22 April 2020

The Hon Steven Marshall MP
Premier
Via email: premier@sa.gov.au

Dear Premier

I am writing on behalf of the Real Estate Institute of South Australia (REISA) to express our concerns about how COVID-19 is affecting the real estate industry and to submit our recommendations for how the State Government can assist in ameliorating the situation.

Introduction

REISA has proactively developed a set of recommendations and proposed initiatives that will assist in minimising the potential economic impacts of COVID-19 on the real estate sector.

To provide context for our recommendations, REISA commissioned a member survey to illustrate the fallout of COVID-19. We have incorporated data from our online forms platform (REI Forms Live), in addition to members' feedback that offers some unique insights into the many issues and concerns in the current market climate.

No economist or market commentator could have predicted the extent and speed of the impact that our sector is currently experiencing. The downturn in economic activity and the drop off in consumer confidence is completely unprecedented. How has this affected the real estate profession?

COVID-19 effect on Registered Land Agents, Registered Sales Representatives and Auctioneers

An alarming 94% of respondents have experienced a significant downturn in trade. Our members contribute this to a dramatic downturn in buyers' confidence. Buyers' expectations are that property prices will fall and this has led to a decrease in property interest as buyers hold off on purchasing.

In the past 14 days, 55% of real estate businesses noted a decrease in buyer enquiries of more than 50% with a further 20% experiencing a decrease of 25-50%. In effect, three quarters of our members' businesses have seen a significant decline in buyer opportunity.

Buyer activity is one of the key economic performance indicators of the market. Less demand leads to pricing adjustments, particularly with the potential of financially distressed vendors in the current environment. This has also been exacerbated by the current restrictions on open inspections and public auctions that have been placed on our industry. The results of the aforementioned have led to a lower level of throughput leading to a decreasing number of offers on currently listed properties and therefore a lower level of transactions.

Consequently, the current economic climate has also increased the potential of loss of jobs and/or job security amongst buyers which may impact on the serviceability of financing options for a property purchase. This is leading to a decrease in the number of buyers in the marketplace due to an air of caution.

Further to the decrease in buyer level, the industry is also experiencing a decrease in the number of new listings generated. This is largely being driven by a hesitation from vendors about the timing of their property sale.

Figure 1 below shows data from REI Forms Live for the period of 18 March to 31 March. Compared to March 2019, the data demonstrates a significant drop off in sales agency agreements within the market. Sales agency agreements are the lead indicator for new listings. This data as shown below shows a decrease of 33%. We expect this trend to continue (or worsen) through the next two months at least.

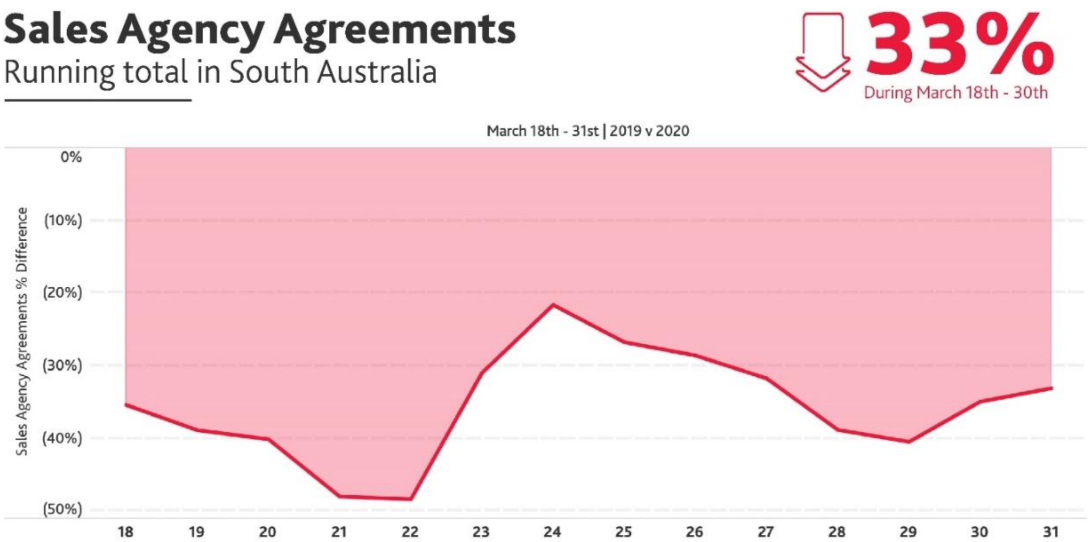

Figure 1 Sales Agency Agreements Running Total March 18 to March 31

The member survey reflects this downturn with over 55% of respondents reporting an over 50% decrease in seller enquiries. This is backed up by anecdotal evidence provided by a cross section of our membership who report that listing opportunities are significantly down. One of our members informed us that many vendors who are planning to sell are no longer proceeding and many vendors currently on the market are withdrawing their properties from sale.

The dramatic downturn in property listings has also had a direct effect on the number of auctions conducted throughout the state. In consultation with the Society of Auctioneers and Appraisers, they have reported no auction bookings after 9 May on their website. This is unprecedented. A highly regarded auctioneer stated that “over the last 13 years [he] personally averaged 31 auctions in May, this pandemic has decimated the auction industry in SA" and that "of the small number of auctions listed, approximately 60% of properties are sold before auction and 20% are withdrawn and reverted to private treaty sale". With Adelaide's typical auction clearance rate being between 50% - 70%, the week ending 19t April showed a clearance rate of around 30%. This is an important indicator of the drop-off in consumer confidence.

This has also been reflected by numerous 'commission only' agents contacting us in a complete state of flux at the level of new listing activity that impacts on their business model. There is also uncertainly in relation to their eligibility for the JobKeeper support announced by the Federal Government.

During our primary research we also contacted some medium sized agencies and franchise groups. They are also calling for further clarification on the JobKeeper income support. This will keep businesses operational and set up businesses for the recovery phase of our economy. The real estate business model has a unique set of complexities. We are calling for the Government to provide further detail to assist the real estate sector navigate the eligibility criteria for JobKeeper payments.

It also important to note that even with businesses getting through the next few months with the JobKeeper payments, the lack of activity will mean longer term cashflows will be put under pressure and the flow on of "deferring" debt payments and ATO obligations will come to bear at the time the industry and economy is recovering.

COVID-19 effect on Registered Property Managers

The South Australian residential rental market has been a strong performer over the last six months. Rental yields have been in the region of 4.5% and vacancy rates have been low in the metropolitan area. COVID-19 has created a completely new set of challenges that our property managers have never experienced. Like sales agents, property management agencies have innovated to comply with government restrictions. However, the disruption in the residential rental market was not created by the market - it was as a result of the Prime Minister's announcement of a moratorium on evictions. In the absence of legislation at the time, this caused mayhem in this sector. Tenants wrongly perceived this message as a green light to stop paying rent. This has caused considerable anxiety and uncertainty amongst tenants, landlords and property managers.

REISA has received three times the levels of calls to our consumer helpline since the start of this crisis. The majority of calls relate to the property management sector - from industry, tenants and landlords. In the absence of legislation this has been extremely challenging.

We have also received feedback from companies that manage holiday homes indicating that their market has been completely decimated by the COVID-19 restrictions.

REISA has welcomed the *COVID-19 Emergency Response Act 2020* and the expediency of the South Australian government in the passage of the legislation (only second to Tasmania).

REISA are cautiously optimistic. However, we need to see more detail and understand how the Act will be implemented. It is also essential that clear guidelines are set out to enable tenants, landlords and property managers to reach a mutual agreement and reduce the burden on the South Australian Civil and Administrative Tribunal (SACAT).

We understand that many tenants will be experiencing financial hardship as a result of COVID-19. However, consideration must also be given to the numerous landlords who will be affected, particularly, the so called 'mum and dad' investors who are not geared for such an economic shockwave. Our property managers are working harder than ever during this time to negotiate a pathway through the crisis.

Our concern is the flow on effect to South Australian property management companies from the potential disruption of rental payments. Property management fees are linked to the rental amounts paid. Should rent not be paid, management fees will not be paid putting at risk a number of property management employment roles.

COVID-19 effect on the Commercial and Industrial Sector

Our Commercial and Industrial sector is at the heartbeat of the South Australian economy and is at the cutting edge of facilitating small and medium sized enterprises and multi-million dollar corporations to invest, acquire and rent premises throughout the state. As a result, this sector is a major contributor, directly and indirectly, to the state's prosperity. The commercial sector has been hit extremely hard by the economic fallout of this crisis. Business are closing their doors and landlords and tenants have lost their income source, literally overnight, as a result of social distancing restrictions.

Since the announcement by the Prime Minister regarding an "eviction moratorium" and the forced lockdown restrictions, this sector has been hit hard. Furthermore, in light of a "code of conduct", our members have been inundated with an unprecedented level of calls from anxious landlords and tenants as they try to navigate through the rapidly changing commercial landscape during the tumultuous time.

Although the *COVID-19 Emergency Response Act 2020* has been passed, we are still awaiting the "code of conduct" to be implemented in South Australia. As a result, tenants, landlords and property managers have been left in a state of limbo. We call on the government to consult with REISA to expediate the implementation of the "code of conduct" to bring certainty to this sector.

In summary every sector in the real estate ecosystem has experienced an alarming and rapid downturn. In addition to the abovementioned, we know that buyer agents, business brokers and conveyancing members are also feeling the economic shockwaves of this crisis.

COVID-19 effect on Businesses within the real estate industry and their experiences with cash flow issues:

Real estate businesses are now in survival mode. As already highlighted, we have seen a significant downturn in the level of sales in the market and buyer enquiries which are therefore impacting the key revenue line for sales agencies in commission revenue.

We are likely to see an impact through the April period, however it is likely to be more detrimental from May onwards. Many of our members have forecast that the revenue from sales commissions will drop by as much as 60% over the next 3 months. However, this could well extend to 6 months as we move into slower sales periods through winter.

A large proportion of businesses employ their agents on a commission basis with a retainer. This therefore obliges businesses to continue to pay their agents even where the agents are not generating any sales income. While this is not an issue when a few agents underperform in a particular month in an ordinary economic environment, however when this becomes widespread throughout this period of low expected sales income, businesses will struggle to maintain these retainer payments.

The JobKeeper arrangements from the Government will provide some level of support to the business, however, throughout this period, recurring payments such as rent, administration support, technologies and debt obligations must continue to be made to ensure that businesses do not simply defer obligations to a later period.

The REISA survey respondents indicated that over 90% of businesses are experiencing or will experience significant impacts to their short term and long term cashflows due to the current restrictions imposed on the industry.

Government support packages

While the real estate industry is experiencing a significant impact, we do acknowledge the support packages that have been announced both by Federal and State Governments.

The "grant" via the "Boosting Cash Flow for Employers" for PAYG withheld for businesses are welcomed and we see all the businesses within the industry being able to obtain this initiative. We do highlight that this will simply apply as a credit against ATO obligations for most businesses and that therefore the pure support for day to day cashflow is probably not going to be achieved.

The introduction of the JobKeeper payments will help most agency businesses to subsidise agent retainers throughout the period. This should allow for a large proportion of agents to continue to be employed within the industry. However, we do expect that the long-term impacts of COVID-19 and reduced cashflow reserves for businesses will likely lead to job losses.

Payroll tax concessions are very welcomed and we see this providing relief for businesses for the next 6 months and supporting some short term cashflow.

The REISA survey respondents suggested however, that only as little as 61% of businesses would be assisted with their ongoing operations from the current Federal and State Government support packages. This suggests that the industry and its businesses require additional relief from the Government in order to continue to operate their businesses throughout this period and ensure they survive.

It is for this reason that REISA strongly believes that the State Government's recently announced Business and Jobs Support Fund could be utilised to support the real estate industry and the significant number of businesses and individuals employed in this sector.

Specific issues that are of concern for the real estate industry are as follows:

The current uncertainty in the property market is likely to continue for some time and it is highly likely to decrease the amount of activity in the form of transaction flow within the market for the foreseeable future. This will impact the operating income for real estate businesses and REISA members through a decline in settlement income and commission payments to salespeople.

As with all things, price is determined by supply and demand. It is a fact that a decline in demand will have a detrimental impact on property prices in the long term. The ongoing ecosystem of numbers of available listings, low buyer demand and lower average house prices will lead to a reduction in the form of revenue to real estate agencies. The flow on effect of this is potentially less employment opportunities due to low business confidence.

The respondents from the REISA survey have stated that the issues that raise the most concern for businesses in the real estate industry will be managing cashflow and employee payments (over 75%) and mental health and wellbeing of business owners and their people (over 60%).

Market Stabilisation and Recovery:

REISA commends the South Australian Government for announcing the following COVID-19 relief measures:

• Six-month payroll tax waiver for business with Australian grouped wages up to $4 million.
• Six-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

Recommendations

In order to maintain stability and optimism in the South Australian real estate market during COVID-19, REISA is urgently asking the South Australian State Government to consider the following:

• Confirmation that **real estate services will be deemed 'essential services'** in the event of further restrictions or potential lockdown periods in response to COVID-19

• We are concerned that in the current environment, many agents will be forced out of the industry. We ask the government to **provide a 12-month extension for licence fees to all existing licence and registration holders** in South Australia commencing 1 May 2020

• Under the Real Estate Industry Award, companies are required as employers to conduct an annual review to determine if their commission only employees can continue to be paid on a commission only basis (currently $56,214.00). This annual review ensures commission only employees meet the Minimum Income Threshold Amount (MITA). For any commission only employee engaged on or before 2 April 2018, the first mandatory performance review is 1 April 2019**.** (REEF SA/NT). We are calling on the government to advocate to the Fair Work Commissioner on behalf of South Australian real estate agents to **help negotiate a reduction in the MITA by 50% or/and extend the timeframe the MITA is accessed.**

Furthermore, commission only agents are only remunerated from the sales commission obtained via the sale of a property. The principal/business owner has no obligation to provide any financial support outside the commission income. Therefore, these incomes will be reduced by at least 30% as a direct result of COVID-19. However, due to the contractual relationship set up between the principal/business owner and agent, the agent may not be eligible for the JobKeeper support. REISA believes this is not in the spirt of the JobKeeper legislation.

• **Clarification on the JobKeeper support is required.** This initiative has been very welcomed by our members. However, further detail is required on the eligibility criteria. The issue for our sector is the timeframes involved to process a transaction. The date from which the property has been placed under contract to settlement can be on average six weeks. For example, an agent may have sold (subject to contract) a number of homes in early March. However, the agent will not be paid until settlement in May. This time lag is creating issues with regards to accessing the Job Keeper support

• REISA is calling on the government to **waive the SACAT tribunal fees during the period that the new legislation covers.** Where a tenant is in dispute with a specific aspect of their rental agreement, the suggestion that a landlord should have to pay a fee to have a hearing seems unreasonable

• REISA is working in partnership with two credentialled coaching organisations to **provide specialist business coaching to support our businesses during these challenging times**. REISA is seeking funding through the Business and Jobs Support Fund to help REISA facilitate this program. Our member survey clearly shows that mental health is a major concern. As the peak body, we need to help support our members by providing essential business coaching. This will focus our members who avail of this service to position their agency and themselves for future growth whilst navigating the current crisis

• REISA believes that a tailored support program for all its real estate business members in the form of cashflow management, financial breakeven understanding and growth and profit planning to setup the sector for success post COVID-19 restrictions and impact will be of significant benefit. This will support business continuation and workforce employment for the long term. Again, through the Business and Jobs Support Fund, REISA would be keen to explore this approach further with the South Australian Government and work with suitable professionals to deliver this program to the sector.

To further assist the recovery phase, REISA advocates the following:

• **Land Tax, ESL and SA Water Relief.** Ultimately this is going to help landlords given they pay themselves and not via their outgoings. The current proposal of a three-month waiver and three-month deferral is simply not enough in our members view. We would propose a complete waiver of the current quarter in land tax (being April to June 2020) and a further waiver of the next quarter (being July to September 2020).   We acknowledge that the next quarter in land tax does not act to get raised for payment until roughly September 2020, if not October 2020, but landlords will still be feeling the pain at that point. If landlords wanted more immediate help with cash flow, relief relating to the third instalment of the current land tax year (that is the January to March quarter) would be useful given that this is generally due for payment around about May 2020. Therefore, we are seeking land tax concessions for both Q3 and Q4 land tax instalments of the current 2020 financial year, which gives landlords concessions in May 2020 and August 2020. We may need to revisit this again depending on how long the pandemic lasts. Additionally, we would call on the government to consider similar concessions for the Emergency Service Levy and SA Water charges

• **Council rates concessions.**   We have already heard of some Councils providing this. In many cases this will flow directly to benefit tenants - but in many cases landlords will also benefit from this for their tenancies which are on gross rentals as well as for those vacant properties held by landlords. REISA is calling for councils to consider a period concession from 1 April to 30 June 2020, and 1 July to 30 September 2020. These concessions should be in the form of a complete waiver not a deferral. Another suggestion could be that landlords can apply for a percentage concession of their full year rates for the period of the pandemic, based on what percentage rent relief they give the tenant or if the property is vacant then hundred percent relief

• REISA commends the government's $10,000 grant to assist South Australian businesses affected by COVID-19. Our understanding is that the grant will not extend to a business operating as a landlord. Many of these businesses are small 'mum and dad' businesses. REISA is calling on the government to consider **extending the current $10,000 grant to landlords of small to medium sized premises** who can show a 30% loss in their business to be eligible for this grant assistance

• The re-introduction of a **First Home Buyers Grant to established housing:** Expanding the First Home Buyers Grant beyond new construction will stimulate economic activity through the introduction of increased numbers of first home buyers to the broader property market

• **Implement a 50% reduction in development application costs across all Local Governments and introduce streamlined application processes:** Removing barriers to development and reducing costs will assist to boost construction levels, increase competition and importantly, reduce cost for the end purchaser

• **Deliver a 75% reduction in stamp duty for the period of COVID-19:** A short-term but significant reduction in stamp duty payable on property transactions will have a positive effect on confidence within the property market. This, in turn, will offset the predicted drop in real estate transactions expected during the immediate crisis period.

Fundamentally lessening the financial burden of stamp duty will lessen the perceived financial risk and act as a significant incentive to purchasers who may otherwise be discouraged from purchasing during this crucial period. Such an initiative would encourage vendors to list their properties during COVID-19, buoyed by the likelihood of increased buyer activity.

Further recommendations

In the 18 months following the end of COVID-19, REISA is urgently seeking the following further stamp duty related reforms to continue to support and stimulate the property market:

•**Removal of stamp duty for persons aged 65+ years:** This will encourage older South Australians to move into age appropriate accommodation by reducing the financial burden of such a move. A likely consequence of this would be greater access to housing stock for younger South Australians

• **A 50% reduction in stamp duty where residential investment property purchases are committed to the permanent rental market in South Australia for 3 years or more:** A significant reduction in stamp duty for residential investment properties will have the effect of stimulating property investment in South Australia

• **A 40% reduction in stamp duty for all other residential property purchases:** A significant reduction in stamp duty payable on non-investment residential property purchases will have the effect of instilling confidence into the property market

The abolition of stamp duty has been an extremely successful stimulus for the commercial sales market over recent times. A significant decrease in stamp duty payable on residential investment properties, qualified by an enforceable commitment by investors to making that property available to the permanent rental market, will have the dual effects of stimulating investment confidence and activity. It will position South Australia as a highly attractive investment market and ensure adequate supply is maintained to meet increasing demand.

REISA believes that it is not enough to put money in people's pockets during this time – rather, we need to maintain confidence in the South Australian property market and assist the real estate sector to ride out this crisis and emerge stronger and more resilient for the benefit of all South Australians.

REISA fundamentally believes that these relief package measures will assist in keeping South Australian businesses open and people employed within the State's second largest employment sector. In addition, it will assist in keeping essential services functioning at this critical time and most importantly, accelerate our State economy's recovery once this crisis has passed.

I look forward to the opportunity to discuss these matters with you in further detail. Please do not hesitate to contact me by email at andrew.shields@reisa.com.au or by telephone on 0475 101 022.

Your faithfully

Andrew Shields
INTERIM GENERAL MANAGER

cc: Leader of the Opposition