FORWARD

In May 2020, my Office published a fact sheet regarding how COVID-19 would be considered for the 1 January 2020 General Valuation which was in effect for the 2020-2021 financial year. As COVID-19 arrived to our market after the date of valuation, any impact to value would not have been realised for that General Valuation.

Concurrently to publishing that fact sheet, we also commenced works on the 1 January 2021 General Valuation. The concern, at that time, was that sales evidence, which had shown dramatic declines, would be inconclusive in informing General Valuation movements for the coming year.

In anticipation of ensuring the impacts are accurately reflected, I instructed my service provider, Land Services SA (LSSA) to undertake a research report to have regard for varying information sources with the specific intention of clarifying General Valuation movements that may be required in response to COVID-19.

This report was developed from that date and as the situation evolved, so too did the research that ultimately informed the final position put forth to me for adoption in the 1 January 2021 General Valuation.

I would like to thank the many parties who contributed to our research, giving of their time freely and for their candour. It is for those reasons, that some names may be redacted to respect their privacy and the confidentiality in which they engaged with my office and LSSA. I would also like to thank my team here at the Office of the Valuer-General for guiding, participating and reviewing this important work and to the project team at Land Services SA who drove the collection and interpretation of data.

The attached report, endorsed by myself as Valuer-General, is the result of those works. The percentage shifts in value movements will be evident when the values come into force at midnight on 30 June 2021.

Sincere regards

Katherine Bartolo

Valuer-General South Australia

COVID-19 Valuation Research Paper

Statutory Valuations as at 1 January 2021

Date: January 2021

Table of Contents

1. Executive Summary

1.1 Introduction

Annually, as at 1 January, the Valuer-General undertakes a revaluation of every property in South Australia. Approximately 950,000 properties are re-valued, where both a Site Value (land) and Capital Value (land and improvements) are assessed.

The valuations are provided to a range of statutory authorities (State Government and Local Government) who utilise the valuations for rating and taxing purposes. The rating authorities include:

- Local Councils (for Council rates)
- SA Water (for water and sewer rates)
- Revenue SA (for Emergency Services Levy and Land Tax)

1.2 Background to Research Paper

In a May 2020 Fact Sheet released by the Office of the Valuer-General (OVG), and titled ***COVID-19 Response***[1], it stated in part:

"In South Australia, property values for the 2020-21 Financial Year were determined as at 1 January 2020, meaning that the effect of COVID-19 had not yet impacted the value of your property. As the COVID-19 pandemic remains a developing situation, the impact on the property market will become apparent as the year progresses. The Valuer-General will then determine a fair and equitable valuation for your property next date of valuation 1 January 2021 for the 2021-22 Financial Year"

In October 2020, the Valuer-General established a framework that enabled a Land Services SA (LSSA) project team to conduct industry engagement on behalf of the Office of the Valuer-General (OVG). The framework provided the mechanism for a more informed 2021-22 General Valuation (GV) and records how the effect of COVID-19 has been both considered and represented in the valuations (low/medium/high impact).

A key deliverable of the Framework was a Research Paper, which includes the following:

- Literature Review (sources include CoreLogic, REISA etc)
- Property Sector Stakeholder Engagement (State level and Industry Body/Group level)
- Analysis by Land Use, Sub-market or Region
- State-wide Region Reports
- Summary

1.3 Purpose of the Research Paper

The purpose of the OVG's Research Paper was to investigate qualitative and quantitative evidence of the impact of COVID-19 on the real property market and implications for the 2021-22 GV. For clarity, we are assessing the negative impact (if any) of COVID-19.

[1] Published on 14 May 2020

2. Literature Review

2.1 Introduction

This Research Paper was informed by the investigation of qualitative literature published with reference to COVID-19 and its impact on the global, national and state markets. Literature was sourced from media outlets. industry reports, surveys and journals. The literature review consists of four distinct sections;

1. Macro-Economic Environment (Global) Overview
2. Macro-Economic Environment (National) Overview
3. SA Economic Overview
4. Resilience of Market Segments

Note: for the benefit of the literature review, we utilised footnote sequencing to reference quotes back to the reference page located in section 2.2.6.

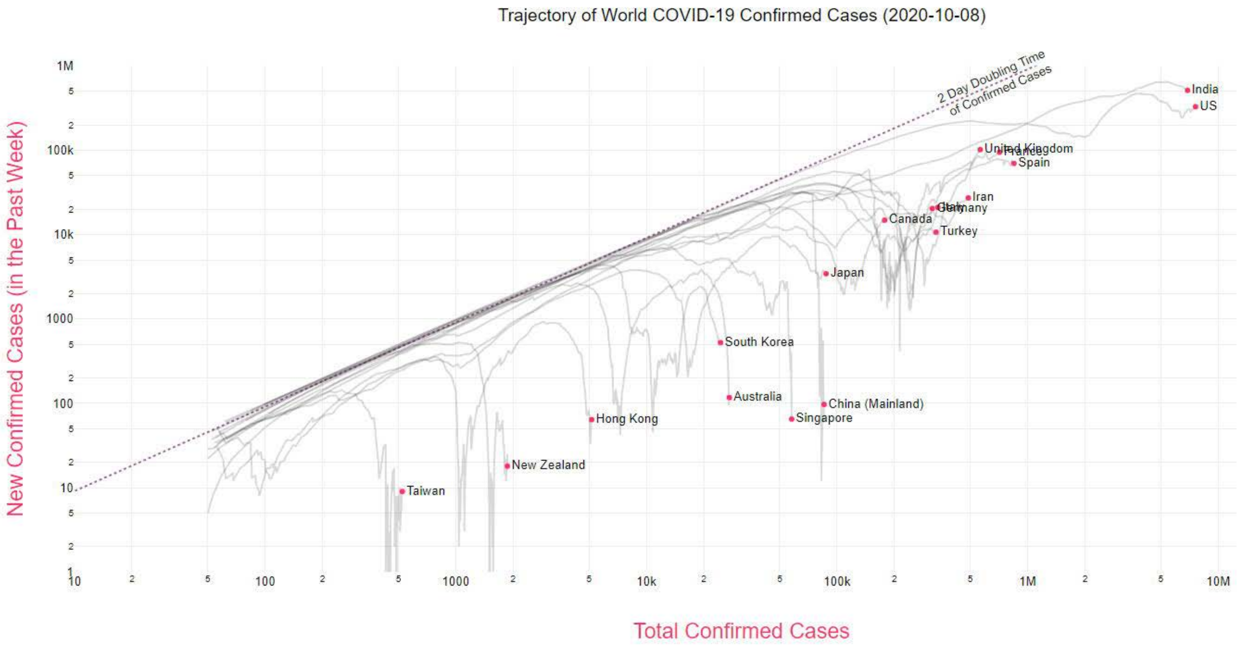
2.2 Sources

Deloitte, International Monetary Fund, Business SA, Property Council of Australia SA, The Advertiser (Newscorp), InDaily (Solstice Media), CoreLogic, Revenue SA, Australian Property Journal (Australian Property Institute), NAB, M3 Property, Colliers International, Stock Journal, 7News, The Australian.

2.2.1 Macro-Economic Environment (Global) Overview

The world has experienced unprecedented disruption since the inception of COVID-19 and the effect on global economies has been far reaching. As a result of the virus, there has been widespread change at the consumer, business and government levels. Consumers have altered spending and travel habits, businesses have experienced disruption to demand and logistics, with many making changes to their internal operational structure. Governments have been forced to respond to health and economic troubles through various mechanisms such as lockdowns and stimulus spending. What has been apparent through the media, is that the global economy has been in turmoil.

A 19 October 2020 Deloitte report[10] (Deloitte Report) said, "*A rampant virus has left the global economy shuttered and shattered. The damage is deepest where the virus has spread the most – India, Spain, the United Kingdom, France, Italy, Germany, Japan and the US. The damage has been less deep in much of east Asia, with Taiwan and Vietnam the stellar standouts, with South Korea having mounted a pretty good dual defense of lives and livelihoods, and with China itself staging a remarkable recovery…*"[10] The Deloitte Report[10] continued, "*Yet the good news stories are relatively rare. Most of the globe has bumbled its health and its economic responses. The resultant downturn is deep, and the recovery will be slow and patchy. A vaccine or good antivirals will help. And so too will continuing government support. But the road will remain hard for some time.*" [10]



Graph Source: Deloitte Report[10]

However, despite this 'doom and gloom', what we have learnt through almost a year living with COVID-19, is best described by the International Monetary Fund (IMF) which said, "*there is no trade-off between saving lives and saving livelihoods*" [10]. In other words, the more successful a country is in subduing, controlling, or eradicating COVID-19, the better that country will fare in restoring livelihoods. The IMF went on to say, "*That will eventually be evident globally once good anti-virals or a vaccine is available. The best leading indicator of how an individual economy will perform is how that nation is going in its fight against the virus.*"[10]

Australia (and South Australia) has fared very well compared to the rest of the world. Supplemented by the Federal Government's stimulus packages ('JobKeeper' and 'JobSeeker'), Australia has recorded positive population growth, low unemployment, and increasing business confidence (Business SA Survey, December 2020[3]).

2.2.2 Macro-Economic Environment (National) Overview

The Organisation for Economic Co-operation and Development (OECD) stated in December 2020, that *"Australia has been hit by the coronavirus pandemic less severely than other countries"* [18] and continues *"Real GDP is expected to contract by 3.8% in 2020, but is projected to grow by 3.2% in 2021 and 3.1% in 2022."* [18]. The following OECD table depicts Australia's demand, output and prices as at December 2020[18];

Australia: Demand, output and prices

Australia	2017 Current prices AUD billion	2018	2019	2020	2021	2022
		Percentage changes, volume (2017/2018 prices)				
GDP at market prices	1 808.3	2.8	1.8	-3.8	3.2	3.1
Private consumption	1 020.8	2.6	1.4	-7.5	4.7	4.2
Government consumption	336.3	4.0	5.4	7.8	4.7	0.9
Gross fixed capital formation	437.2	2.5	-2.0	-9.7	2.1	3.8
Final domestic demand	1 794.3	2.9	1.4	-5.0	4.1	3.4
Stockbuilding[1]	4.4	0.1	-0.2	0.9	0.4	0.0
Total domestic demand	1 798.7	2.9	1.1	-4.1	4.5	3.4
Exports of goods and services	387.0	5.0	3.2	-9.3	1.0	3.8
Imports of goods and services	377.5	4.2	-1.3	-12.7	6.6	5.7
Net exports[1]	9.5	0.2	1.0	0.4	-1.0	-0.3
Memorandum items						
GDP deflator	_	2.3	3.1	0.3	1.3	1.3
Consumer price index	_	1.9	1.6	0.7	1.6	1.6
Core inflation index[2]	_	1.7	1.6	1.1	1.3	1.6
Unemployment rate (% of labour force)	_	5.3	5.2	6.8	7.9	7.4
Household saving ratio, net (% of disposable income)	_	3.5	3.7	14.4	11.7	8.9
General government financial balance (% of GDP)	_	0.2	-0.2	-12.7	-6.5	-5.1
General government gross debt (% of GDP)	_	43.5	45.8	57.7	64.1	68.8
Current account balance (% of GDP)	_	-2.1	0.6	2.3	1.6	1.4

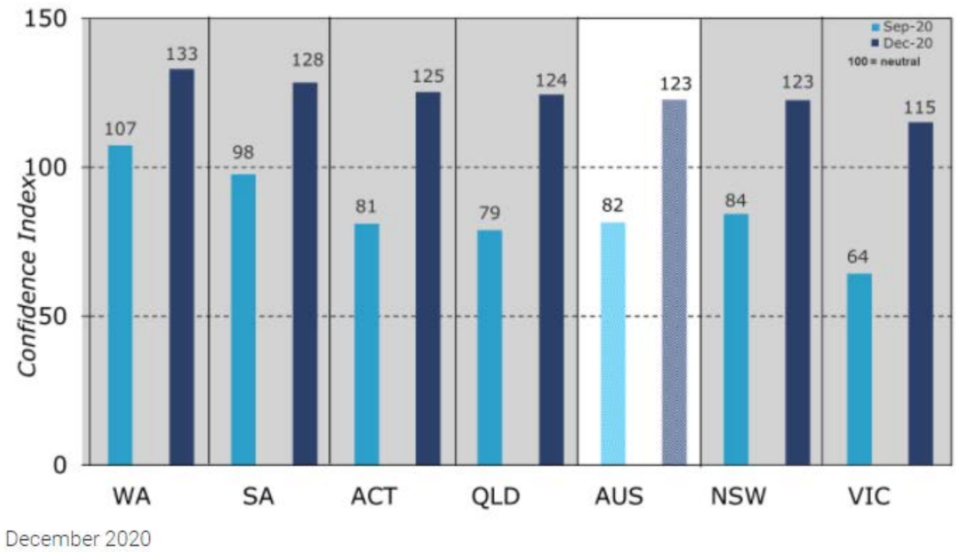
1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 108 database.

As detailed above, Australia has not been immune to the effects of COVID-19. Industry and media reports have been widespread in their coverage of changes in consumer spending, in part due to Federal and State enforced lockdowns, business closures and the Federal Government's stimulus packages, and their cumulative impact on the Australian economy.

CoreLogic's Quarterly Economic Review[8] of the national market, published August 2020, stated "*COVID-19 has been an enormous shock to the Australian economy. The RBA estimates the peak-to-trough decline in GDP in the first half of 2020 has been around 7%. While this is the largest economic decline the country has endured since the 1930s, it is a milder outcome than the 10% contraction estimated in April, and there were signs of economic recovery as restrictions began easing across the country.*" [8].

The following graph from the ANZ/Property Council National Survey[9], describes the rebound across the nations property sector from September to December 2020[9]. "*The national average is currently 123* (points on Business Confidence Index) *and has increased by 41 points since last quarter.*" [9].



Source: ANZ Property Council Survey[9]

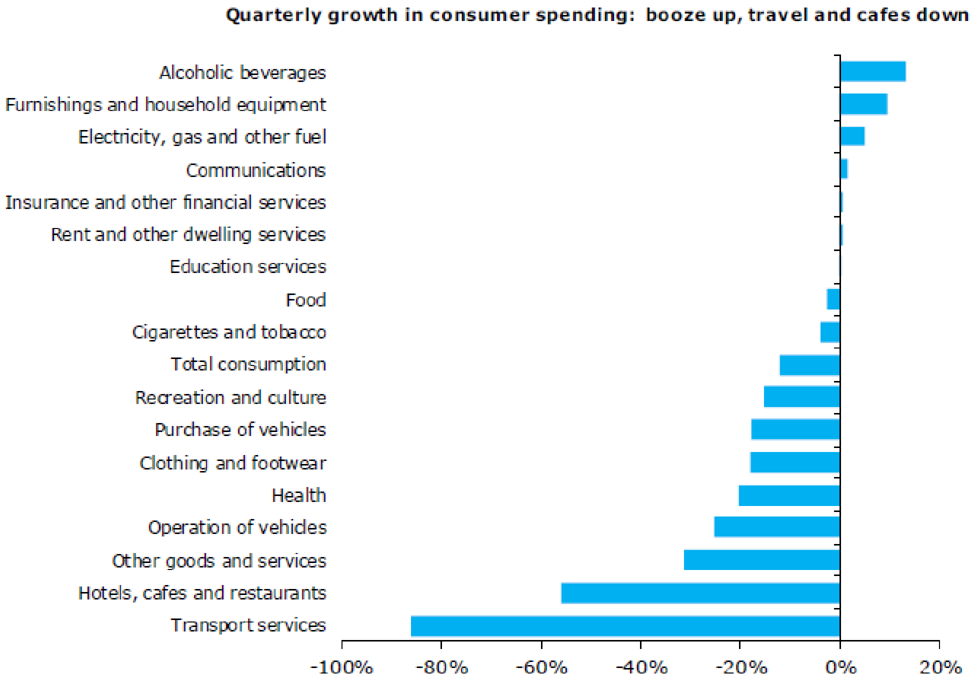
In relation to the Federal Government's two stimulus packages 'JobKeeper' (Commercial Tenancies Code of Conduct) and 'JobSeeker' (ratified on 30 March 2020) B. Coates and J. Nolan from InDaily[2] stated the stimulus "*…has been nothing but a help to the people* (business, employees and unemployed) *on it*" [2].

In addition to Australia's initial Government stimulus response, OECD's report, published December 2020[18], noted "*In October, the federal budget included new measures that increased direct fiscal support during the pandemic to 11.2% of GDP. Additional fiscal easing is concentrated in the fourth quarter of 2020 and the first half of 2021. New fiscal support plans include tax relief for households and firms, hiring subsidies, support payments, essential services spending, infrastructure investment and business tax deductions*"[18].

With reference to Australia's underperforming markets, the Deloitte Report[10] states that in Australia, the dominant negative impacts have occurred in the following industries: "*…airlines, airports, tourism, foreign students, cafes and restaurants, pubs / clubs, hotels and motels, retail, cinemas and entertainment.*" [10].

This statement aligns with our research and market analysis of the SA property market.

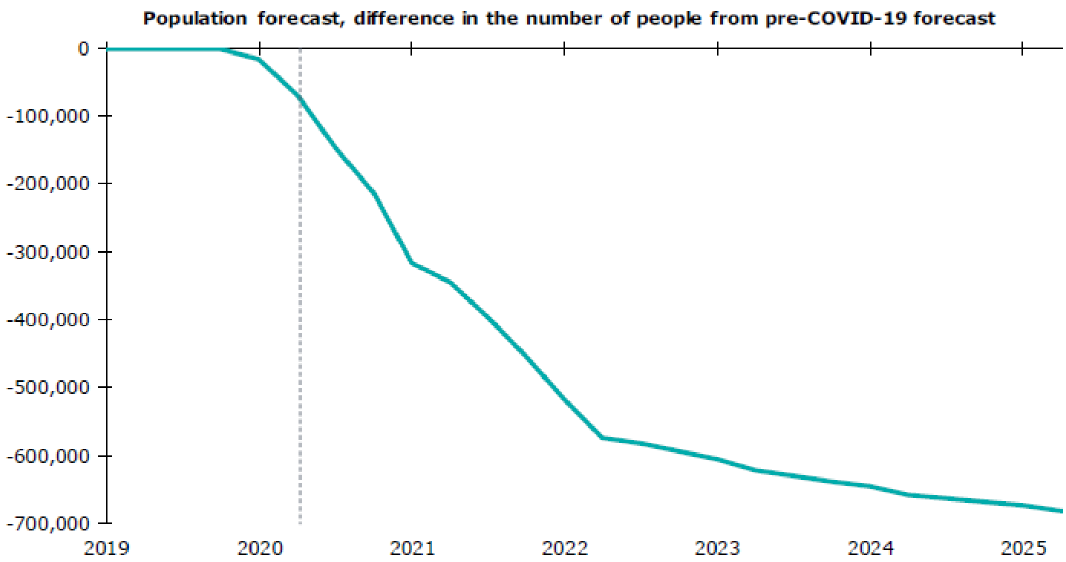
Furthermore, the following graph[10] displaying Australian consumer spending growth since the onset of COVID-19, published in October 2020, shows the stark reality of 'winners and losers'.



Furthermore, from a valuation perspective, it is particularly relevant to understand the extent of business disruption that has occurred, its likely duration and ultimately, the likelihood of any change to the value of the associated real estate.

The Deloitte Report[10] provides detailed commentary on the following key market indicators:

1. **Wage and Price Inflation** – "*Money makes the world go around … but not much money is currently moving. That has taken momentum from both wage and price inflation. And they weren't shooting the lights out to begin with anyway. Businesses haven't had much pricing power, and now they have less. Ditto workers. So wage and price inflation will stay in the slow lane until unemployment is comfortably below 6%. That looks like being sometime during 2024."*[10]
2. **Interest Rates** – "*Interest rates used to be instrument of fear. Now they're road kill. They'll stay nailed to the floor for years, globally and locally, because (1) this is a big recession, (2) inflation is also road kill, (3) governments will bow out of their support too early, leaving economic repair up to central banks, (4) economies are now more accident prone, so central banks will be super cautious, and finally, because (5) interest rates are more powerful than ever – were they to go up, they'd flatten economies. That combination says that the Reserve Bank will do exactly what it says it will do: it will keep the cash rate flat to the floor through to early to mid-2024. At least."*[10]
3. **Population** – "*When borders open again is, if anything, less certain than a few months ago. And even if Australia opens most international borders gradually through 2021, the nation's total population in just two years is set to be about 600,000 (six full MCGs) smaller than we'd forecast it to be ahead of COVID. That shortfall looks here to stay. So, if demographics is destiny, then our destiny just got a lot more challenging. That loss of migrants will have impacts for many years: it weighs on the pace of recovery, slowing everything from housing construction to the utilities. And, combined with a slumping birth rate, it will change the outlook for school numbers."*[10]. The following graph is a forecasted representation of Australia without the migratory influx of overseas people from 2020 and into the future;



Graph Source: Deloitte Report[1]

4. **Unemployment** – "*Meantime it's good news that the government has made it clear that unemployment is now Public Enemy Number 1, and that it will keep the budgetary pedal to the metal until unemployment is "comfortably back under 6%". But the matching bad news is that we don't see unemployment back to 6% until early 2024, and that "comfortably under" looks set to be late 2024. That's a long time between drinks."* [10]

2.2.3 SA Economic Overview

CoreLogic summed up this year with the following quote from their November '*Best of the Best*' industry market report[9]:

"*2020 has been a momentous year, in which Australians* (South Australians) *endured the largest economic downturn since the 1930's, and saw 28 years without technical recession interrupted.*" [9]

Danial Gannon, Property Council of Australia, SA Executive Director, was quoted in a recent article published by The Advertiser[21], as stating "*…*(ABS Statistics) *figures completed a hat-trick of promising news for the state's economy… The state's jobless rate has dropped, business confidence has skyrocketed and population growth is strengthening," Mr. Gannon goes on to state "SA's response to COVID-19 has set domestic and global blueprints, and we're starting to reap economic rewards as a result* " [21]. Mr. Gannon was referring to the recently released ABS Statistics, that illustrate "*…South Australia's brain drain has reversed for the first time in almost 20 years.*" [21].

As previously mentioned, the Australian Federal Government introduced two main stimulus packages in 30 March 2020, and the South Australian Government responded with its own relief measures which included [20]:

- *6 month payroll tax waiver for business with Australian grouped wages up to $4 million.*
- *6 month payroll tax deferral for businesses with Australian grouped wages over $4 million.*
- *Deferral of the third and fourth instalment for 2019-20 land tax liabilities.*

- *Increase of amount paid for first year of the land tax reform transition fund.*
- *Second anniversary claim for job accelerator grant to be assessed at staffing levels as at 31 January 2020.*

In addition to the above relief measures, M. Smith from The Advertiser[15], quoted Hon Rob Lucas with reference to the 2020 State Budget announced in November 2020, noting *"Treasurer Rob Lucas has delivered the 2020 State Budget, announcing an underground motorway to finish the North-South Corridor, sport stadium upgrades and tax relief. Treasurer Rob Lucas has today delivered his "drowning in red ink" State Budget that records a $2.59bn deficit for this year – and debt ballooning out to $33.2bn over the forward estimates. As revealed in the lead up to today's State Budget there is a major emphasis on infrastructure – with a heavy focus on projects that can be delivered, or at least progressed significantly, over the next two years."*.[15]

Business SA recently published their latest members' survey (Business SA's Survey[3]). This report, which takes a closer look at its members position since the inception of COVID-19 in South Australia, states; "*… businesses have reported a huge spike in confidence and conditions in the September quarter that has far exceeded expectations, showing the resilience and focus of SA Businesses in this COVID crisis.*" [3]. Furthermore, Business SA noted that its business confidence index was published at 95.3 points for the September Quarter, which was a "…*significant result that is higher than the survey's 10-year average*" [3].

The Property Council of Australia also conducted its own member survey (ANZ/Property Council Survey[19]). This survey said, "*Confidence across South Australia's property sector has rebounded sharply despite last month's three-day 'circuit-breaker' which forced the state into lockdown… confidence has skyrocketed from 60 points since the March quarter.*" [19].

Both consumer and business confidence in South Australia have also been assisted by the low jobless rates and additional State Government stimulus. As described by A. Spence from InDaily[1] "*South Australia's jobless rate has fallen by a full percentage point to 7.1 per cent, shrugging the tag of Australia's highest unemployment state in the process."* [1]. A. Spence[1] went on to describe the following with a reference from Innovation and Skills Minister, Hon David Pisoni, "*… 36,000 more South Australians had found work in the past four months, while maintaining and growing employment was the state government's top priority. "We are doing everything in our power to ensure as many local jobs as possible survive through the greatest economic challenge of our time, which is why we've committed $2 billion in economic stimulus measures, including significant payroll tax and land tax relief," he said. Pisoni said the government had also given $10,000 emergency cash grants to more than 18,000 businesses and not-for-profit organisations, and was rolling out $12b in infrastructure spending over four years."* [1].

Furthermore, in a recent survey conducted by the Property Council of Australia, Adelaide has seen a rise in employees returning to CBD offices. Property Council chief executive Ken Morrison said in an article written by 7News[5], "*…the survey showed momentum was swinging behind a return to CBD offices… The shift is on and more CBD workers are coming back to their offices, which is an important step in Australia's economic recovery*" [5]. From September 2020 to October 2020, Adelaide's CBD office occupancy rate has increased from 67 per cent to 73 per cent (increase of 6 percentage points)[5].

We consider the return of workplace participants to the CBD critical to the sustainability of property values, particularly retail. Whilst the current trend is encouraging, it remains to be seen if CBD workforce numbers return to pre COVID-19 levels. In our opinion, this situation will further evolve during 2021, by which time a better understanding of the impact on CBD real estate values can be assessed.

2.2.4 Resilience of Market Segments

As earlier outlined, the purpose of the Research Paper, was to investigate qualitative and quantitative evidence of the impact of COVID-19 on the real property market and implications for the 2021-22 GV. For clarity, we are assessing the negative impact (if any) of COVID-19, however it is important to note there have been several outperforming sectors. Whilst not an exhaustive list, we have highlighted on a relative basis, a sample of outperformers and underperformers.

Outperformers

1. Industrial

   The overall sentiment is that COVID-19 has had little or no impact on the industrial property market and values across the State. Key drivers include record low interest rates, a market-held view that the sector is largely unaffected by COVID-19 and the strong demand for quality assets with long term lease covenants.

   M3 Property[16] noted "*Despite the pandemic, the South Australian industrial market remains buoyant. The mounting strength on the market continues to be underpinned by a widening of the State's economic base through significant infrastructure spend and growth in defense industries, advanced manufacturing (renewable energy technologies, water recycling equipment, agricultural equipment, medical devices, space-related services, digital technology and photonics), mining and energy investment, agricultural exports and logistics."*[16].

2. Rural/Agriculture

   Similar to the industrial market segment, overall sentiment is that COVID-19 has had little or no negative impact on the rural/agriculture property market and values. The SA property sector and analysis of market transactions indicate overwhelmingly a positive sentiment for this sector, one that has been sustained, over a period of several years, with strong commodity prices, record low interest rates and generally favourable climatic conditions.

   Furthermore, an article written in the Stock Journal[6] summed up sentiments for large portions of regional agricultural land within South Australia, by noting "…*rural land market has remained in tremendous health with some impressive leaps in values again in 2020. Many older farmers are holding onto their greatest asset – their land – keeping listings tight, and low interest rates along with strong commodity process are fueling demand."* [6]. The article continues and quotes Phil Keen from Elders SA, "*… it had been an unbelievable year for the company, with nearly 50 per cent more rural sales transacted in SA from October 1, 2019 until September 30. It had defied bushfires, a market where listings were considered short, and COVID-19. The latter had even helped identify the serious buyers."* [6].

3. Residential

   Again, similar to the industrial and agricultural segments, COVID-19 has had little or no negative impact on the residential property market and values. Key drivers include the $25,000 Federal Government HomeBuilder Grant announced on 4 June 2020 and record low interest rates for residential loans.

   The Advertiser published an article in October 2020, author J. Brown[13], where it described Adelaide's property market as resilient throughout 2020 in the following excerpt:

   > *"… new figures revealing profitability on home sales increased in the three months to June.*
   >
   > *CoreLogic's latest Pain and Gain report shows the city's portion of properties that sold at a loss dropped 0.7 per cent in the June quarter, based on 3,549 resales during the period.*
   >
   > *While it is only a slight change from the March quarter, when 4,037 resales were made, Adelaide was the only capital city to record a decline in the portion of loss-making sales.*
   >
   > *Real Estate Institute of South Australia president Brett Roenfeldt said people were willing to pay more for properties as there were so few on the market to choose from after COVID-19 was declared a worldwide pandemic, which helped boost sale prices."*[13]

   The article continues to reference CoreLogic's Pain and Gain report, stating:

   > *"The report also showed a higher portion of units sold at a loss than houses, and the portion of loss making resales was highest across Adelaide (21.6 per cent), Playford (21.6 per cent) and Mallala (21.4 per cent) local government regions.*
   >
   > *"The vast majority of loss-making sales across the Adelaide LGA were investor-owned units, which may have been prompted by a decline in unit rent values since the onset of the pandemic," it read.*
   >
   > *"Mount Barker saw the highest level of profitability, with just 2.9 per cent of properties selling for less than the previous sale price in the June quarter."*
   >
   > *The report said as dwelling values had increased across Greater Adelaide since the onset of the pandemic, the historically steady market would likely see further rates of profitable sales in the second half of the year."*[13]

Underperformers

Although the overall property market sentiment has been positive, there are certain business sectors that have been and remain under stress, with significant negative impact to turnover and in many instances, viability. The business challenges in many cases, have a 'flow-on' effect to the property market. These are regarded as higher risk sectors that are doing it tough. Business SA's survey[3] highlighted this sentiment: "*The hardest hit businesses by ongoing Government restrictions include those that rely on interstate and overseas tourists, run hospitality venues geared around being able to stand and drink, and almost all businesses in the events supply chain*." [3]. This again was reiterated within the Deloitte Report[10], which stated the hardest hit industries are "*…airlines, airports, tourism,* *foreign students, cafes and restaurants, pubs / clubs, hotels and motels, retail, cinemas and entertainment.*" [10].

1. Retail

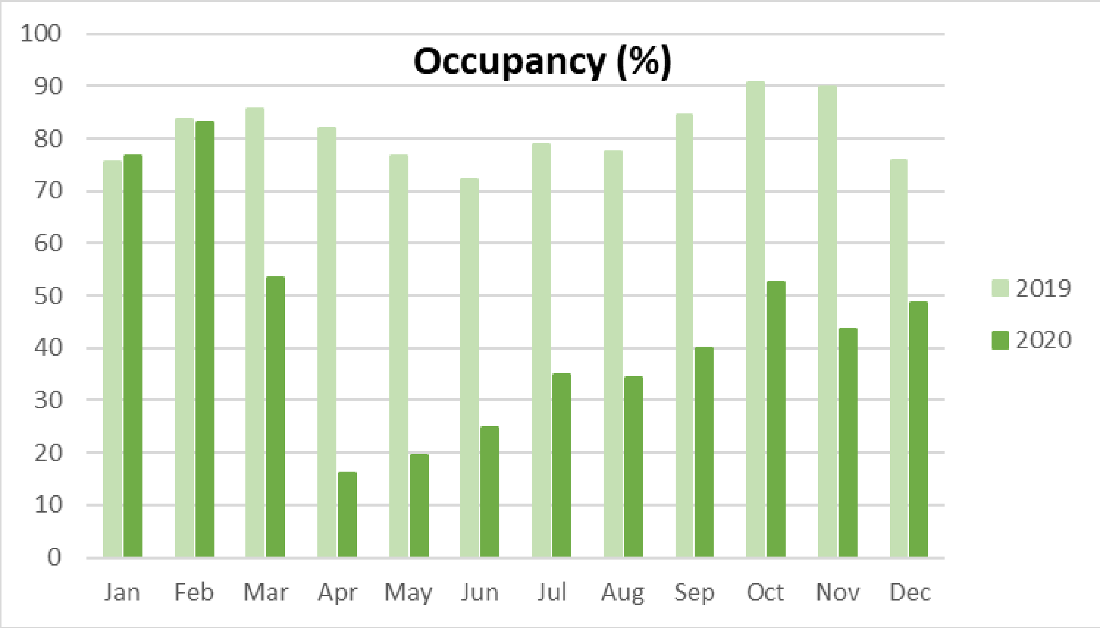
   Prior to COVID-19, the retail market was experiencing a period of structural change resulting in opportunities and risks across all markets. In addition, there has been ongoing pressure on retail profit margins due to increased discounting and a falling Australian dollar. Despite challenging economic conditions, retail turnover had remained positive, however, the distribution of growth has been skewed towards food, household goods and online shopping. Through 2020 leasing incentives remaining high in certain areas.[16]

   The Retail sector was described by Australian Property Journal's, H. Page[12] as "*…despite many retailers still struggling to recover, spending in the September quarter pushed retail sales well above pre-COVID levels as more consumers spend locally whilst international travel restrictions remain.*" [12] Furthermore, H. Page also noted that according to the latest quarterly report from Deloitte Access Economics, "*retail spending has all but recovered in many areas, as volumes increased by 6.5% over the September quarter, after a significant drop in June as the pandemic ramped up.*" [12]. The quote H. Page was referring to was from David Rumbens, Deloitte Access Economics partner who stated; "*Retail spending has been an area of strength for the Australian economy through COVID-19. With social restrictions easing, and a measure of pent up demand unleashed, retailers experienced a surge in spending volumes over the September quarter,*" [12]. Although levels are slowly recovering, this sector has mostly been fueled by online retail sales which increased by 38.7% according to the NAB Online Retail Sales Index[17] monthly survey. In relation to the retail sub-market, of particular note is the growth in on-line retail and the flow-on negative impact to the retail business sector and ultimately, to any associated real estate. This is an emerging issue in any property value re-positioning, with declining pedestrian traffic in the CBD an additional challenge for that submarket.

2. Hospitality, Hotel and Accommodation

   The South Australian Hospitality, Hotel and Accommodation business sector has been significantly negatively impacted by the restrictions put in place by the state and federal government. Mr Ian Horne, General Manager Australian Hotels Association (SA) was quoted in an article written by M. Kemp from The Advertiser[14], noting *"Despair is the overwhelming emotion of operators in the hospitality industry, simply because the vast majority get zero benefit from further lifting of restrictions while the one customer for 4sq m remains."* [14]. Mr Horne went on to quote a recent Hotels Association members survey which also included questions around accommodation providers, that noted "*…53 SA hotel owners – by STR Global – revealed had cut occupancy April* (2019) *to April* (2020) *from 81 per cent to 15 per cent and dollars earned per room per day from $119 to $17."* [14]. Mr Horne also noted that "One hotel owner said: "*We cannot sustain our business for much longer in the current circumstances.*" [14].

   The following graph, which contains 2019 and 2020 data (January-December) for comparison purposes, demonstrates this trend. We note that December 2020 occupancy data for the CBD Hotel accommodation sector was reported at approximately 49%, compared to 76% for the corresponding month in 2019 and 45.0% versus 90.0% for the months of November 2020 and 2019 respectively. Of note, the data for part of 2020, excludes the medi-hotels. If those hotel rooms were included as 'available stock', the occupancy trend would be even more profound.



3. Student Accommodation

Colliers International produced a report noting the impacts of COVID-19, border closures and what this has meant for student accommodation. The report noted, "*Following unprecedented levels of investor demand and consolidation of the Purpose Built Student Accommodation (PBSA) sector in 2019, the outbreak of COVID-19 has undoubtedly disrupted the international education sector in 2020. As domestic and international travel has become more restricted and given the fluid nature of this ongoing global pandemic, universities and PBSA operators face challenges over the short to medium term.*"[7]. C. Bickers from The Advertiser was quoted[4]; "*Big risk to SA's $2bn international student sector as Indian, Nepalese visa applications fall… International students from India and Nepal are abandoning plans to study in Australia — and billions of dollars will disappear with them in another hard blow to SA's economy.*"[4]. For the education sector, the collapse of the overseas student numbers is of real concern, not only for the specific purpose-built properties in this sector, but likely of more concern, the broader impact to the local economy if the student numbers do not return to pre-COVID-19 levels. The following graph[7] illustrates international student arrivals compared to the same time last year (2019).

Source: Australian Bureau of Statistics

2.2.5 **Summary**

The impact of COVID-19 has proven to be a global economic shaping event with far reaching effects that will continue into the future, especially where the virus has spread widely. The evolving nature and impact on the Australian economy has been less dramatic.

South Australia has gone a step further compared to the rest of country, proving its resilience in an ever-changing climate. Furthermore, industrial, agricultural and residential sectors seem to have had little to no impact since the start of COVID-19 and are proving to be strong performers in their respective markets, with vineyards in the agricultural sector being the one significant exception.

Finally, although the South Australian sentiment appears reasonably positive, this could alter at any time, as evidenced by the ever-changing status of lockdowns and travel/border restrictions during the latter part of 2020 and into 2021.

2.2.6 References

1 A. Spence, InDaily (15 October 2020). SA Unemployment rate falls, along with full-time job numbers. [Online]. https://indaily.com.au/news/2020/10/15/sa-unemployment-rate-falls-along-with-full-time-job-numbers/.

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3. Stakeholder Engagement - Property Sector

3.1 Introduction

During the period from November to early December 2020, LSSA on behalf of the OVG, undertook a comprehensive Property Sector Stakeholder Engagement program, in two components being state Industry level and Industry Body/Group level. In the likely absence of sufficient market evidence, in particular, for Commercial and Industrial properties, it was considered critical that the views of the property industry were canvassed. One of the primary outcomes was to understand, from a Commercial property perspective, COVID-19 impacts on business performance and any flow-on effect to the sustainability of rental levels for lessees, occupancy trends, rental arrears and vacancy levels. We also sought to understand more broadly the effect of government assistance (either employee or business orientated) that may be assisting to reduce any impacts. Whilst we anticipated that compared to the Commercial property sector, there would be relatively more available evidence in the industrial, residential, and rural/agriculture sectors, we considered industry engagement in these sectors still critical to informing the 2021-2022 General Valuation.

3.2 State Level Industry Engagement

At the local industry level, across metropolitan Adelaide and Regional South Australia, 137 interviews were conducted with a range of property professionals, including real estate agents, valuers, conveyancers, finance brokers and property developers.

In each case, discussions occurred relating to specific property sectors and as to the impact of COVID-19 (if any). Market conditions and market movement were also discussed. The industry participants, in confidential discussions, were all willing to share their insights and broad anecdotal commentary on their respective sectors. This engagement greatly assisted us in informing the valuation decisions for 2021-2022 GV.

3.3 Industry Body/Group Engagement

Interviews were conducted with five Industry body/representative groups, comprising:

- The Property Council
- Business SA
- REISA
- Australian Hotels Association (SA)
- Child Care Centre Alliance (SA)

In each case, in an informal ‘virtual meeting’ setting, discussions occurred relating to both broad economic issues and the impact of COVID-19 on the property sector each body/group represented. In all five interviews, the industry participants, in a confidential setting, were willing to share their opinions/insights, anecdotal commentary on the sector they represent and, in some cases, examples of business and property challenges since the onset of COVID-19. This industry body/group engagement complemented the local level engagement outlined above and provided a vital component in informing the 2021-2022 GV.

4. Analysis by Land Use, Sub-market or Region

4.1 Introduction

This section outlines in summary format, our analysis of COVID-19 impacts for specific land uses, sub-markets or at an identified region level. The summaries encompass both broad property categories and quite specific land uses, locations and/or property sectors. The analysis includes commentary on specific sectors/locations considered most under stress and/or at heightened risk of adverse business impact, with consequential *downstream* impact to respective property values.

Note: Whilst the analysis is comprehensive, within the scope of the research paper, due to scale, it was not intended to analyse and report on all combinations of Land Use, sub-market or Regions.

In addition to the sector-wide analysis reported below, we also completed a comprehensive state-wide summary, in **11 Region Property Sector Reports.** These reports, which are contained in the appendices, include:

- Sector by Sector summaries
- COVID-19 Impact (high, moderate, minimal, none)
- Market Commentaries
- Market Movement (both analysis-based and anecdotal)
- Resilience of Market Segments
- Statistics for GV

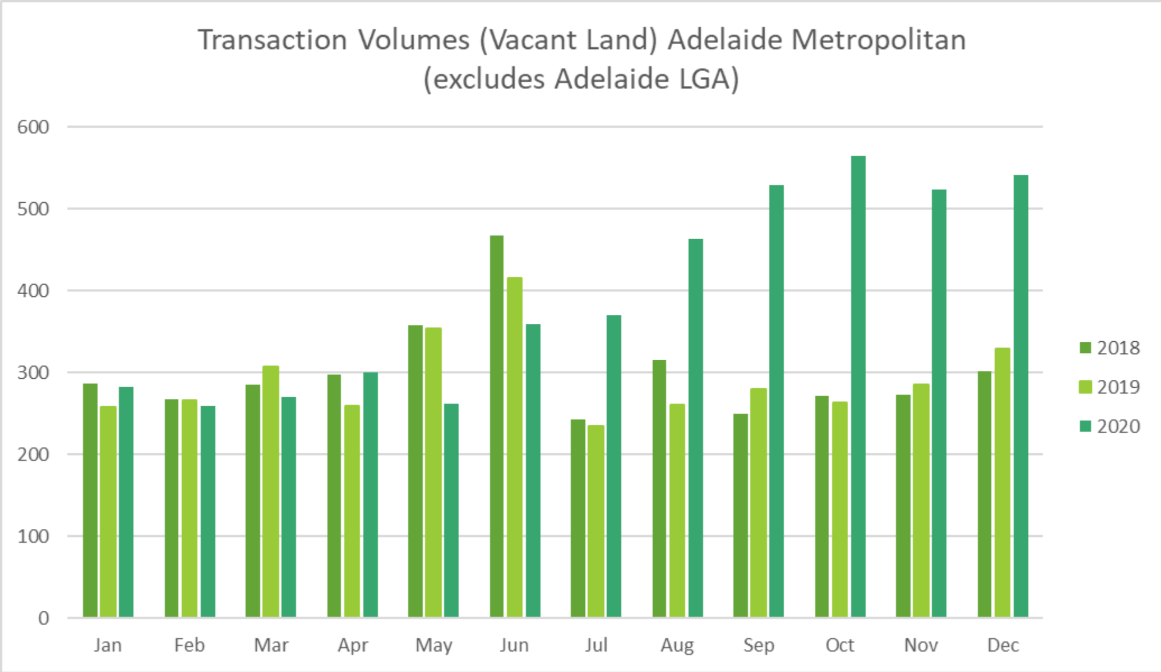
The reports provided the foundation for the research paper and the informing of the 2021-2022 GV.

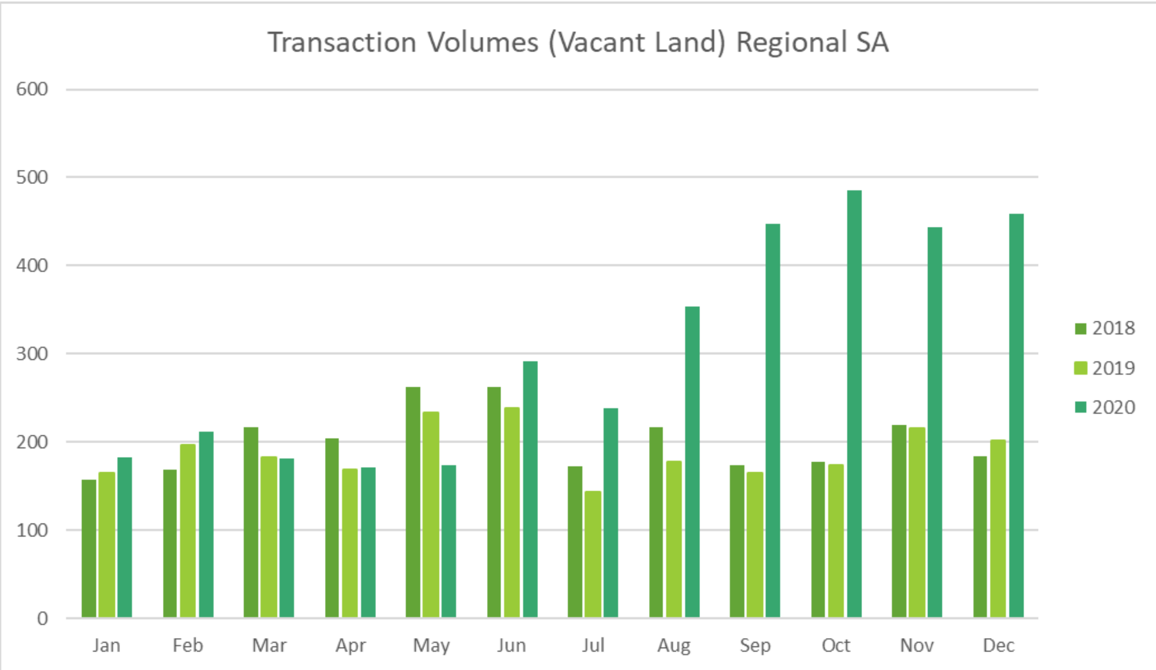
4.2 Sector-wide Analysis

4.2.1 Residential

The engagement with the residential property sector, conducted on behalf of the OVG, and the analysis of market transactions indicated a positive sentiment for this sector, with the two key drivers being the $25,000 Federal Government HomeBuilder Grant announced on 4 June 2020, together with record low interest rates for residential loans. Furthermore, the overall sentiment was that COVID-19 has had little or no impact on the residential property market and values. We note however, there is anecdotal commentary suggesting strong Adelaide-based buyer interest in certain Regional SA locations, with a common desire to seek a green or sea change, assisted by more flexible working from home arrangements evident since the onset of COVID-19.

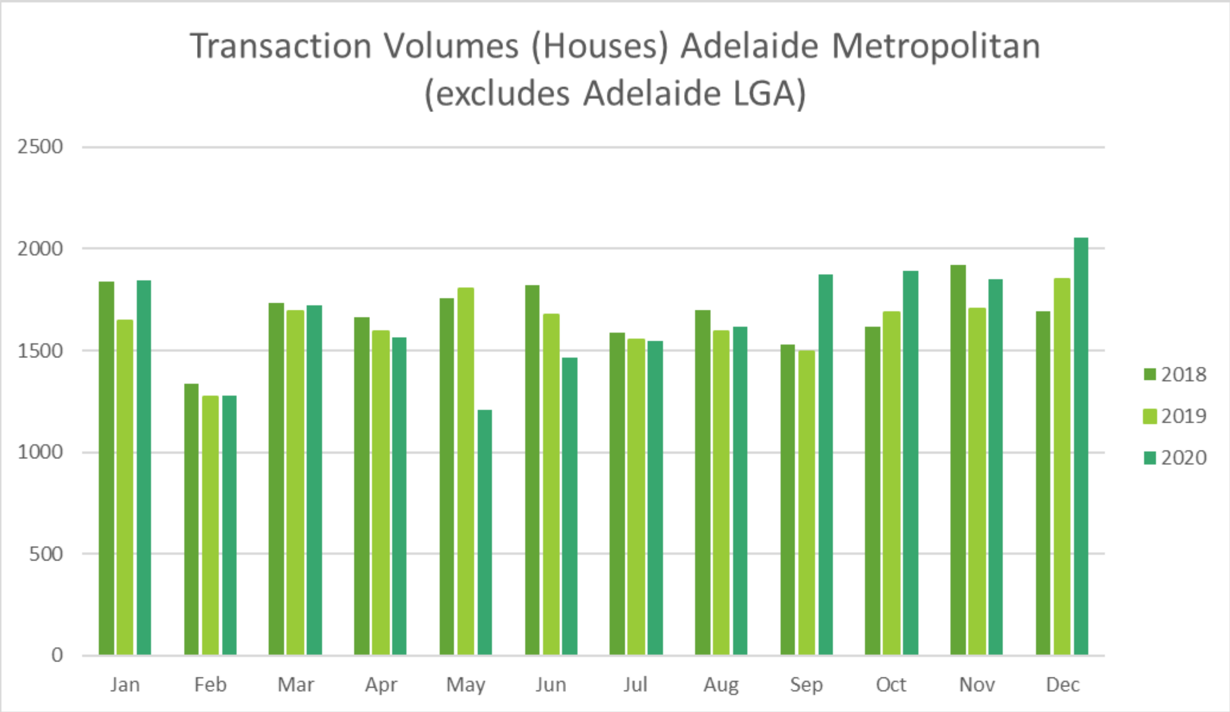
The strongest performing sector, without too many exceptions across the State, has been residential vacant land. While the median sale price has been relatively stable in this sector, transaction volumes have been at record levels, with a sharp upward trajectory since July 2020, As a result volumes in the second half of 2020 are significantly higher than corresponding months in 2018 and 2019. The following graphs, which contains 2018-2020 data (January-December, demonstrates these trends.

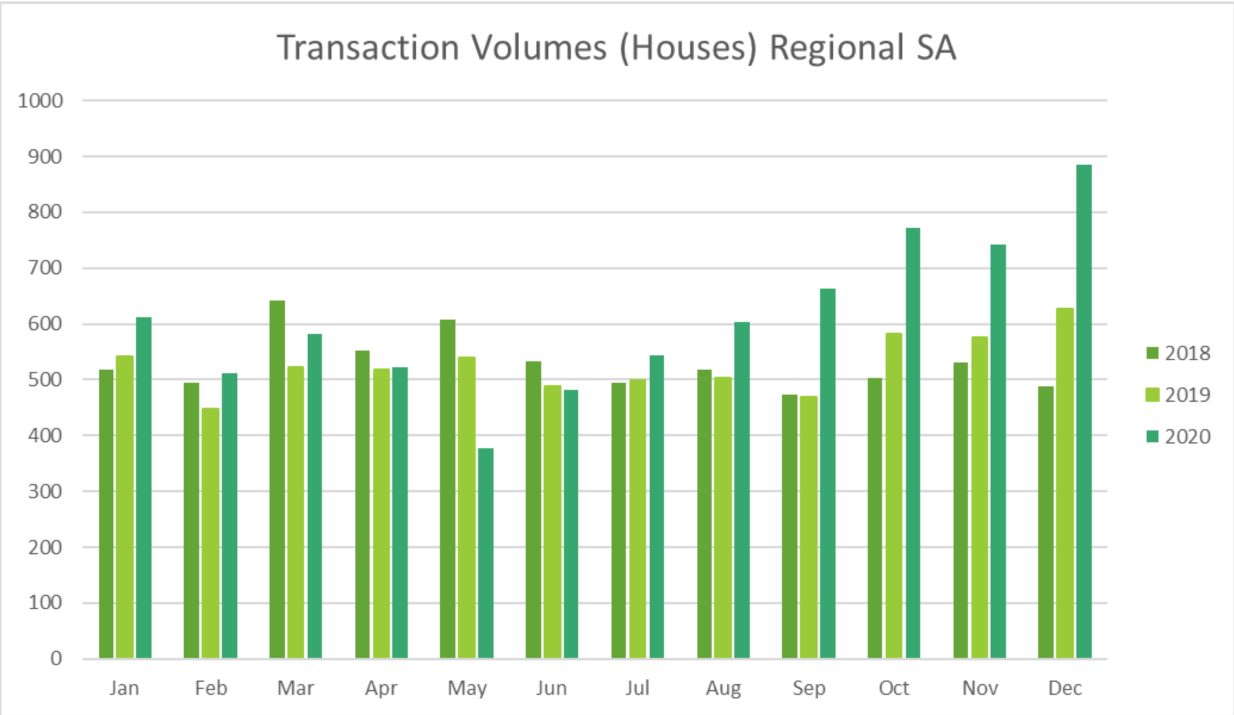




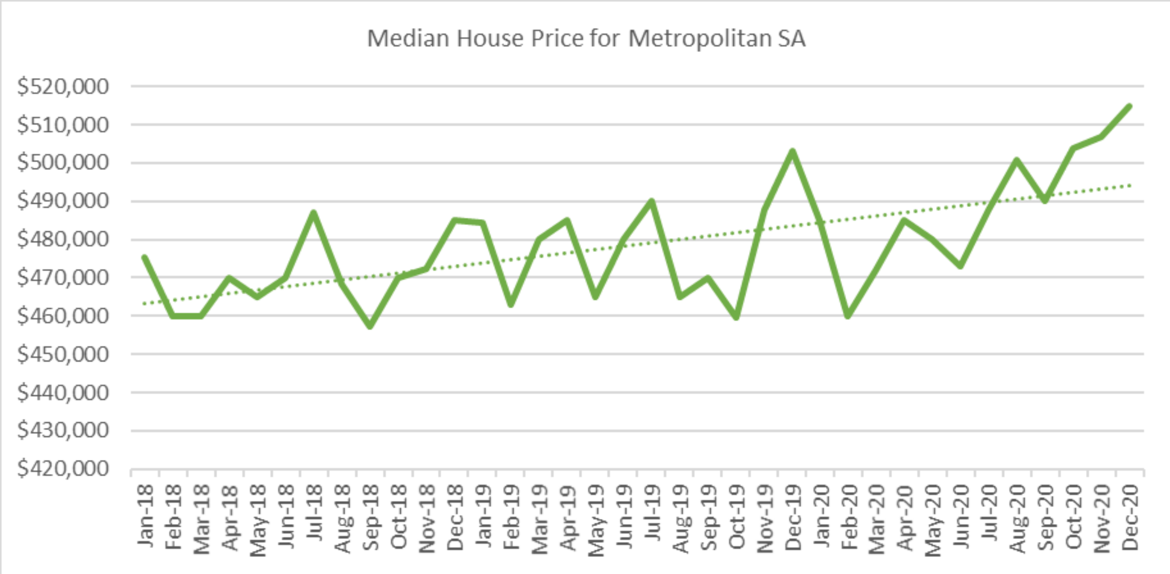
We note with some caution however, the sustainability of this trend into 2021, given the very favourable market conditions at present have most likely brought forward many purchaser decisions such that the concentration of purchasers has led to the spike in demand.

While not as strong as the vacant land sector, houses have also been a strongly performing sector, without too many exceptions across the State. During 2020, modest growth was observed in the median house price in metropolitan Adelaide and generally stable values in Regional SA. Of note, transaction volumes have been at record levels, with a sharp upward trajectory since July 2020. Since July 2020, volumes were also much stronger than the corresponding months in 2019. The following graphs, contain 2018-2020 data (January-December) and demonstrate these trends.

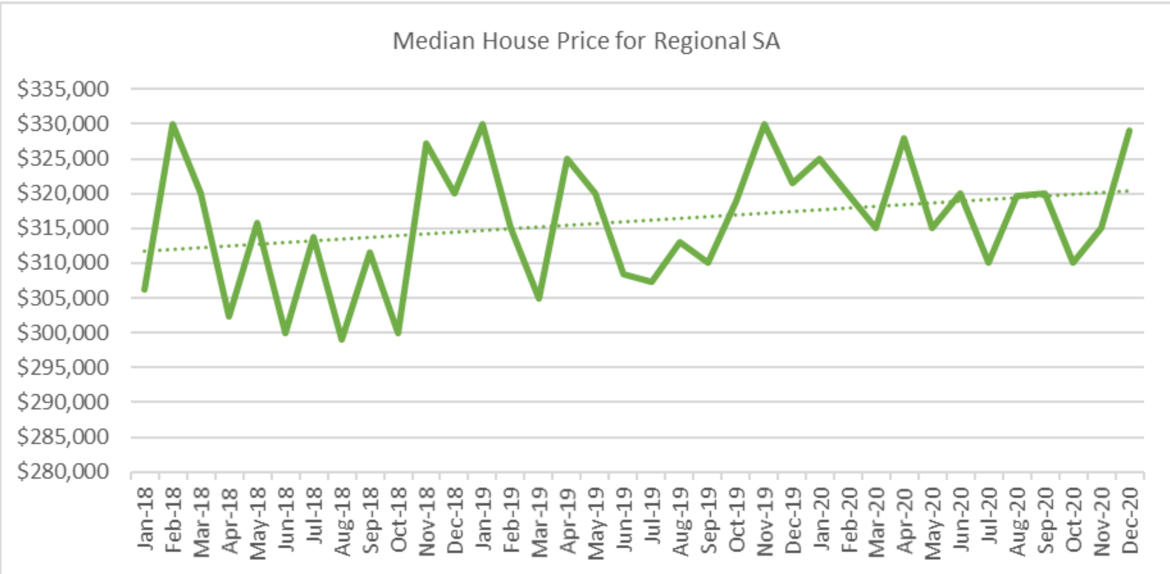




As shown in the following graph, as at 31 December 2020, the Median House Sale Price for Metropolitan SA was $515,000. This is up 2.39% on the corresponding month in 2019.



While the graph below suggests some volatility in Median House Prices, the value band is within a 10.0% range, with the median relatively stable to rising during 2020, but with increasing transaction volumes noted. Vacant residential land has been an outstanding performer, with demand out-stripping supply, resulting in a significant increase in transaction numbers and in some instances increased upward pressure on value levels.



4.2.2 **Commercial**

Industry engagement and analysis of market transactions indicates a mixed sentiment for this sector depending on the specific land use and/or location. Some sub-sectors have been affected by the economic insecurity brought by the COVID-19 outbreak, with others unaffected and at the time of this report performing at pre-COVID-19 market levels. Record low interest rates and the strong demand for quality assets with long term lease covenants, two of the key drivers that have contributed to some positive sentiment. Conversely, challenging business performance and trading conditions in many sectors have been central to negative sentiment.

Generally speaking, although investors have been more cautious regarding the mix of tenants, according to selling agents, since September 2020 the market sentiment has been positive with an increased demand for leased properties with a longer Weighted Average Lease Expiry (WALE). Investors are looking to buy non-discretionary retail type accommodation which have proven to be immune to Government restrictions. Quality assets with strong catchments and performance continue to be in demand. The agents report that for most of the commercial properties, the sales levels and interest is back to the pre-COVID-19 market.

In relation to the retail sub-market, of particular note is the growth in on-line retail and the flow-on negative impact to the retail business sector and ultimately, to any associated real estate. Sentiment in the retail sector is somewhat volatile given the changing landscape in relation to COVID-19 measures. Vacancies have been trending upwards, with revised rental arrangements often negotiated between tenants and landlords, to assist with both business viability and occupancy retention. Through the latter part of 2020 retail lease incentives and retail vacancies experienced upward pressure and it is expected that the trend will continue during 2021. There has also been downward pressure on Regional and sub-Regional Shopping Centre values. However, shopping centres with major anchors such as Foodland, Coles or Woolworths have been impacted to a lesser degree due to the supermarket and chemist trade. Specialty shops have not performed as well, however it is difficult to unpack as JobKeeper kept some of these businesses 'afloat'. The full effect of any COVID-19 related impact is yet to be seen as the market emerges from COVID-19, but we expect that retail and the associated real estate in general, will prove to be one of the most affected sectors, particularly in the CBD.

The CBD has provided an excellent insight into the mixed impact of COVID-19. The range and level of impact on business performance has been extreme, with sectors worst affected, likely to place downward value pressure on the associated real-estate, if the pandemic is sustained. This is more so if the asset is specialised in nature and cannot easily be re-purposed without significant capital expenditure. In the latter half of 2020 Adelaide saw a rise in employees returning to CBD offices albeit not typically on a full-time basis. We consider the return of workplace participants as being critical to sustainable property values, particularly retail. While the current office occupancy trend is encouraging, it remains to be seen if CBD workforce numbers return to pre COVID-19 levels. In our opinion, this situation will further evolve during 2021, at which time a better understanding of impact on CBD real estate values can be assessed. Furthermore, from a valuation perspective, it is particularly relevant to understand the extent of business disruption, its anticipated duration and ultimately, the likelihood of any change to the value of the associated real estate.

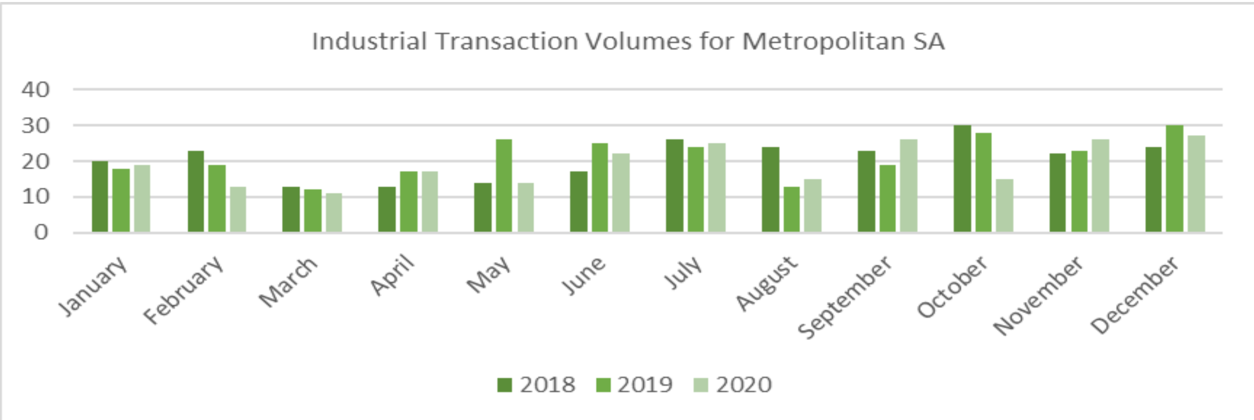
A sector that has been adversely affected is hospitality, including both the traditional pub and CBD accommodation submarkets. Government-imposed restrictions on trading led in many cases to business either not trading at all or trading at a loss. Accommodation occupancy levels in CBD hotels fell significantly post the onset of COVID-19 due to the tourist and corporate visitation numbers collapsing. While reported occupancy has been improving in recent months, if the recovery is too slow, downward pressure on property values is likely.

The education sector, with the collapse of the overseas student numbers is of particular concern, not only for the specific purpose-built student accommodation properties in this sector, but also the broader impact to the local economy if student numbers do not return to pre-COVID-19 levels. JLL provided a quantitative response to the overseas higher education sector within the report '*Adelaide Student Accommodation Demand and Supply Analysis' (July 2019)* which is considered relevant to this discussion. It stated, "*In terms of demand for accommodation, full-time enrolments at the states* *three major universities are the key drivers of demand, accounting for majority of full-time enrolments. In 2017, there were 59,506 full-time enrolments in SA, including 15,360 international students.".* Furthermore, an article in The Advertiser (written by C. Bickers, 31 July 2020) quoted the international student sector as a $2bn industry that will have far reaching effects on the wider community; and a "*Big risk to SA's $2bn international student sector as Indian, Nepalese visa applications fall… International students from India and Nepal are abandoning plans to study in Australia — and billions of dollars will disappear with them in another hard blow to SA's economy.*"

4.2.3 **Industrial**

Engagement and analysis of market transactions indicate a positive sentiment for this sector, with record low interest rates, a market-held view that the sector is largely unaffected by COVID-19 and the strong demand for quality assets with long term lease covenants, being three of the key drivers. Furthermore, at the time of writing this paper the overall sentiment is that COVID-19 had little or no negative impact on the industrial property market and values across the State. Of note from a metropolitan Adelaide perspective, market activity has been buoyant, with demand for logistic facilities and Defence-related industries dominating the larger properties. Building approvals for 2020 are at a 10-year high in terms of both numbers and dollar value with manufacturing and logistics being the main contributors. The new Metcash $135m 'state of the art' facility in Gepps Cross replacing their existing Kidman Park facility and the move of Cochrane Transport from Torrensville to a new significantly larger and more accessible facility at Gillman are just two examples of the demand for more efficient logistic facilities, a trend which began prior to COVID-19 and continued through 2020. The demand for smaller office/warehouse/workshops, particularly from the owner/operator have continued to outweigh supply. Recent auctions of this class of asset in Edwardstown and Glynde have achieved prices well above the reserve. Demand for rental accommodation in this sector has declined slightly as operators seek to develop or purchase their own facilities on the back of low interest rates, however despite this rents appear to be stable.

Values are considered relatively stable in this sector, along with stable to slightly declining transaction volumes, with a lack of supply being a key influence. The following graph contains 2018-2020 metropolitan Adelaide data (January-December) and demonstrates the latter trend.



4.2.4 Rural/Agriculture

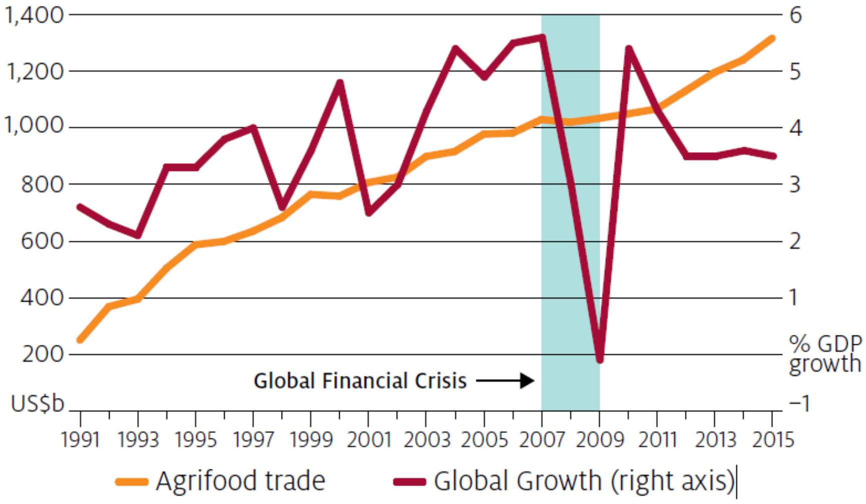
Broad overview

Engagement together with analysis of market transactions indicate overwhelmingly a positive sentiment for this sector. A sentiment that has been sustained over a period of several years, with strong commodity prices, record low interest rates and generally favourable climatic conditions being three of the key drivers. Furthermore, the overall sentiment is that COVID-19 has to this point had little or no negative impact on the rural property market and values.

The following quotes (and accompanying graph) from ABARES, provides further support for a positive outlook for this sector:

"The downturn in economic activity is unlikely to have a significant impact on demand for essential food products. This persistence of demand was seen during the Global Financial Crisis in 2007–08, when agricultural trade remained steady despite the economic turmoil the crisis created (Figure 1)."

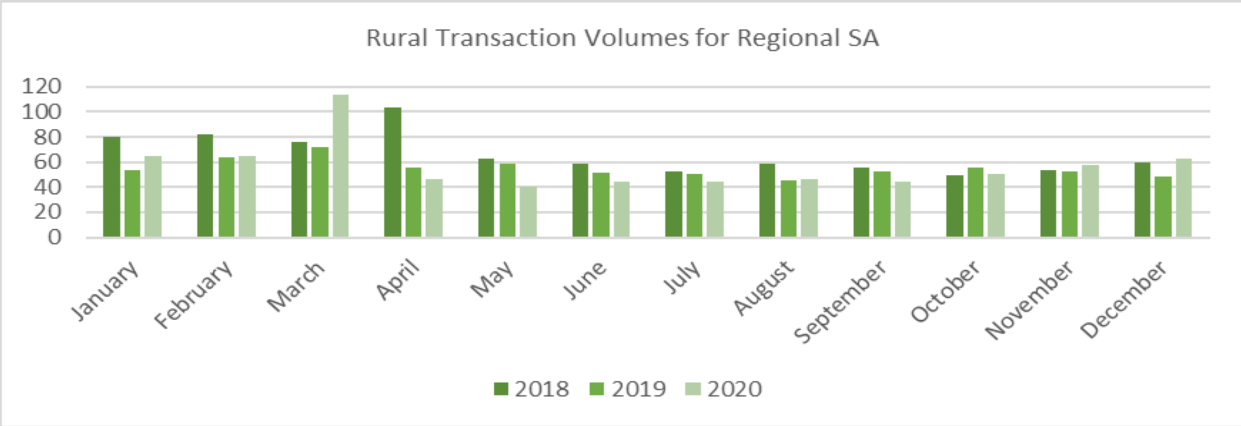
Global Trade in Agricultural Products During the Global Financial Crisis (Figure 1)



Notes: Trade data discounted by IMF food price index.
Source: Greenville et al. (2019), IMF.

Market movement in values since July 2020 for broadacre cropping and grazing land in general, has been strong, typically in the order of 5.0-15.0%. The State-wide Property Sector Reports has been included in the appendices for expanded detail.

In relation to transaction volumes, as shown in the following graph, which contains 2018-2020 data (January-December), transaction volumes (rural) have generally been stable since May 2020 and of note, also over the three years reported.



Wine Exports and Wine Industry Sentiment

We note however, that within the broad rural/agri sector, some specific land uses, do not share the same positive sentiment; vineyards being the prominent example. While in the short term, demand and values appear to be unaffected, we consider there may be downward pressure on property values a result of the emerging trade challenges with China.

The following quote from ABARES, provides valuable insight into the challenges confronting the wine industry and vineyard sector due to the emerging issues with China[2], in recent times, the largest importer of Australian wine:

"This move by Chinese authorities will drive outcomes for the Australian wine industry over the remainder of 2020–21. The magnitude of these measures will likely halt Australian exports of wine into China. The average value of Australian red wine exports is expected to fall because high-quality wine formerly expected to be exported to China will be sold into other markets at lower prices. The volume of wine exports is also expected to fall slightly as it is unlikely that all the wine previously expected to be exported to China will be redirected to other markets in the short term. Faced with lower export prices, wineries will likely redirect red wine grapes in the forthcoming vintage into lower-value products and pay lower prices for red wine grapes."

If trade tensions remain unresolved for a sustained period and Australian exporters are unsuccessful in their efforts to source alternative markets, purchasers may consolidate this perceived downward market pressure.

Of note, given the proximity of many vineyards in SA to either Adelaide and/or sought-after regional SA townships/locations such as the Barossa and Adelaide Hills, smaller-scale properties with a strong underlying rural lifestyle value may be insulated from any downward pressure.

[2] Chinese authorities recently launched anti-dumping and countervailing duties investigations into the Australian wine industry. They are expected to take about one year to complete. In the interim, Chinese authorities decided to implement anti-dumping security deposits well ahead of the investigations being finalised.

4.2.5 Sector Impact Matrix

The following is a high-level summary by sector of the (negative) impact on value of COVID-19. For clarity, we have assessed the negative impact (if any) of COVID-19.

	COVID-19 Negative Impact			
	High	Moderate	Minimal	None
Sector				
CBD[3]				
Residential - Metro				
Residential - Regional				
Commercial - Metro[4]				
Commercial - Regional[5]				
Industrial - Metro				
Industrial – Regional				
Rural/Agri				

4.3 Market Sectors Under Stress

Although the overall property market sentiment is optimistic, there are certain business sectors that are under strain, with significant negative impact to turnover and in many instances, viability. The business challenges in many cases, have a ‘flow-on’ effect to the property market. These are regarded as higher risk sectors. A report commissioned by Deloitte (published 19 October 2020, and titled *“Business Outlook, Down, But Not Out*”, identified the following hardest hit industries “*…airlines, airports, tourism, foreign students, cafes and restaurants, pubs / clubs, hotels and motels, retail, cinemas and entertainment.*”.

While not an all-encompassing summary, based on the research and analysis undertaken and as earlier outlined in this paper, the following sectors, are where the COVID-19 negative impact is most apparent.

- **Hospitality**
- **Entertainment**
- **Education (student accommodation)**
- **Retail**
- **Hotels (both traditional pubs and CBD accommodation)**

[3] Varied impact depending on specific land use
[4] Varied impact depending on specific land use
[5] Varied impact depending on specific land use

5. Summary

At a 'high level' we provide the following key findings:

- From a management of COVID-19 perspective, Australia is a relative success story.

- The SA business and property sectors are proving resilient however specific commercial businesses sectors in SA have been adversely impacted with downward pressure on associated real estate likely

- Many SA business and property sectors have been unaffected negatively by COVID-19.

- There is a level of optimism in the marketplace heading into 2021, but with valid caution evident.

- There are challenges in being readily able to unpack the negative market impact of COVID-19 on the property sector due to government stimulus, low interest rate environment and the ever evolving and changing COVID-19 perceived threat to the community especially without vaccination.

While the Property Sector reports provide details on the various observations across the State the following summary is provided:

- Australia (and South Australia) has fared very well compared to the rest of the world. Supplemented by the Federal Government's stimulus packages ('JobKeeper' and 'JobSeeker'), Australia has recorded positive population growth, low unemployment, and increasing business confidence (Business SA Survey, December 2020).

- Residential, industrial and rural property markets have proved the most resilient in the face of the pandemic. Sentiment in these markets ranges from cautiously optimistic to strong and positive.

- Certain business sectors face headwinds with a range of negative impacts, including significantly reduced turnover, which potentially have 'flow-on' effects to the property market. These sectors include hospitality, entertainment, education (student accommodation), retail, hotels and the CBD.

- The impact of the pandemic on property values is expected to continue to ebb and flow over the short and medium term, in response to the ability of controlling future outbreaks, government stimulus, real and perceived risks, and supply vs demand.

6. Appendices

- Property Sector Reports – (11 state-wide).- *Internal Document*

6.1 Property Sector Reports: (11 State-wide)