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CORONA CHANGES THE GAME

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There will be opportunities for those who see them

STEVE McCANN

This year stands to be deeply etched in the annals of human history. Far beyond the headlines comparing rolls of toilet paper and barrels of oil, the ongoing impact of this most unordinary year will be felt in the seismic shifts it heralds in human behaviour and how economic activities are conducted.

In the past week or so, Australians have witnessed the nation's first tentative steps into a post-COVID-19 world. Watering holes and restaurants, playgrounds and parks — all were carefully reopened for the first time in three months. Accordingly, many of us tentatively ventured outside, isocrazy children and pets in tow. We've slipped into winter but it felt like spring.

However, while Australia has done better than most in curbing the spread of COVID-19, the wrecking ball impacts to parts of our economy will be much harder to dodge. Around the world, governments have quickly mobilised to launch trillions of dollars in stimulus spending to lessen the blows — from writing pay cheques to underwriting rents, guaranteeing loans to acting as lender of last resort. Funded by freshly printed money from central banks, this cash splash has resulted in sovereign debt levels reaching new highs.

This raises two important questions — are major economies at risk of hyperinflation and how do governments plan to repay this debt? All the money currently being pumped into the economy by governments and central banks is largely a substitute for lost income and not necessarily inflationary money supply. Therefore, to the extent the central banks have absolute control over how much money to print, inflation is unlikely to be an issue in the coming years. However, if governments continue with populist measures announced during the crisis, even after "normalcy" begins to return, the risk of hyperinflation becomes very real.

Now to those debt piles. Governments have two options — increase taxes or hold the debt to maturity and let central banks make it disappear at the same speed at which it was created.

Of course, tax hikes aren't politically or economically feasible while consumers and businesses are dealing with the harsh realities of the crisis. That leaves governments with an easier choice of carrying the debt to maturity while keeping the debt service burden as low as possible. Governments and the central banks will be on the same page — as long as central banks retain control of money supply, inflation and interest rates should stay low.

Governments have an incentive not to spend more than what they need to, lest contributing to inflation. If this delicate equilibrium can be maintained, then rates should stay low. No surprises on Tuesday with the Reserve Bank decision to keep the official cash rate at 0.25 per cent. Other central banks, meanwhile, are considering negative rates to devalue currency.

What does this mean for consumers and the business community alike and how will this have an impact on real estate?

First, aggregate demand for housing over the long term will not change as long as global population growth maintains course. However, the manifestation of that demand is set to change significantly.

For example, countries that have managed to control the spread of the virus, such as Australia and New Zealand, are likely to enjoy higher demand from foreigners. This will generate economic benefits across several fronts — the preferred place to purchase an overseas home, the preferred destination for an international holiday and the country of choice for university studies.

Another trend likely to emerge is a shift away from home ownership towards renting. This will be particularly apparent at the lower end of the socio-economic spectrum and is likely to lead governments around the world to launch a raft of social and affordable housing measures.

Equally, governments are likely to relax the regulatory backdrop to encourage more investors to buy residential stock to offer for rent. The likely increased demand for big, green and safe suburban homes combined with affordability constraints may even see increased demand for detached or single-family rental.

The lockdowns have also resulted in an unprecedent number of people working from home.

And while there will always be a need for a centralised location for work — especially for tasks that require a high degree of collaboration — the office sector is likely to evolve significantly. Variability in lease duration and scalable options will be on the agenda, which may see landlords adopting a mix of fixed and coworking space to rebalance the demand supply equation.

A new "hub and spoke" office model may take the form of a centralised head office supported by lower-density office locations outside the CBD. Incidentally, and pre-COVID, Lendlease established this model with the launch of our Local Office in Sydney's beachside suburb, Manly. Housing a maximum of 30 people, the office is perfect for when you need to think deeply and deliver focused work. In combination with our larger satellite office in Parramatta, we're offering our people more choice when they need to access the infrastructure and amenity a typical office environment offers.

There is no doubt 2020 will be a watershed year in human history. And, as with past crises, the economies of the world's biggest nations will progressively re-emerge. As they do so, many of the short-term political and commercial stop-gaps that were put in place to lessen the pandemic's impacts will fall away. However, COVID-19 will leave an indelible mark on consumers' behaviour and has created broader economic structural shifts that will be with us for years if not decades. This creates opportunities for those willing to seize them.

Steve McCann is the chief executive and managing director of Lendlease.