

## COVID-19 and Rent Rolls: A plague on all your houses?

One of the interesting features in the current environment is the resilience of good quality rent rolls. The consistent message I'm receiving from clients, advisors and brokers is that, despite the pandemic, there is still a healthy level of enquiries for the purchase of quality rolls.

It appears to be the case that with the government stimulus and rent relief measures, vacancy and arrears rates have not sky-rocketed as some pundits had initially predicted when the lockdown was first introduced. This means that management income, for well managed rolls, has been largely stable. With that said, the position for commercial rolls is looking more challenging in the short to medium term.

As we are all aware, there are still enormous uncertainties in the global economy. We are currently in recession in Australia, and there is no certainty as to when the pandemic will be brought under control and business can resume as normal. Despite these concerns, the long-term economic outlook for Australia is still considered to be positive.

In an Australian context, the state and federal governments have introduced a range of measures to assist businesses and tenants through its JobKeeper program, rental relief and assistance packages for tenants, and moratoriums on evictions.

However, with the proposed phasing out of many of these measures in September 2020, there are risks that vacancies and arrears rates may increase. There may also be downward pressure on rents. With that said, agents can seek to mitigate this risk by looking at rent relief measures on a month-to-month basis. There is also some prospect that the government's assistance measures will be extended.

In the context of purchasing a rent roll, purchasers can seek to reduce such risks by insisting on a higher retention sum (25-30%), and for this to be held over a longer period of time (6-9 months is not unusual at the moment). This provides purchasers with a greater level of security, whilst also enabling vendors to bring their rolls to market.

One of the other observations in the current environment is the long processing times for finance approval. It's not unusual for loan applications to take up to 3 months with the major banks at the moment. This is partly driven by the slowing economic environment, but also by the additional measures adopted by banks following the recommendations of the Royal Commission.

As Charles Dickens said in the *A Tale of Two Cities*: '*It was the best of times, it was the worst of times*'. While there are definitely challenges for the management and operation of rent

rolls at the moment, good quality rolls are still proving to be good businesses. This is principally because of their stable recurrent management income. And, for that reason, they are still highly valuable business assets and very saleable.



Matthew is an experienced commercial and property lawyer who advises on a wide range of commercial, corporate, property and private client matters. He has a particular interest and focus on sale of business transactions.

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