



# COVID-19 AND THE PROPERTY MARKET

INVESTIGATING THE SARS VIRUS TO  
UNDERSTAND THE IMPACT COVID-19  
WILL HAVE ON PROPERTY MARKETS

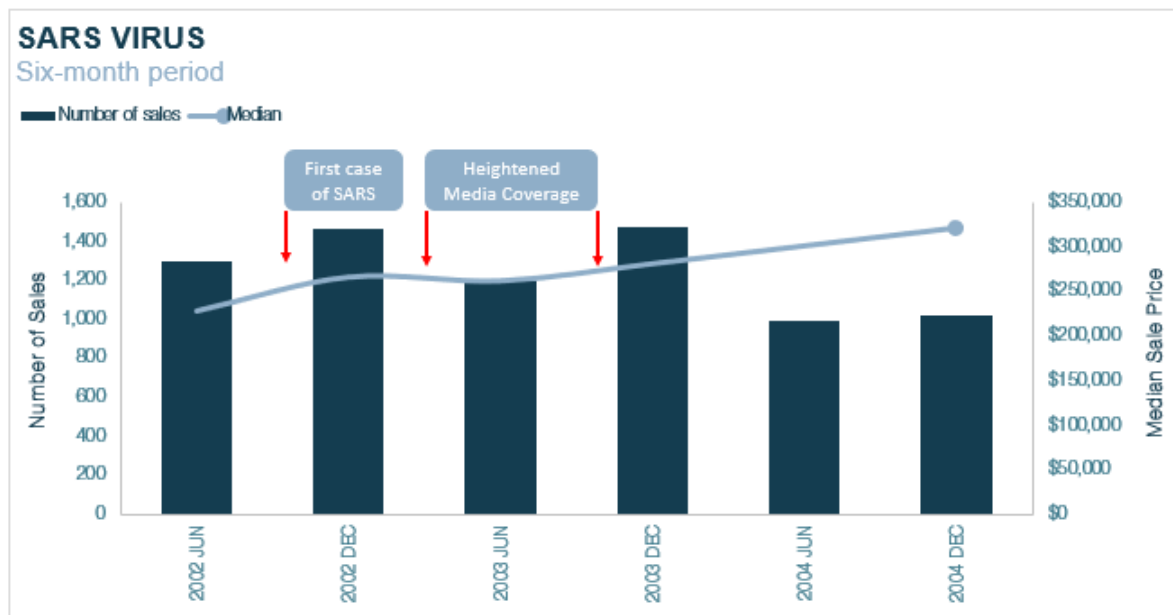
## SARS VIRUS: A SIX-MONTHLY INVESTIGATION

Severe acute respiratory syndrome (SARS) is a viral respiratory disease that appeared in China between 2002 to 2003. Within several months, SARS spread worldwide infecting approximately 8,098 people and resulting in 774 deaths (this corresponds to a 9.6% fatality rate). These statistics were reported across 17 countries with majority of the reported cases being in mainland China and Hong Kong. No cases of SARS have been reported worldwide since 2004.

Looking at the six-month period that took place over the SARS virus outbreak, the median property price and the number of sales remained relatively consistent, experiencing a decrease during the heightened media coverage of the SARS virus.

The six-month period ending December 2002 saw the Brisbane housing market achieve a median price of \$265,000 with a total of 1,464 property sales. However, during the six-month period ending June 2003, the Brisbane housing market only achieved a median price of \$260,850 with a total of 1,191 property sales. This corresponds to a 2% price decrease and a difference of 273 sales. This decrease in both median price and sales, can be correlated with the heightened media coverage and the uncertainty of the SARS virus itself. The vast spread of the virus started towards the end of January 2003 with the "super spreader" being admitted to hospital on 31st January 2003. Interestingly, once the media coverage decreased and medical professionals aimed to treat the virus, the property market began to recover.

As can be seen during the six-month period ending December 2003, the Brisbane housing market achieved a median price of \$280,000 and a total of 1,469 property sales. This pushed the market back to the similar position it was sitting at before the SARS virus outbreak. The decline from June 2004 onward was not correlated to the SARS virus, as of 2004 there have been no cases of SARS reported to health authorities.



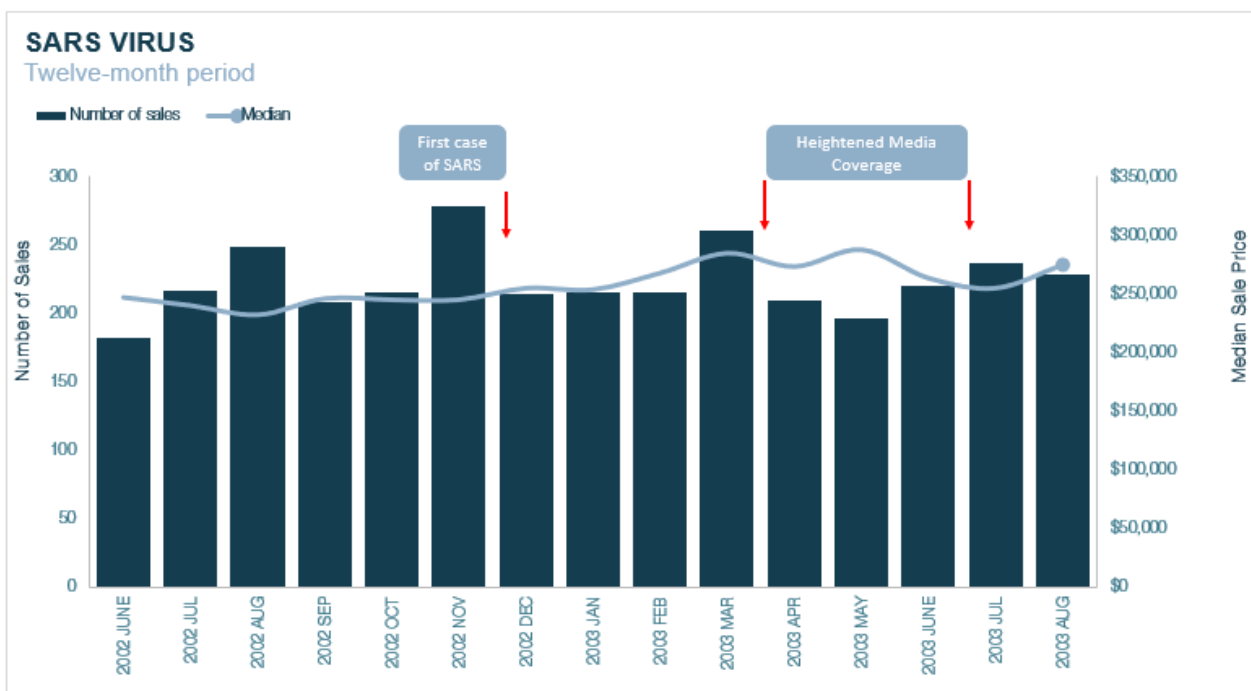
SOURCE: RPDATA AND PLACE ADVISORY DATABASE



## SARS AND COVID-19 VIRUSES: A DIRECT COMPARISON

To provide an approximate comparison, Place Advisory has broken down the SARS virus outbreak into monthly sale periods. Starting from January 2002 until December 2004. This will allow for a comparison against the current virus, COVID-19. COVID-19 is currently impacting not only the property markets but stock and financial markets worldwide.

Looking at the below chart, detailing the month by month property sales during the SARS virus outbreak there is a consistent trend during both the first case of SARS and during the heightened media coverage of the virus. During these two periods, the number of sales declined. Interestingly, median price remained relatively consistent. However, after the June 2003 six-month period sales started to increase.



SOURCE: RPDATA AND PLACE ADVISORY DATABASE

Coronavirus (COVID-19) is an infectious disease, closely related to the SARS virus. While the majority of cases have resulted in only mild symptoms, some cases have progressed to pneumonia and multi-organ failure. As of March 17th 2020, there are currently 182,429 worldwide cases of COVID-19; however in Australia they have only confirmed 368 cases (March 16th 2020). The current fatality rate for COVID-19 is estimated by the World Health Organisation to be 3.4% (as of March 3rd 2020), sitting lower than the SARS fatality rate (9.6%).

As sales data takes time to become available, a direct and accurate sales comparison cannot be made. Although, the inference before COVID-19 hit was that the Australian property market was trending upwards. Buyer sentiment was high with easier borrowing conditions, low interest rates and various government schemes available for purchasers. Therefore, when analysing the SARS trend against the current trend of COVID-19, it is Place Advisory's expectation that COVID-19 will follow a similar trend to that of the SARS virus. Where the two will differ is in regard to severity; the SARS virus confirmed only 8,098 worldwide cases, whereas COVID-19 currently has 182,429 worldwide cases. This means that there are 174,331 more cases of COVID-19 than the SARS virus, therefore, the severity that this virus will have on the property market is yet to be determined.

Another important factor to consider is the impact that media outlets and social channels are having on the sensationalism of the COVID-19 virus. The coverage of COVID-19 is considerably different to what was received during the SARS epidemic. For that reason, the drops in the share market, billions of mentions of social media channels and panic selling/buying may somewhat, in part, be due to the coverage this virus has received in 2020.

## SARS AND COVID-19 VIRUSES: STOCK MARKET AND IMPACT ON REAL ESTATE

Markets don't like uncertainty, unfortunately for the current pandemic of COVID-19 the impact it can have is unknown. Currently, the COVID-19 virus is casting a shadow of uncertainty over the global economy. The current virus is almost incomparable to any epidemic experienced before. As such, forecasting the impact of COVID-19 is challenging due to the influence of the Chinese manufacturing industry in 2020 and the current volatility of the stock market.

To understand the impact epidemics such as COVID-19 can have on worldwide markets, we look to the SARS epidemic of 2003 to understand trends. Due to a few diverse differences between the 2003 and 2020 markets, the SARS virus of 2003 can only provide a potential trend for how COVID-19 could unfold. In 2003, the US was preparing for its invasion of Iraq, this factor was a primary market driver. Furthermore, during this time, China accounted for only 4% of global GDP. As of 2018, China currently accounts for a total of 16% of global GDP, 13% of exports of immediate goods and 10% of total imports (Eurostat, March 2020).

Evidently, this means that the Chinese equity market is several times larger than in 2003, therefore, the impact COVID-19 is having on worldwide markets is felt more significantly and casts a wider economic impact than that of the SARS epidemic. In the share market, during the SARS pandemic, travel, leisure industries and retail markets were the the most impacted, with COVID-19 following a similar trend (i.e. Flight Centre closures). Naturally, pharmaceutical markets were the top performing during this time. However, once the broader market began to recover from the SARS epidemic industries such as software, airlines and financial markets moved into the top performing spots.



In the short term, the impact is likely to be felt within supply chain disruptions, fewer Chinese tourists, reduced demand for imports and negative sentiment towards financial institutions and markets. However, the velocity and negative sentiment towards financial intuitions present an opportunity within real estate markets. As stock market volatility continues, bond markets fall to historic lows and the cost of borrowing is reduced; property will continue to move into a place of attractiveness.

Unfortunately, some real estate sectors will experience more significant impacts, specifically those relying on international tourists and business travel (i.e. conference centres, student accommodation and international hotels). Evidently, in the short term, there will also be reduced construction starts, disruptions to new builds, raw materials being unavailable and the associated increase in costs.

As such, Place Advisory predicts a negative short-term impact on real estate sectors within both commercial and residential markets. However, the longer-term impact COVID-19 will have on worldwide markets remains difficult to predict. Like all economic disturbances, some industries and markets will do better than others. In the long term, it is likely that the real estate sector will see somewhat of an impact, however, in some circumstances the current situation presents a range of potential opportunities. Past economic disturbances such as SARS, not only provide us with a trend, but an outcome. Although it is unknown when the pandemic will end, it will eventually end. As such, it is important to remain vigilant, using an analytical view of the current situation and take advantage of the potential opportunities that arise.