

Report to the Future Melbourne Committee**Agenda item 6.9****Economic Recovery Update****16 February 2021****Presenter:** Andrew Wear, Director, Economic Development and International**Purpose and background**

1. The purpose of this report is to provide Council with an update on the City of Melbourne's economic recovery.

Key issues

2. COVID-19 has hit the City of Melbourne's economy harder than almost any other part of Australia. Modelling undertaken by PWC showed that the COVID-19 recession will largely impact central cities and projected that the City of Melbourne would lose 79,000 jobs and up to \$110 billion in output over five years.
3. A number of economic indicators have improved since the 2020 lockdown period:
 - 3.1. *Shoppers have begun returning to the city.* While pedestrian activity in the Bourke Street Mall is still down by 50 per cent (as at 10 February) compared to the same time last year, this is a significant improvement on September, when pedestrian movements were down by 93 per cent. Credit card data shows that in the week ending 24 January, retail spending was more than double that during the Stage 4 lockdown period, although it was still 17 per cent lower than a year ago.
 - 3.2. *Visitor numbers are increasing steadily.* As at 10 February, there were four times the number of pedestrians near the Arts Centre than there were in August and September 2020, although the number of visitors remains down 80 per cent on the same time last year. In the week ending 24 January, entertainment spending was 405 per cent higher than during lockdown, although it was still 31 per cent lower than last year.
 - 3.3. *Office workers have begun returning to the city, but not in significant numbers.* The Property Council reports that 31 per cent of Melbourne's office worker population was attending the office for work in January. This is up significantly on December 2020, when it was 13 per cent. Nevertheless, this is by far the lowest figure of Australia's capital cities. In Sydney's CBD, offices were at 45 per cent occupancy, while all other capital cities in Australia were above 60 per cent. These figures are reflected in pedestrian numbers at Flinders Street Station, which on 10 February, were down by 61 per cent on the same time last year. With remote working the norm, it seems doubtful that offices will return to 100 per cent occupancy this year.
4. There are significant ongoing economic challenges facing the city.
 - 4.1. *Office and shop vacancies have increased.* In November and December, Council staff surveyed premises and found 13.8 per cent of shops vacant and a further 15.3 per cent of shops closed due to COVID-19. A smaller sample taken in January indicates that the vacancy rate may have improved slightly, with 13 per cent of shops vacant and a 13 per cent closed. A more detailed report is at Attachment 2. Although Melbourne still has the lowest office vacancy rate in Australia behind Hobart, it is increasing. In January, the office vacancy rate in Melbourne increased to 8.2 per cent, up from 6.8 per cent in June.
 - 4.2. *The accommodation and tourism industry is struggling.* The number of overnight stays is down by 82 per cent and tourist spending was 91 per cent lower than at the same time last year (in November 2020, the latest data available). In January, hotels were at just 39 per cent occupancy (with most of this occupancy attributable to hotel quarantine).
 - 4.3. *Job losses continue to be significant.* Payroll data collated by the Australian Bureau of Statistics shows that as at 2 January, the number of jobs in the City of Melbourne was down by 13.1 per cent compared to the start of the pandemic. This is significantly higher than the rate for Victoria as a whole (down 5.9 per cent as at 2 January) and Australia (down 4.3 per cent). Jobs are classified by the location of the employer, so with a significant number of employees working from home, the true impact on the city is far greater than these numbers suggest.

- 4.4. *Student numbers in the city remain low.* Student visa data shows there are 64,000 fewer international students in Victoria than there were a year ago. On 10 February, pedestrian activity near Melbourne University was down by 48 per cent compared to the same time last year. While the return of international students is critical for the city's recovery, the Victorian and Federal governments have not yet identified a pathway for this to occur.
5. Each part of the city is experiencing the recession differently. Residential postcodes such as Port Melbourne, Kensington, North Melbourne and East Melbourne have benefitted from people working from home. Postcodes that are reliant on visitors are still struggling. The absence of office workers, international students and tourists has contributed to lower demand in Melbourne, Docklands, Southbank, Carlton and Parkville. In Docklands, 47 per cent of shops are currently vacant or closed.
6. Reactivation efforts undertaken by the City of Melbourne with the support of the Victorian Government have been critical. Almost 3,000 businesses have received grant funding and small businesses have been supported with nearly 20,000 contacts through the business concierge service. Events and activations such as Urban Blooms and Music in the City have sent a clear signal that Melbourne is active and open for business. Outdoor dining, including through nearly 200 'parklets,' has transformed the city. Further activity is underway and planned.
7. There are major challenges ahead:
 - 7.1. *New restrictions.* New restrictions announced by the Victorian government on 12 February are likely to interrupt the city's economic recovery.
 - 7.2. *End of JobKeeper.* The Federal government's JobKeeper scheme provides an employment subsidy to firms impacted by the pandemic, enabling them to continue to employ their staff. With the end of JobKeeper on 31 March it is likely that thousands of businesses – particularly in the badly-impacted tourism and hospitality sectors – will be forced to lay off staff and potentially close.
 - 7.3. *End of Commercial Tenancy Relief Scheme.* The Victorian government's rent relief scheme provides land tax relief to landlords that offer rent relief to commercial tenants. It also provides moratoriums on evictions and rent increases. The cessation of the scheme on 28 March will place further pressure on businesses and will likely lead many to close.
8. In the long-term, the economic forces driving economic activity to the central city are likely to reassert themselves. The density of activity in the central city enables information, knowledge and skills to be shared easily. The presence of large companies creates jobs for peripheral industries, such as professional services, retail and hospitality. And face-to-face interaction in cities underpins trust and the exchange of information. However, recovery is likely to take a number of years, and it will require a concerted effort from all three tiers of government to continue to stimulate economic activity.
9. The key levers impacting the city's economic recovery sit with the Victorian and Federal governments. Melbourne's economic recovery will largely depend on their direction, policy and funding. To underpin business confidence, it will be important that both the Victorian and Federal governments quickly outline their plans to support continued economic recovery beyond March.

Recommendation from management

10. That Future Melbourne Committee:
 - 10.1. Notes the update on the city's economic recovery.
 - 10.2. Requests the Lord Mayor write to the Federal Government to provide Melbourne's latest data to seek ongoing measures of economic and business support for the City of Melbourne following the conclusion of the JobKeeper program in March.
 - 10.3. Requests the Lord Mayor write to the Victorian Premier and Treasurer to include a targeted economic package for Melbourne businesses that builds on the joint Melbourne City Recovery Fund in their upcoming 2021-22 Budget.

Attachments:

1. Supporting attachment (Page 3 of 5)
2. Streetfronting Business Vacancy Report (Page 4 of 5)

Supporting Attachment

Legal

1. There are no specific legal implications from this report.

Finance

2. There are no specific financial implications from this report.

Conflict of interest

3. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a material or general conflict of interest in relation to the matter of the report.

Health and Safety

4. In developing this report, no Occupational Health and Safety issues or opportunities have been identified.

Stakeholder consultation

5. No external stakeholder consultation was required to be undertaken in the development of this report.

Relation to Council policy

6. Recommendations are consistent with the Council Plan 2017-21 Prosperous City goal, and the COVID-19 Reactivation and Recovery Plan, which highlights immediate actions required to support Melbourne's economic recovery.

Environmental sustainability

7. No direct environmental sustainability issues or opportunities have been identified in the development of this report.

STREETFRONTING BUSINESS VACANCY REPORT

VACANCY SNAPSHOT

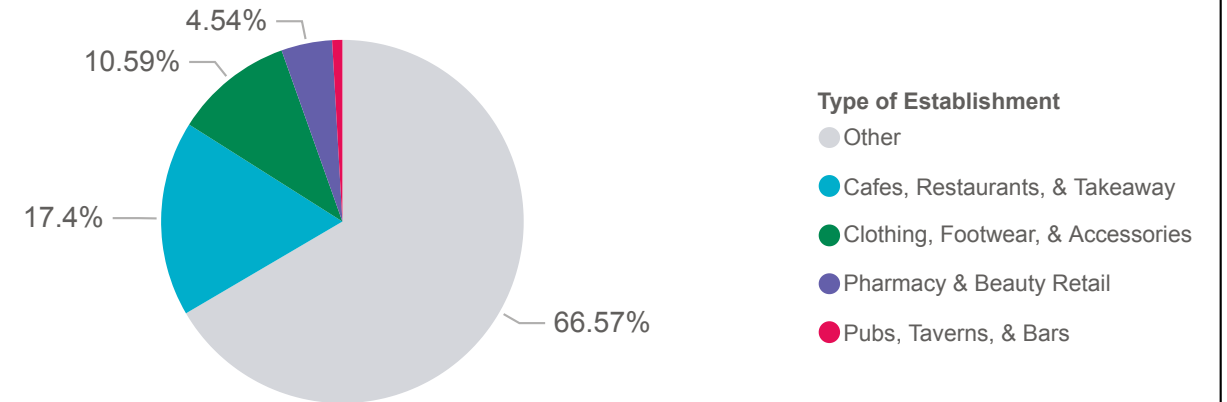
REPORTING PERIOD: **NOVEMBER - DECEMBER 2020**

In this reporting period **5,050** out of 6,898 street facing shopfronts were surveyed.

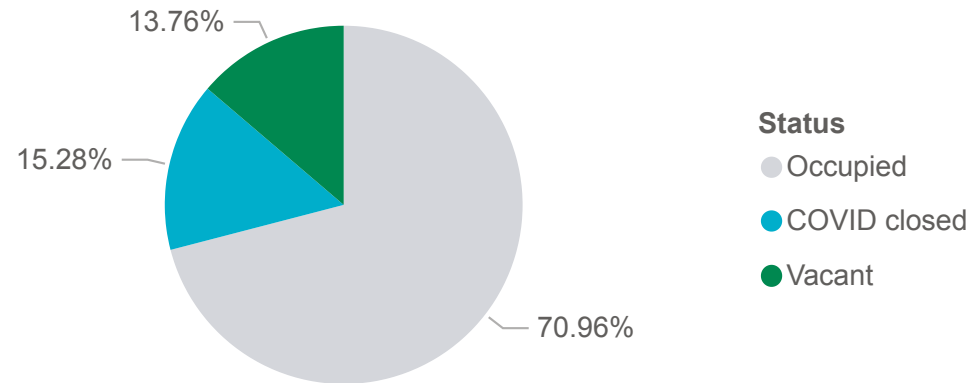
Current shopfront audit data shows that **13.75%** of streetfacing shopfront premises are **vacant** and **15.24%** are temporarily **closed due to COVID**.

71.01% of street facing shopfronts in the City of Melbourne are **occupied**.

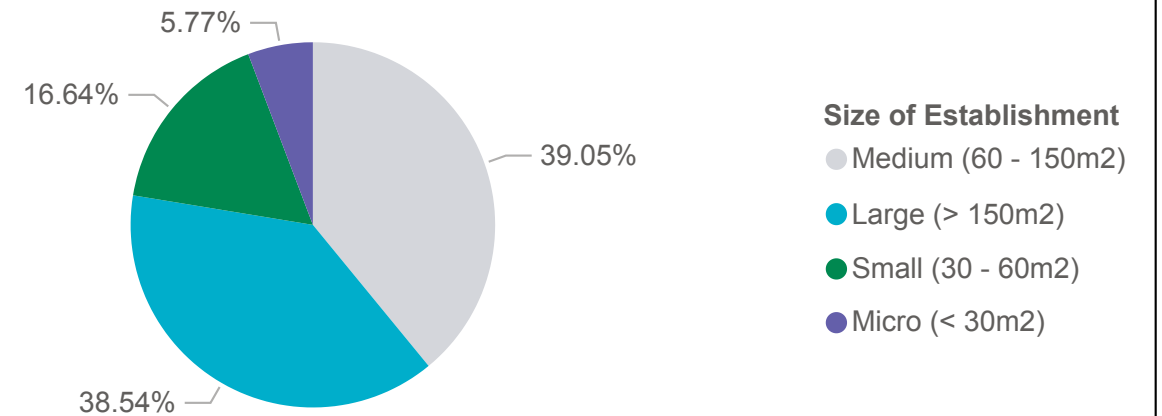
Vacancy Status by Industry Type



STREET FACING SHOPFRONT VACANCY STATUS



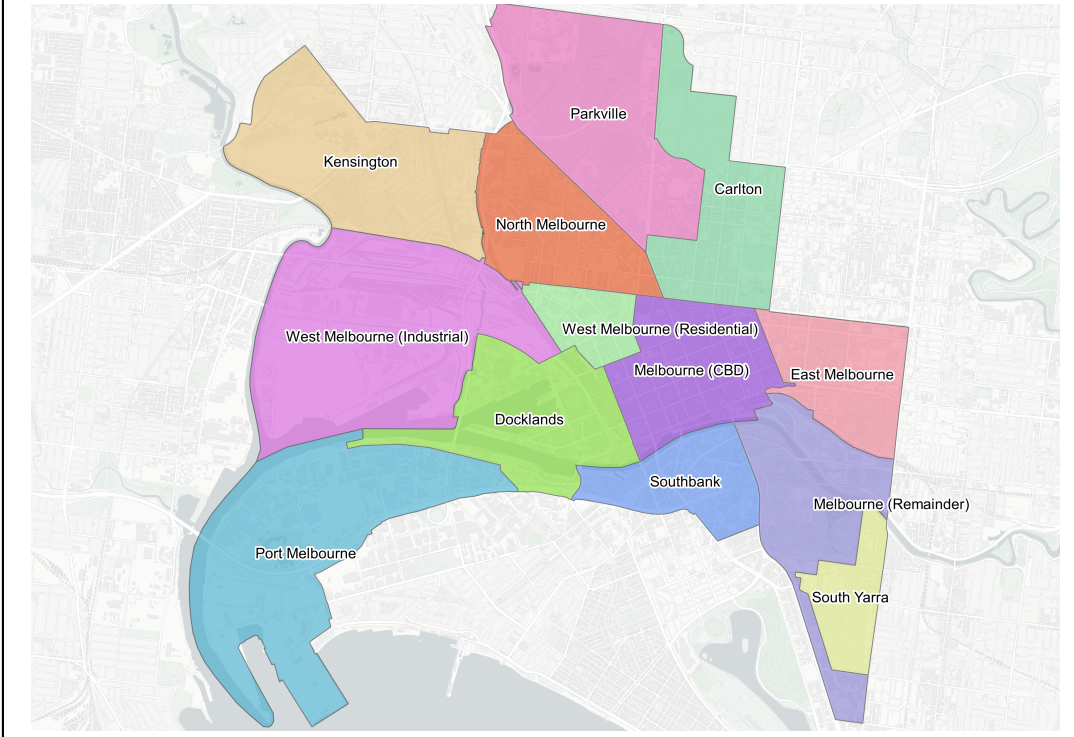
Vacancy Status by Size of Establishment



While all due care has been taken to ensure the data in this report is accurate and current, there may be errors or omissions in it.

STREETFRONTING BUSINESS VACANCY REPORT

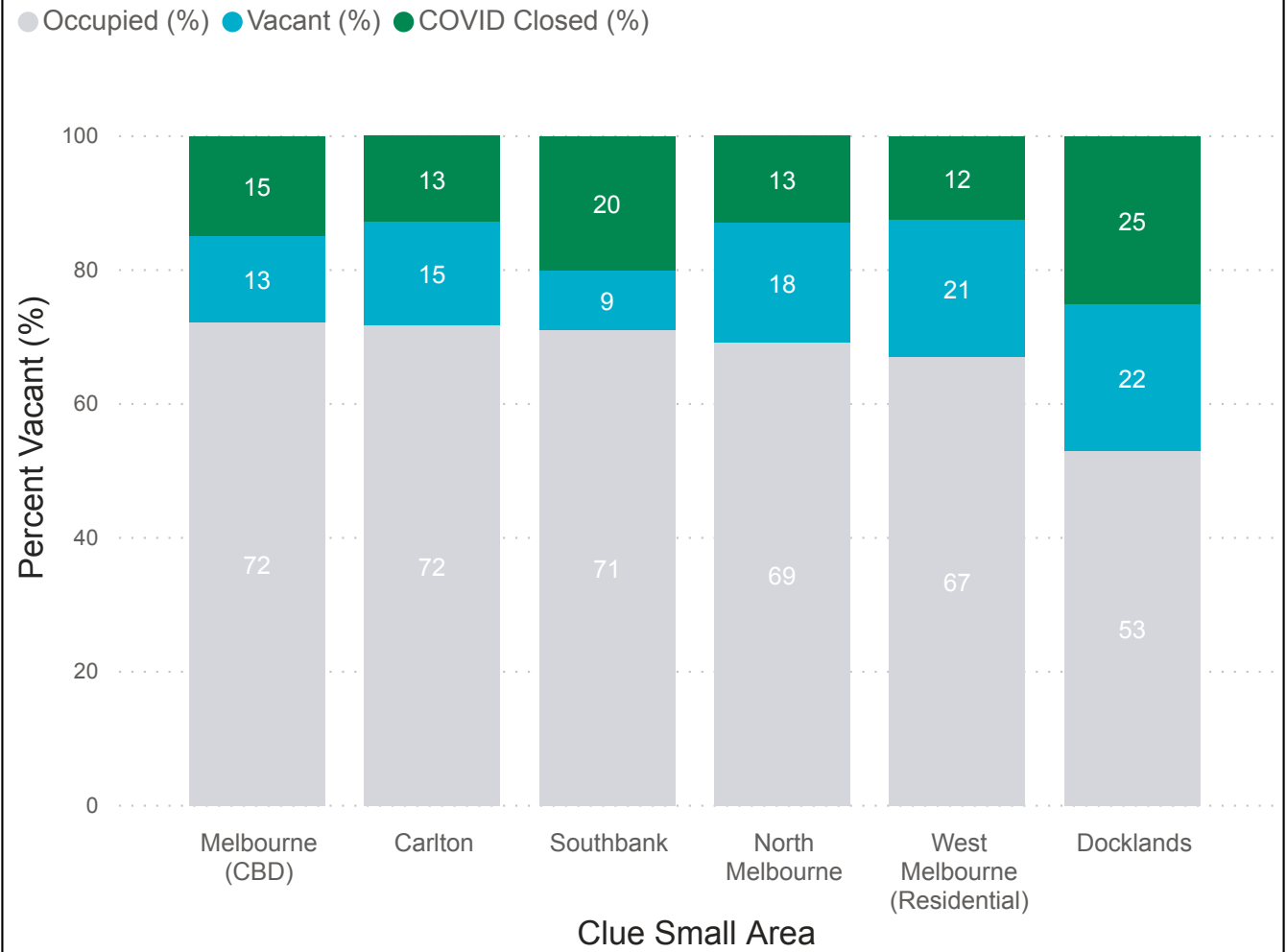
Clue Small Areas



Key Insights:

Docklands is the most significantly impacted small area. **21.9%** of street facing shopfronts are vacant. **53.1%** of street facing shopfronts are occupied and **25%** are temporarily closed due to COVID.

Vacancies by Clue Small Area



Data represented on this page is for areas where greater than 100 street facing businesses were surveyed.