Buyers abandon house-and-land deals

Larry Schlesinger

The COVID-19 pandemic is devastating the new housing market, with around a third of purchasers – most of them first-home buyers – cancelling contracts before settlement, according to Financial Review Rich Lister Nigel Satterley.

"In our Perth estates, 35 per cent of buyers are cancelling their contracts, and in Melbourne, the figure is about 30 per cent," Mr Satterley told *The Australian Financial Review*.

He estimated the pandemic had cut sales volumes by 80 per cent.

"We've been looking at our forward settlement book for April, May, June and July and are trying to manage the problem [of cancellations] as best as we can," he said. Most of the cancellations were due to "changes in circumstances", including loss or reduction in employment.

"We're working hard to try to help people. In some cases we're allowing them to swap their existing block for a smaller [more affordable] one and swap the house as well, to lower the mortgage."

Satterley Property Group, one of the biggest private land developers, has also written to its buyers with settlements coming up to check if they have their finance in place and whether they need assistance.

In Perth, contracts are subject to finance so buyers can walk away, but in Melbourne, they are mostly cash contracts, meaning buyers who cancel stand to lose deposits between 5 and 10 per cent.

"If they are good people [who have cancelled their purchase], we're holding their deposit as a credit so six months down the line, when they get a job, they can use the money as a deposit on another lot," Mr Satterley said.

The high level of cancellations – usually they are in the low single digits – comes as developers enter what is traditionally the busiest period of settlements for the year.

"Historically, May and June are when the highest number of settlements occur," Mr Satterley said.

His latest market update follows east coast land sales specialist Red23 warning that residential lot sales would crash as prospective buyers delayed purchasing decisions due to job security concerns.

"We can safely assume in the growth corridors that sales volumes and inquiry will fall to record-low levels over the coming months of uncertainty," Red23 founder and managing director Terry Portelli said. A growing number of sales contracts in Melbourne were falling over at settlement because buyers had lost their jobs and could not get a loan.

Satterley Property Group was part of a Property Council delegation that recently met federal Housing Minister Michael Sukkar. Among the topics of discussion was a potential boost to the first home buyers grant nationally, to support demand for new housing and construction jobs.

Mr Satterley said he had also put in requests with the West Australian and Victorian housing ministers to consider allowing display home villages to reopen as a means to increase sales.

Reopening display homes, Mr Satterley said, would be done in a safe manner, allowing only one family through at a time, with homes being sanitised after each visit. Currently, prospective buyers can only visit display homes by booking a one-on-one appointment.

Conserving cash: Mirvac CEO Susan Lloyd-Hurwitz. PHOTO: PETER BRAIG

Salary slashed 20 per cent: Scentre CEO Peter Allen. PHOTO: LOUISE KENNERLEY

Mirvac and Scentre cut exec salaries by 20pc

Michael Bleby

Developer Mirvac and shopping centre landlord Scentre Group are the first large property companies to reduce the salaries of their top executives and boards during the COVID-19 crisis, with both announcing 20 per cent cuts.

The cuts for Mirvac chief executive Susan Lloyd-Hurwitz and her eight-strong executive leadership would preserve cash and jobs and put the company in a position to make the most of opportunities in a weakened market. The move will be reassessed in a few months' time, a spokeswoman said.

"It's about preserving cash and preserving jobs. No one knows how long this will last, so we're taking prudent steps now," the spokeswoman said.

"We're also seeing opportunities out of this. Capital is king and we want to be ready for it."

The spokeswoman declined to comment on what opportunities the company was considering, but developers were keeping a close eye on how the crisis plays out.

Separately on Friday, Ms Lloyd-Hurwitz told a Property Council webinar that while she expected the COVID-19-induced slow down would be a short-term hit to the development of a commercial build-to-rent industry, in the medium-to-long term the sector could benefit, as it represented a way to develop new housing for people who may not be able to secure a mortgage but could still rent. "We remain optimistic about it," Ms Lloyd-Hurwitz said.

Mirvac's decision late on Friday followed an announcement by Scentre to cut the fixed remuneration of chief executive Peter Allen and chief financial officer Elliott Rusanow by 20 per cent and for the Scentre board to take a 20 per cent cut in base board fees.

Organisations hit locally and globally by the COVID-19 health crisis have cut salaries in a bid to conserve cash and keep operations going in straitened circumstances. On Thursday the Australian Olympic Committee also reduced the salaries of its chief executive and executive management team by 20 per cent.

Not all developers are making the same move. Stockland is not cutting executive remuneration but staff are taking annual leave. Lendlease said cuts to executive pay were not currently under consideration.

In Mirvac's case, the executive leadership team members sharing the 20 per cent reduction in salary with Ms Lloyd-Hurwitz were chief financial officer Shane Gannon, chief investment officer Brett Draffen, head of culture and reputation Chris Akayan, office and industrial business head Campbell Hanan, retail head Susan MacDonald, residential boss Stuart Penklis, stakeholder relations head Bay Warburton and chief digital officer William Payne. The board is taking a similar-sized cut.

Lendlease earnings to plunge: CLSA

Nick Lenaghan

Lendlease is under pressure on several fronts, according to CLSA analysts who expect the global development giant's earnings and distributions to fall by as much as half.

CLSA's James Druce and Mollie Urquhart downgraded Lendlease from underperform to a sell rating, slashing their previous target price to $9.66. Lendlease last closed at $11.95.

"Lendlease's balance sheet is under considerable pressure," the analysts wrote.

Among those factors, they noted the negative outlook from Moody's, the rapid deterioration in the operating environment, and the strain on Lendlease's balance sheet from losses in its engineering arm.

"Lendlease may be able to trade its way out, but there are now too many balls in the air for one not to be dropped."

While the market has priced in to Lendlease's stock an average discount on its 10-year trailing earnings, the CLSA analysts said they would prefer "a larger margin of safety" given the earnings risks and increasing probability of an equity raising to protect its investment-grade rating.

Steve McCann: juggling furiously.

Lendlease's earnings and distributions could fall anywhere between 15 per cent and 50 per cent over the next three years on CLSA's forecast, which reflects a recession scenario.

Led by Steve McCann, Lendlease announced in December that it had sold its troubled engineering business to Acciona for $180 million, although it has had to hold on to some loss-making projects in Sydney and Melbourne.

The expected costs of exiting its engineering and services businesses are between $450 million and $550 million. CLSA said there were downside risks to that estimate while approval of the sale to Acciona by the Foreign Investment Review Board was yet to be confirmed.

There were other pressures as well, including the potential for a 10 per cent write-down on the value of the retail properties that Lendlease managed through its investment arm.

Lendlease's earnings and book values were hit during the GFC when the company cut distributions and raised more than $1 billion in equity.

Using that as a guide, the analysts looked at the impact on Lendlease under various scenarios, including a "slightly worse than U-shaped recovery".

"Lendlease has existing liquidity to meet its refinance commitments over the next 12 months, but that is not the issue, in our view," they wrote. "The issue is Lendlease is on credit watch negative with Moody's, and if cash flow and earnings deteriorate, Lendlease may be pushed into a dilutive capital raising to defend the credit rating, which happened in 2010."

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