021 and 2022 will be highly dependent on the economic recovery trajectory and the performance of other asset classes. Post the financial crisis, it took until 2012 for transaction volumes to recapture 2007 levels. Part of the explanation was the denominator effect – a correction in equities leading to an overweight position in real assets. Interestingly, the recovery in direct property transaction volumes followed a similar trajectory to the S&P 500, which captured its 2007 peak in April 2013 (Figure 4).

Figure 4: Australia / New Zealand commercial property transaction volumes & S&P 500



Source: JLL Research, Standard & Poor's

An unprecedented policy response from mature and emerging economies has supported global equity markets. The S&P 500 has increased by 38.4% from its most recent cyclical low (23 March) and reduced the impact of the denominator effect relative to the 2008-09 financial crisis. As a result, we may have a shorter pathway back to pre-crisis transaction volume levels.

New Zealand moves into the next normal well ahead of expectations

New Zealand has crafted a unique global position in having opened up the economy with COVID-19 seemingly nearly eliminated. New Zealand is open for business again and there is a surge of interest in the country, the likes of which has not been seen in a long time.

New Zealanders have emerged from lockdown and the Google COVID-19 community reports shows that movement at New Zealand retail and recreation centres/ facilities is only 16% below pre-COVID-19 levels.

The official opening of Auckland's new premium retail commercial precinct at Commercial Bay supports the observation that New Zealanders are returning to shopping centres. The Commercial Bay retail precinct generated a huge amount of foot traffic and trading performance was ahead of expectations.

Todd Lauchlan
Managing Director, New Zealand

Asset pricing considerations

Real estate valuations are determined in relation to a risk-free rate. Australian and New Zealand Government bond yields have followed a downward trajectory over the past 35-40 years and are at all-time record lows (Figure 5).

Central banks around the world have a tacit commitment to maintaining an accommodative monetary policy settings. The RBA has implemented yield curve control (a form of quantitative easing) with a three year bond yield target. RBNZ has engaged in quantitative easing and has committed to double the program by purchasing another NZD 27 billion in bonds over the 12 months to May 2021.

One of the legacies post COVID-19 is the expectation of an extension of the low interest rate environment. Deloitte Access Economics have shifted their medium-term outlook for the Australian Government 10 year bond rate and now expect them to remain below 1.00% through 2022 and only revert back to 1.40% by 2024 (Figure 6).

Figure 5: Australia and New Zealand Government 10 year bond rate

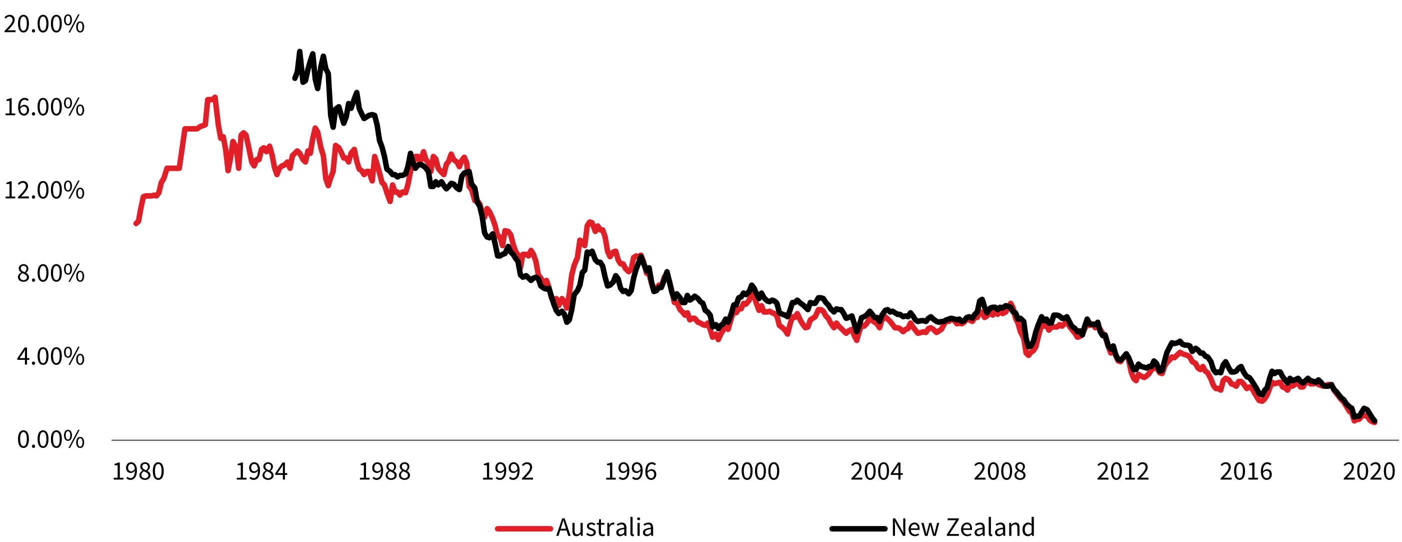
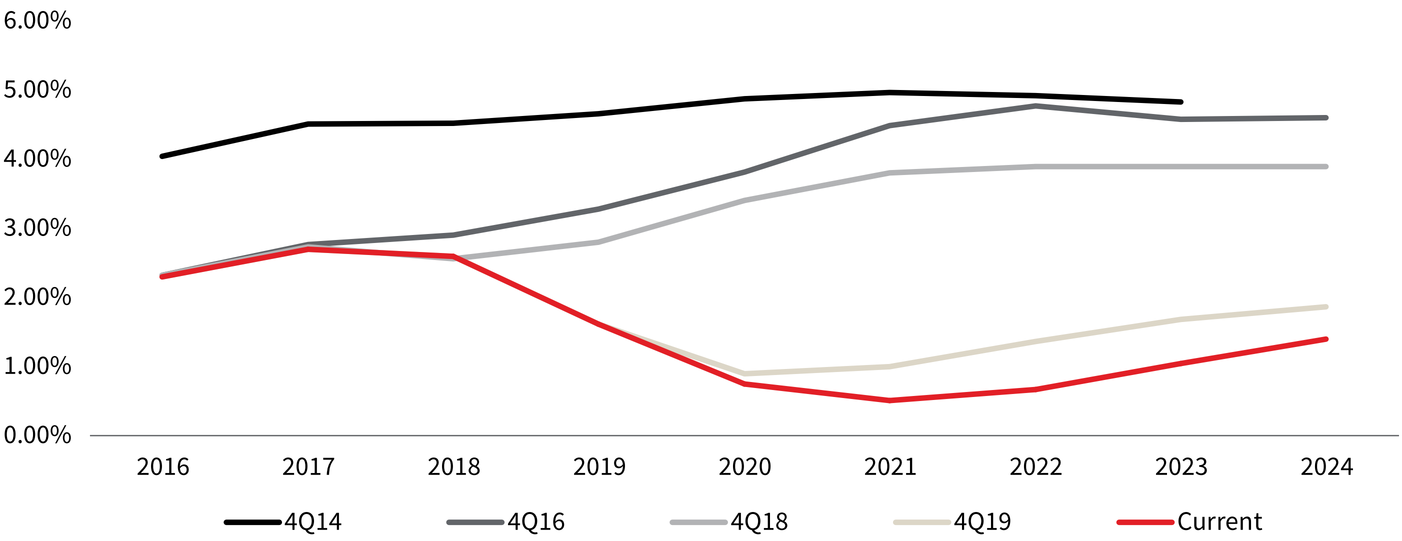


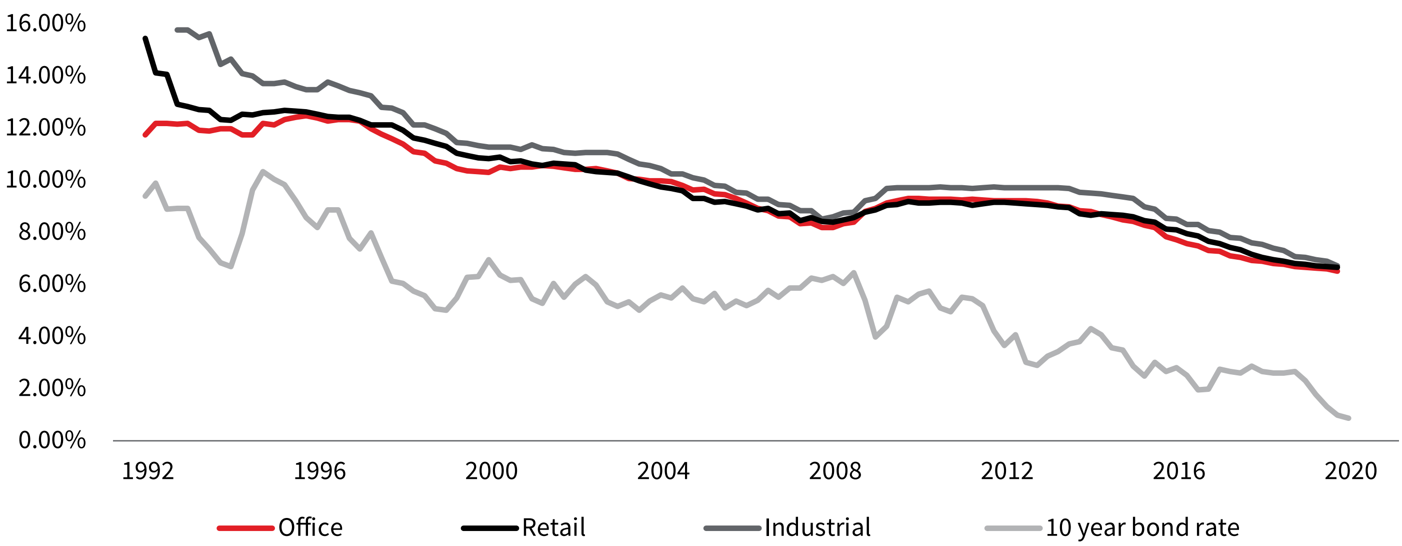
Figure 6: Australia 10 year Government bond rate projections



Source: Deloitte Access Economics, JLL Research

Bond yield expectations are important for real estate return expectations. Figure 7 shows the close historical relationship between property market discount rates (weighted average) and the Australian Government 10 year bond rate. The correlation co-efficient between 1992 and 2019 is highest for the retail (0.88) and office (0.88) sectors followed by industrial (0.84).

Figure 7: Property market discount rate (weighted average) and Australian 10 year Government bond rate

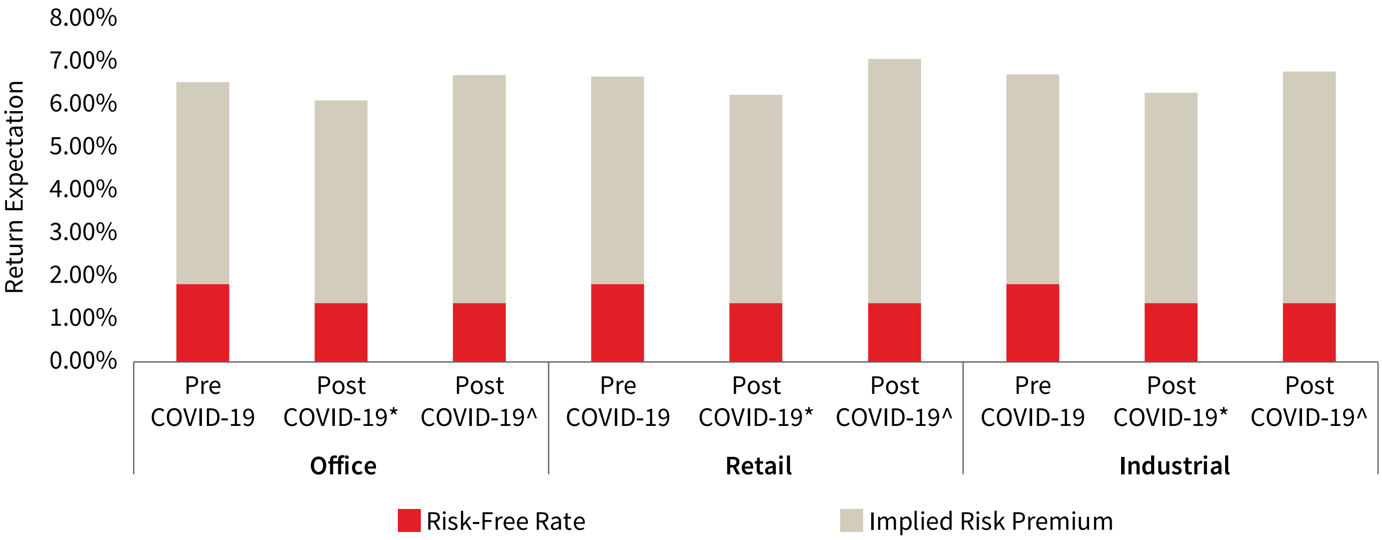


Source: MSCI, RBA, JLL Research

The spread between the property market discount rate and risk-free rate was higher than historical benchmarks at the start of COVID-19. The wider than average spread reflected investor expectation of a partial reversion in the risk-free rate.

In Figure 8 we explore two post COVID-19 discount rate scenarios – an unchanged risk premium and the application of a higher risk premium. In the unchanged scenario* property market discount rates are actually lower. In an uncertain environment, investors are likely to apply a higher risk premium for real assets. Industrial & logistics is the most resilient sector so we have only increased the post COVID-19 risk premium by 8.0%, in the office sector (12.5%) and retail sector (17.5%) we considered an additional risk factor to account for some of the short-term income considerations. Even under this second scenario, the post COVID-19 discount rate expectation is only marginally higher for the office and retail sectors.

Figure 8: Implied discount rate expectations, pre and post COVID-19



* Assumes post COVID-19 risk premium is unchanged

^ The risk premium for office (12.5%), retail (17.5%) and industrial (8.0%) increases reflecting the additional risk associated with cashflow projections

Source: MSCI, RBA, JLL Research

The main shift we are likely to see is the pricing for secondary grade assets. Over the next 24 months, secondary grade assets are expected to see a deterioration in occupancy rates and the potential for a reduction in market rents. Furthermore, lending criteria will become more onerous with financiers easing back loan-to-value ratios (LVR) and seeking higher interest coverage ratios (ICR) for secondary grade assets.

Most offshore capital sources are subscribers to the Australia and New Zealand commercial property market investment thesis. Transparency, potential GDP growth and low volatility of returns have made investment into Australia and New Zealand a structural rather than cyclical story. We believe that two investment themes will endure as we emerge from the health crisis – higher allocations to real assets and a portfolio tilt towards the Asia Pacific region. Australia and New Zealand both remain beneficiaries of these investment themes.

Foreign exchange risk is one of the key considerations for cross-border real estate investors. Some capital sources will hedge the currency risk, while others have a natural hedge in their portfolio through investment in multiple geographies. The relative value of the AUD / NZD is, therefore, part of the investment decision-making process.

We have assessed the AUD / NZD against a basket of currencies over the past 20 years. The depreciation of the AUD / NZD against a number of major currencies makes the entry point, from a foreign exchange perspective, attractive for offshore capital sources (Figure 9).

Figure 9: AUD and NZD versus major currencies

	AUD					NZD				
Downturn	USD	EUR	YEN	SGP	KOR	USD	EUR	YEN	SGP	KOR
Current	0.70	0.61	74.76	0.97	797.20	0.65	0.57	69.92	0.90	747.97
5 years	0.73	0.65	81.60	1.00	835.66	0.68	0.61	76.24	0.94	781.58
10 years	0.85	0.69	84.64	1.11	949.43	0.74	0.61	74.84	0.98	830.92
15 years	0.84	0.66	85.35	1.15	919.21	0.72	0.57	74.54	1.00	795.64
20 years	0.78	0.64	81.67	1.13	872.11	0.68	0.56	71.15	0.98	754.21

Source: RBA, RBNZ, JLL Research

Credit market conditions will be important for real estate market liquidity

The Australian and New Zealand commercial property market investment thesis is well articulated and understood by offshore capital sources. Management of the health crisis and earlier than expected re-opening of the economy is a positive for Australia and New Zealand's brand and reputation.

A functioning commercial property investment market is highly dependent on the access and availability of credit. Private debt markets are continuing to operate for well-rated borrowers and for core assets we have only seen a 10 to 25 basis point movement in post COVID-19 pricing for a 5 year loan.

Pricing margins have moved out more significantly for assets with income risk and development finance. Non-bank lenders are reviewing this part of the market closely as there will still be good lending opportunities and the potential to make attractive risk-adjusted returns.

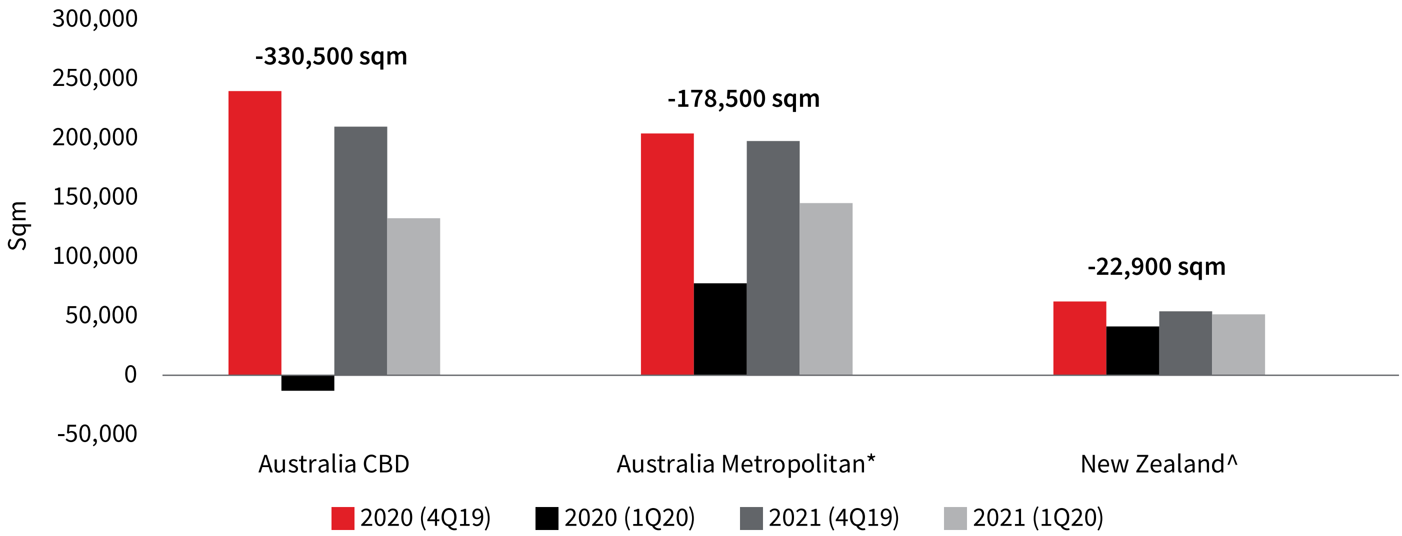
Fergal Harris
Head of Capital Markets – Australia

The office sector moves towards the next normal

The office sector is highly sensitive to changes in the economy and employment expectations. As a result, we have revised down our office market net absorption numbers for 2020 and 2021. Figure 10 shows our pre COVID-19 forecasts (released early January) against our most recent update (April 2020).

Across Australia's six CBD office markets we have reduced our net absorption expectations by 330,500 sqm and 178,500 sqm across metropolitan office markets. Downward revisions are also evident in New Zealand by -22,900 sqm over 2020 and 2021.

Figure 10: Australia & New Zealand office markets net absorption



* Only includes the forecast metropolitan markets of North Sydney, St Leonards, Chatswood, Parramatta, Macquarie Park, Melbourne Fringe, Melbourne Suburban and Brisbane Near City

^ Only includes Auckland and Wellington

Source: JLL Research

Historically, office market slowdowns are accompanied by an increase in sublease availability. We are already seeing evidence of an increase in sublease availability, but it is unlikely to reach the levels experienced in the early 1990s. Organisations have been on a 30 year journey to increase density and reduce workspace ratios. We estimate that average workspace ratios are 20% to 25% lower today than the late 1980s. Headcount reductions, therefore, lead to less excess space than previous economic downturns.

The reduction in net absorption assumptions for 2020 will have an impact on the short-term vacancy rate outlook. We have analysed previous office market downturns from the mid-1970s recession to the global financial crisis (Figure 11). The large markets of Sydney, Melbourne and Auckland entered this downturn with very low vacancy, while prime grade vacancy is significantly tighter than headline vacancy in Canberra (5.6%), Brisbane (10.8%), Adelaide (10.9%) and Perth (14.4%).

It is important to note that for Sydney and Melbourne the expected vacancy rate trajectory pushes those markets into the high single digit territory – well below the vacancy peaks recorded in the mid-1970s recession, early 1990s recession and post 2000 slowdown.

Figure 11: CBD office market vacancy rate peaks in economic downturns

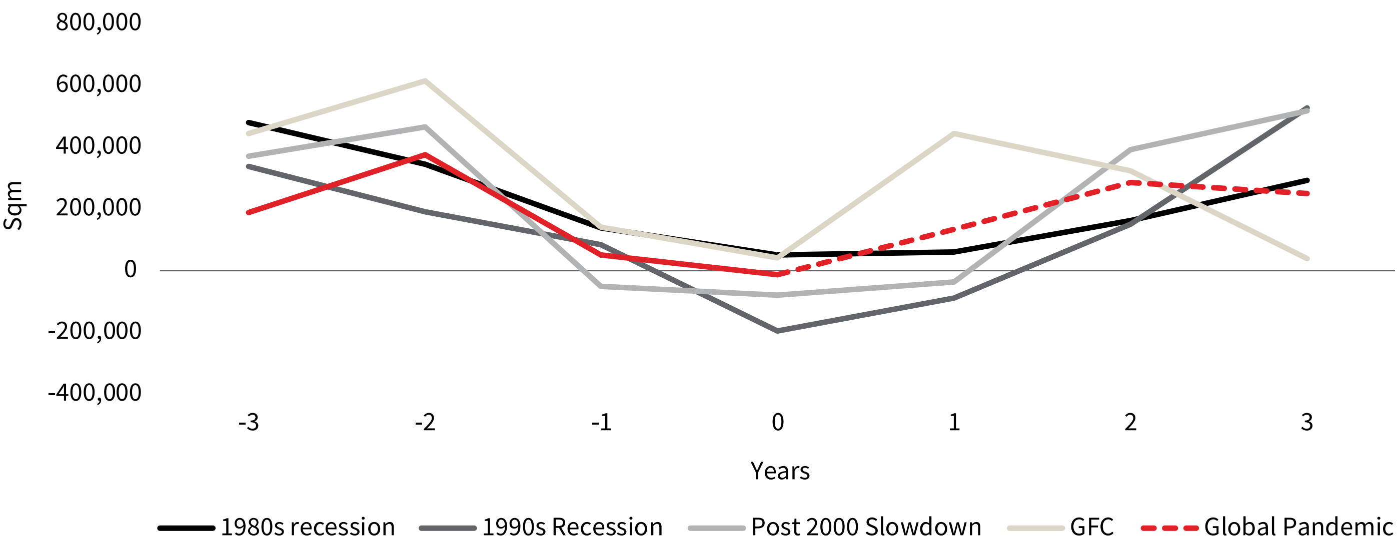
Vacancy rate peaks								
Downturn	Sydney	Melbourne	Brisbane	Perth	Adelaide	Ca nberra	Auckland	Wellington
Mid-1970s	13.0%	18.3%	11.7%	-	-	-	-	-
Early 1980s	4.3%	7.8%	8.3%	15.1%	-	-	-	-
Early 1990s	22.5%	25.8%	14.3%	31.8%	20.7%	6.9%	29.1%	17.6%
Post 2000	11.9%	10.2%	7.0%	13.4%	13.0%	6.1%	14.1%	7.7%
Financial Crisis*	8.0%	6.4%	10.2%	7.7%	8.2%	8.2%	12.6%	4.9%
Global Pandemic	9.6%	9.5%	12.5%	19.1%	15.7%	10.2%	6.6%	6.2%

Source: JLL Research

The trajectory of the economic recovery will influence white collar employment projections and the demand for office space. Every economic downturn has its own unique ingredients, but the profile of office sector demand is remarkably similar. Year 0 is the bottom of the market and characterised by tenant downsizing and an increase in sublease availability. The first stage of the recovery (Year 1) will see an increase in leasing enquiry and activity, before a sustained recovery in Year 2 and Year 3.

We expect that the office sector recovery will be led by the technology, health and public administration industry sectors. The wildcard in the economic recovery will be the mining sector. An increase in infrastructure spending is expected to be a policy response for mature and developing economies and be positive for the export of raw materials.

Figure 12: Australia CBD office markets net absorption cycles



Source: JLL Research

Workplace evolution is supported by the hub and spoke model

Australian and New Zealand building managers and occupiers are in the process of implementing strategies as people return to the office. Social distancing measures will be applicable to the occupation of office space and most organisations will adopt a split team model (50% in the office and 50% at home) and allocated seating. We expect that service providers will seek to bring back client facing employees ahead of business administration functions (Finance, HR and Marketing).

We believe that office space has an important role in fostering organisational culture and providing an environment for collaboration, ideas generation and the need for employee interaction.

The next workplace evolution will involve the more widespread implementation of the hub and spoke model for larger organisations to provide choice for employees. We expect that more organisations will have multiple premises, embrace flexible space and support an element of work from home for focus tasks and work-life balance.

Tim O'Connor
Head of Office Leasing – Australia

The retail sector moves towards the next normal

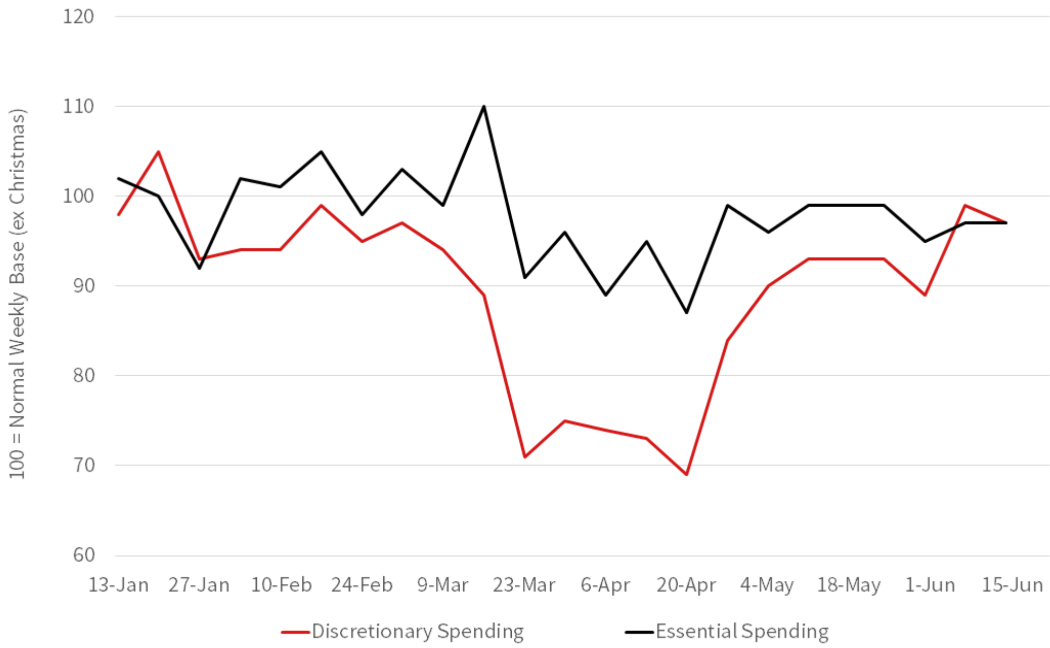
The retail sector entered the crisis facing a number of cyclical and structural headwinds. The immediate impact of the crisis has led to a bifurcation of the retail sector – supermarkets, pharmacies and other essential services have performed strongly, while spending on discretionary retail has slowed significantly. The crisis has led to a number of retailers entering voluntary administration or announcing a reduction in store numbers. However, most of these retailers were facing challenging trading conditions prior to COVID-19.

The Code of Conduct for commercial tenancies, covers all qualifying retail, office and industrial tenants, but the greatest impact has been observed in the retail sector[1] . While the proportion of qualifying SMEs varies by portfolio/centre, Scentre Group indicated ~30% of tenants are classified as SMEs. The short-term focus (next six months) for the retail sector will be on rent collection as restrictions are eased and retailers re-open their store network.

The easing of restrictions in Australia and New Zealand is already starting to have a positive impact on mobility and people are returning to shopping centres. Consumer spending on essential items has remained resilient and neighbourhood shopping centres have continued to see strong performance. However, the hard hit discretionary retail sector is the major beneficiary of people returning to shopping centres.

Major shopping centres (regional and sub-regional) have returned to 75% to 80% store openings. illion & Aplha Beta's real time tracking of consumer spending highlights the relationship between store openings, higher visitor numbers and an improvement in discretionary spending(Figure 13). From the cyclical low on 20 April, Australian consumer spending on discretionary retail has recovered as restrictions are eased. However, the absolute level (93) remains below the normal weekly base highlighting the challenge discretionary retailers are still facing.

Figure 13: Australia consumer spending (weekly index of consumption per person)



Note: Based on a weekly sample of the transactions of ~250,000 Australian consumers

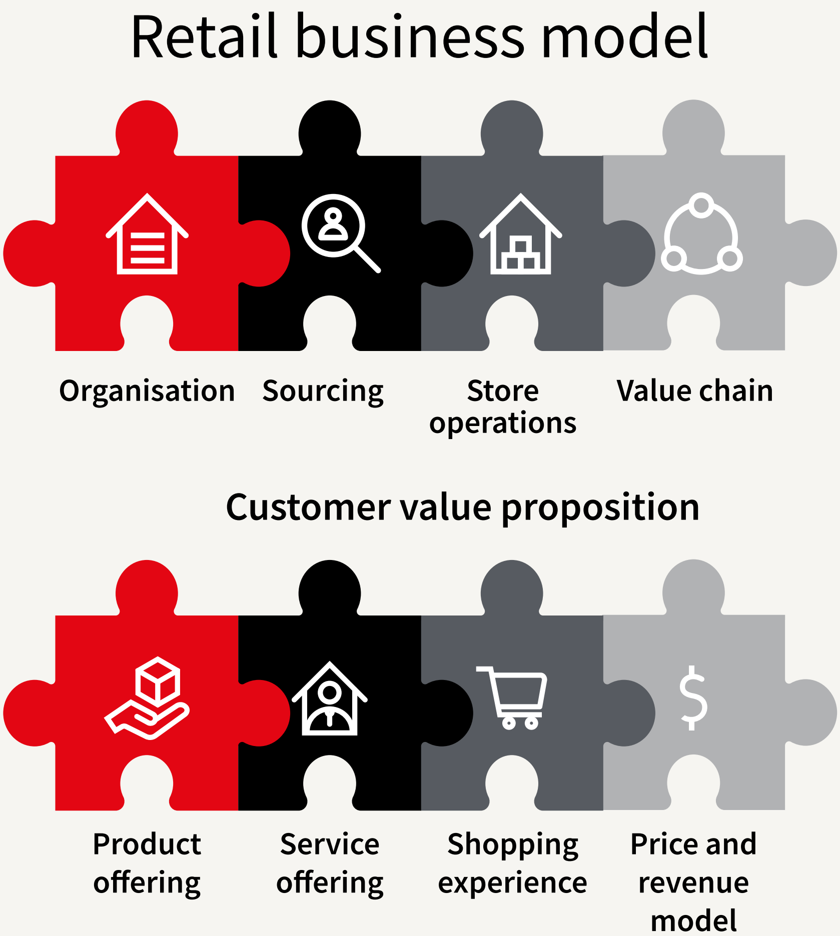
Source: illion & AlphaBeta, JLL Research

[1]The code applies to tenants that are a small to medium sized business with an annual turnover of $50 million and eligible for the JobKeeper Payment

Some of the structural challenges in the retail sector will be accelerated and shopping centre owners / managers will have to adjust asset management strategies to account for the evolution of retailer business models. A number of retailers will struggle to find a pathway back to pre-crisis revenue levels and will look to rationalise store numbers with an increased focus on location, e-commerce platforms, systems and distribution channels.

Shopping centre owners / managers will have to be cognisant of the role a specific retailer plays in the overall tenancy mix and how they influence the attractiveness of the centre. We advocate a more in-depth understanding of the retailer business model to recognise each retailer's customer value proposition and operating model (Figure 14).
In an environment where capturing the consumers mind (and share of wallet) will continue to evolve and become more challenging it is important that shopping centre owners / managers understand how a specific retailer ranks relative to its competitors and how it can differentiate its offering to maintain a sustainable competitive advantage.

Figure 14: Retail business model



Source: Boston Consulting Group, JLL Research

The structural shifts within the retail sector and greater adoption of an omnichannel sales approach will see some retailers reduce store numbers, explore smaller store formats and lead to less asset creation within the retail sector. Some shopping centre owners will seek to enhance the value of the asset by exploring office, hotel or built-to-rent development. While these shopping centres can be classified as opportunity rich assets, they only represent a small cohort of the shopping centre universe.

Shopping centres with strong catchments, minimal supply risk and a good tenancy mix will continue to have positive trading performance. We believe that the tenancy mix will continue to evolve and see the integration of more health and wellness related retailers into shopping centres.

The symbiotic relationship between shopping centre owner and retailer will be even more important

Shopping centres were originally conceived and designed as an evolution of a marketplace – a centralised place where people buy and sell merchandise. The re-opening of shopping centres across the country has provided an important insight into the role centres play as a place to shop, socialise and be entertained.

Foot traffic has increased across our managed portfolio over May / early June and we expect to see a significant increase in customers as more stores re-open. It is important that shopping centre managers promote health & wellness initiatives, establish social distancing measures and increase other safety precautions to make visitors feel comfortable.

The symbiotic relationship between shopping centre owner / manager and retailer will continue to evolve post the crisis. The transformation of shopping centres will be centred around what people value when consuming retail products, services and entertainment and providing an intersection of physical and online shopping.

Richard Fennell
Head of Property & Asset Management – Australia

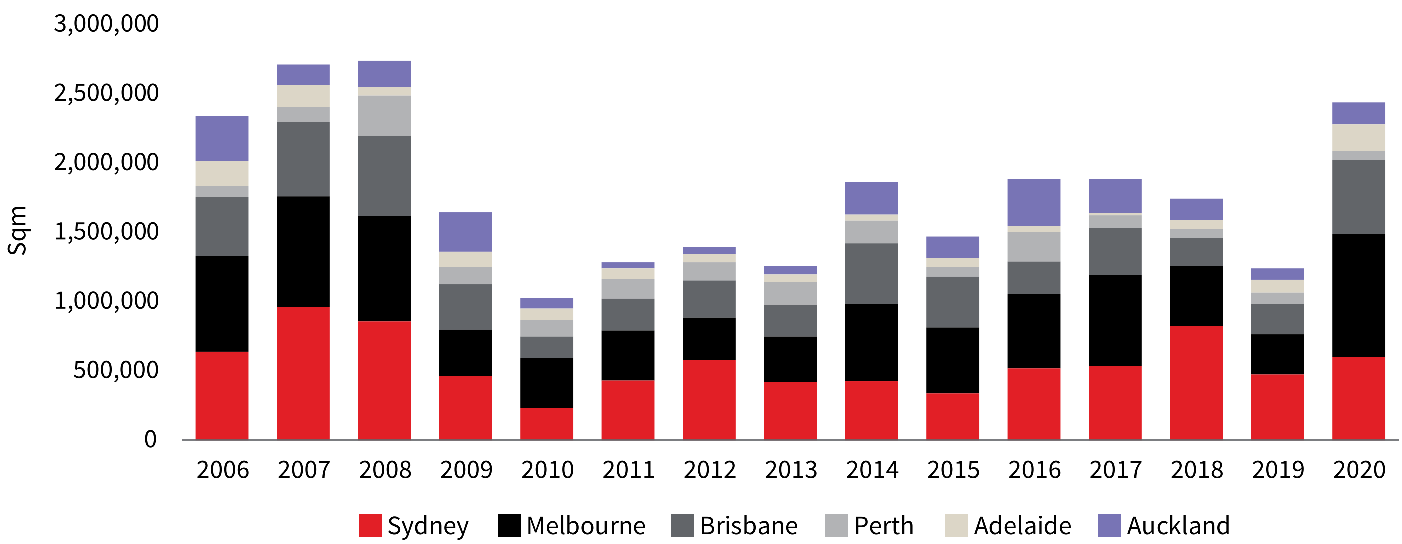
The industrial & logistics sector moves towards the next normal

The industrial & logistics sector has proven to be the most resilient of the core commercial property sectors. While leasing enquiry and activity is fragmented, we are seeing interest from operators requiring short-term space and 3PLs to meet the growth in online orders. However, a number of smaller occupiers (revenue <$50 million) are finding the current environment challenging and the level of rent arrears has increased in this cohort of the market.

The 2020 development pipeline will see completions at the highest level since 2008 (Figure 15).

Approximately 2.44 million sqm is expected to deliver in 2020 (506,900 sqm already completed) with a very healthy pre-commitment rate of 70%. Melbourne has the most significant development pipeline (888,900 sqm or 39% of total) followed by Sydney (598,200 sqm) and Brisbane (533,800 sqm).

Figure 15: Australia and New Zealand industrial sector completions



Source: JLL Research

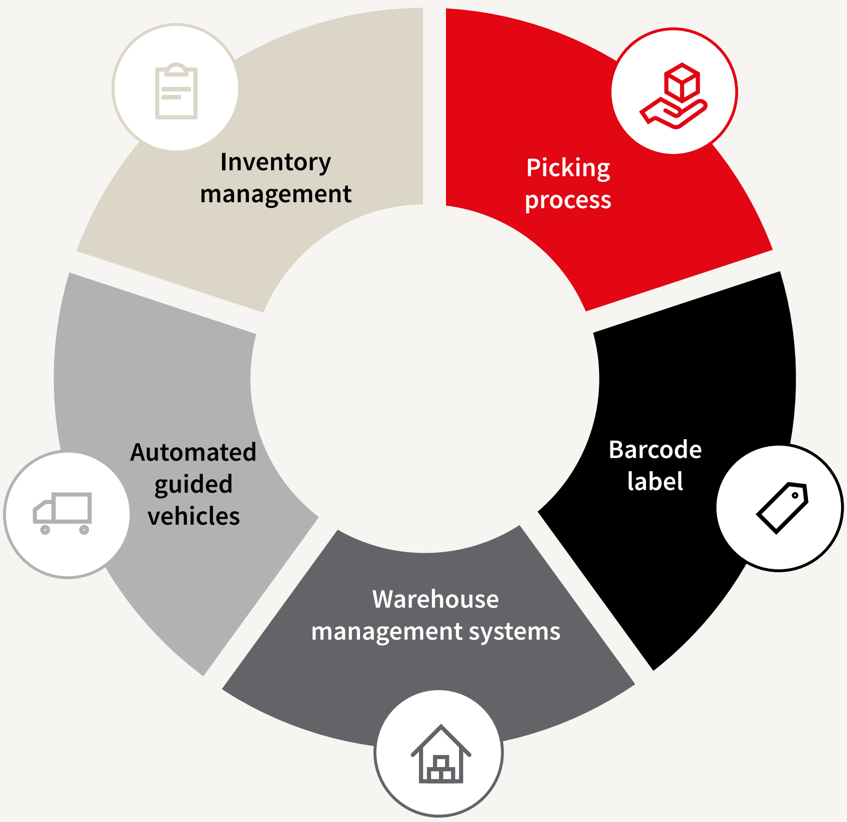
A number of structural tailwinds support the underlying demand environment for the industrial & logistics sector. Australia and New Zealand have lagged the e-commerce penetration rate of a number of mature economies and countries in the Asia Pacific region. NAB estimates Australia e-commerce penetration rate increased from 9.4% at the end of 2019 to 9.6% in March 2020, while Statista has placed New Zealand at 8.9%. However, both countries figures remains well below Statista's e-commerce penetration rate for the UK (19.0%) and the global average of 14.1%.

COVID-19 has forced organisations to devise supply chain management strategies to meet increased consumer demand for online delivery. Some of these strategies will require refinement, but show that the Australia / New Zealand hurdles of lower population densities, high unit labour costs and transportation can be overcome.

We believe that automation will be become more prevalent in the industrial & logistics sector. Warehouse automation offers benefits for operational efficiency and can improve productivity, reduce order turnaround windows and maximise throughput and capacity.

The adoption of warehouse automation remains low in Australia and New Zealand and concentrated with the supermarkets and other large retailers. Organisations exploring automation need to undertake a robust cost benefit analysis – a full scale warehouse automation may not provide an appropriate payback period. Warehouse automation can be categorised into one of five areas and a partial automation solution may be more relevant for some organisations (Figure 16).

Figure 16: Types of warehouse automation



Source: JLL Research

Australia and New Zealand's industrial policy has the potential to evolve post COVID-19, leading to the onshoring of some higher value manufacturing activities. The crisis has exposed some of the vulnerabilities in global supply chains. We believe that important medical and pharmaceutical manufacturing industries will start to re-emerge in Australia and New Zealand. The production, storage and distribution of medical and pharmaceutical products will be another ingredient in the demand story for the industrial and logistics sector.

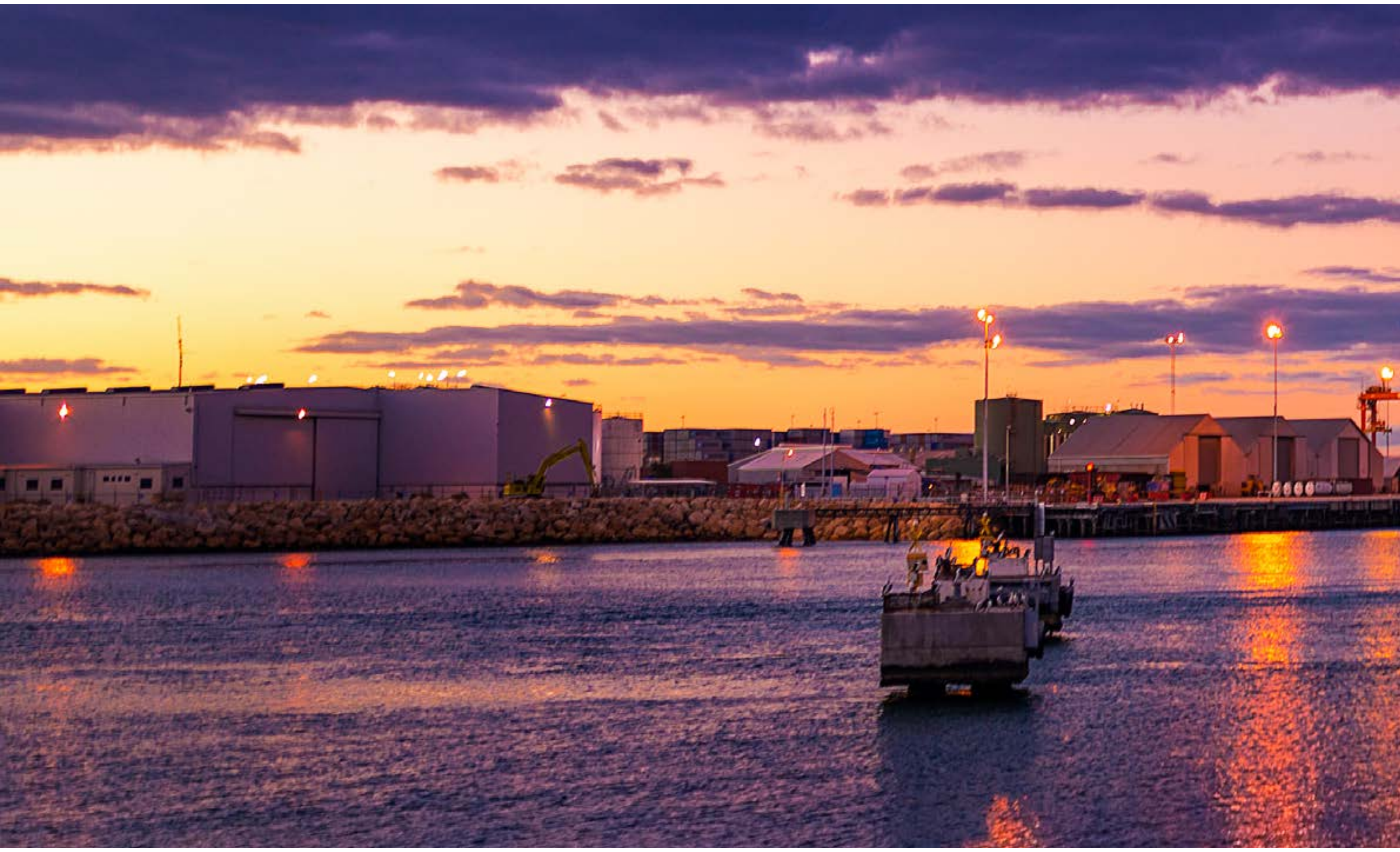
Consumer expectations will continue to evolve

The industrial & logistics sector is now viewed as an essential service for its role in the creation, assembly, storage and transportation of goods. The broader industrial & logistics sector also includes cold storage facilities and data centres – assets which we believe will form a larger part of institutional real estate portfolios.

One of the permanent shifts we expect to see emerging from the crisis is higher e-commerce penetration rates across a range of retail categories. The health crisis has increased consumer acceptance of the contactless delivery model and this will assist in accelerating the e-commerce penetration rate.

A higher e-commerce penetration rate will see an evolution in consumer expectations. Delivery time windows will have to compress and this will lead to more evolved supply chain management models. We expect to see a number of organisations explore warehouse and distribution facilities closer to high population locations and develop more advanced strategies for reverse logistics.

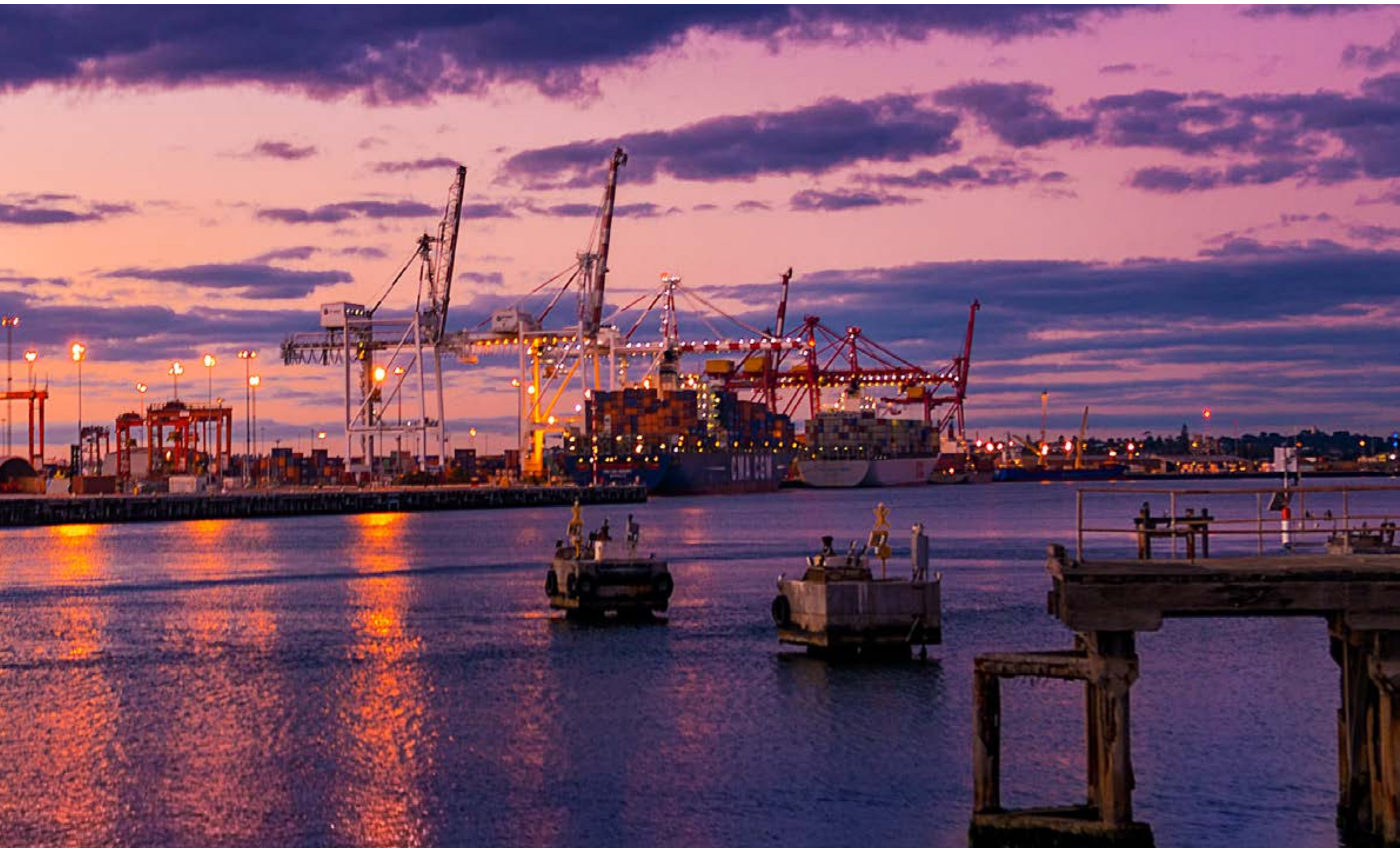
Jamie Guerra
Head of Industrial & Logistics – Australia



Conclusion

Australia and New Zealand have managed the health crisis better than most mature economies. We believe that the brand and reputation of Australia and New Zealand were enhanced throughout the health crisis. The re-opening of both economies has led to the commencement of the recovery path earlier than expected. The recovery trajectory will have challenges and the threat of re-infection is a significant risk for all countries until some form of a vaccination is available.

The focus of our paper concentrated on the Next Normal for capital markets and the implications for the commercial property sector. All commercial real estate stakeholders – investors, occupiers, financiers, public bodies and consultants – have navigated an unprecedented crisis and some have come to the conclusion that normal is a flawed concept. We operate in a dynamic world and commercial property is an evolving industry sector where all stakeholders should construct plausible scenarios for future states and plan accordingly. The only thing more interesting than the last market cycle is the next market cycle.



Authors

Andrew Ballantyne
Head of Research

Fergal Harris
Head of Capital Markets

Contributors

Tim O’Connor
Head of Office Leasing

Richard Fennell
Head of Property &
Asset Management

Jamie Guerra
Head of Industrial & Logistics

Lisa Chen
Senior Research Analyst

jll.com.au