

**17 Smith Street, Chatswood
Land Use Study**



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Woolworths Ltd

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Introduction

This report provides an independent assessment of the land use trends impacting on industrial property markets across Australia, with specific reference to the East Chatswood industrial area on Sydney's North Shore. This industrial zone includes the site at 17-19 Smith Street, East Chatswood. Woolworths has purchased this site with a view to developing the site for a supermarket.

This report is in two Sections.

The first section of this report addresses the following statements.

1. Demand for industrial tenancies is relatively weak in Chatswood
2. Demand for new supermarkets is strong
3. Major manufacturers have relocated / consolidated
4. The East Chatswood industrial precinct has evolved into a mixed business area
5. A supermarket will generate more employment than the majority of industrial uses

The second section responds to issues coming out of submissions received on the Draft Willoughby LEP, presented to Council by Council officers in November 2010.

Appendix A summarises industrial property trends impacting Australian industrial markets while Appendix B provides an overview of Employment trends in the City of Willoughby local government area (LGA).

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1. Key Land Use Issues

1.1 Demand for industrial tenancies is relatively weak in Chatswood

While Chatswood remains home to over 300 business enterprises, it has a high level of vacancy. In excess of 100 vacant tenancies were identified in the Chatswood 4(B) Zone in 2010, including 20 vacant tenancies advertising at least 1,000sqm of space for lease. As at January 2011, there were over 150 listings of industrial premises for lease in Chatswood, suggesting the situation has not improved.¹

This is not just due to the economic slowdown associated with the GFC. The high vacancy rate was also noted by SGS Economics and Planning in the Willoughby Industrial Study (2004).

Recent supply

Major supply since 2005 in the Chatswood East 4(B) Zone is detailed in Table 1. Approximately 75,000sqm of new and refurbished space has been added to the market, with the 11,000sqm Bunnings Warehouse being the only significant retail component.

Smaller developments have also been completed in recent years at 12 Barcoo Street (McCarroll's Hyundai Service Centre) and 10-12 Smith Street (largely vacant office premises).

Table 1: Supply: Chatswood East 4(B) Zone

Source: Jones Lang LaSalle

Building Name	Address	Suburb	Comp. Date	Total GLA (m2)
Northlight Corporate Park	28 Barcoo Street	Roseville	2005	14,192
Northlight Corporate Park	28 Barcoo Street	Roseville	2006	5,582
Niche	354 Eastern Valley Way	Chatswood	2007	6,075
Roseville Business Precinct	30-32 Barcoo Street	Roseville	2007	5,034
Gibbes St Depot and Industrial Units	25-27 Gibbes Street	Chatswood	2009	15,000
Kennards Self Storage	Gibbes Street/ Mann Street	Chatswood	2009	9,360
Kennards Self Storage	39-49 Alleyne Street	Chatswood	2009	8,599
Bunnings	25 Smith Street	Chatswood	2010	11,000

Much of the recent development comprises small strata units for lease or sale. There is clearly an over-supply of this form of development, which is expected to take considerable time to be absorbed.

¹ Listings for industrial space on www.realcommercial.com.au

Furthermore, the high land prices in Chatswood East dictate that the form of industrial development most likely to be viable is multi-level strata units aimed at small businesses and investors. This would directly compete with recent similar developments, that have struggled to sell / find tenants and further exacerbate the current level of over-supply in the market.

Recent demand

Recent demand for industrial units in Chatswood has been weak. Small companies have been quite inactive in Chatswood during the recent market downturn. This downturn has also provided an opportunity for businesses to relocate to what are considered better quality industrial markets such as Lane Cove West and Artarmon.

Small high tech companies have been an important part of the local industrial market, however as these companies expand, there has been a general movement out of Chatswood towards Macquarie Park and other higher profile markets. This trend is expected to continue.

1.2 Demand for new supermarkets is strong

Full-line supermarkets have proven to be a very successful retail format with consumers, providing extensive choice and convenience for both daily and weekly grocery needs.

As highlighted in Location IQ's report (Chatswood Woolworths, Sydney – Economic Impact Assessment), the residents within the Main Trade Area, and particularly within the primary trade area, are under-supplied with supermarkets and grocery stores. The closest major supermarkets are within the Chatswood CBD.

The Chatswood CBD provides regional level shopping facilities, drawing on customers from a very wide region. It is considered appropriate that residents have easy and convenient access to supermarkets, which cater for daily and weekly shopping needs, without needing to visit regional shopping centres.

Jones Lang LaSalle monitors tenant demand for retail uses across each metropolitan market in Australia. Demand from supermarket operators for new stores across Sydney is very high in comparison to all other retailers, suggesting that the provision of suitable sites for new supermarkets has not kept pace with demand. This demand will continue to grow as the population grows.

Retailer Demand Q3 2010

	Sydney	Melbourne	SE Queensland	Adelaide	Perth
Supermarkets					
Mini-Majors					
Retail Food – Eat In					
Retail Food – Home Consumption					
Fashion & Fashion Accessories					
Retail General*					
Household Goods					
Retail Services**					
Retail other Services***					
Overall					

	DEFINITION
HOT	1. Retailer demand increasing & outstripping supply. Landlord market with few options available to retailers while rents are rising rapidly.
	2. Retailer demand increasing. Moving to a landlord market while rents increasing.
	3. Market is in balance. Neither a landlord or tenant market. Vacancy levels stable & rental growth stable.
	4. Demand slowing. Becoming a tenants market with increasing options for retailers. Some downward pressure on rents.
COLD	5. Demand weak and slowing. Tenants market with a high amount of space available, face rents under pressure and incentives high.



*Includes Bookstores/musical/DVD's, Card/Gifts, Computers, discounters, florist, newsagency, tobacconist & video rental ** Beautician, alterations, dry cleaning, hair care, optical, photography, printing & travel *** Bank, financial services, post office and medical.

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This issue is even more pronounced in Chatswood / Willoughby, with local supermarkets such as Woolworths Northbridge trading at well above benchmark levels.

1.3 Major manufacturers have relocated / consolidated

Both Fawcett Bros and Tip Top are typical of what is happening in the inner suburban industrial markets.

- Fawcett Bros (Rosella) sold their previous manufacturing site at Smith Street and consolidated their operations at Seven Hills. This site is now being developed for a Bunnings warehouse, which is classified as a bulky goods retail use.
- George Weston Foods, owner of the brand Tip Top, is headquartered in the Chatswood CBD. However, its bakery has been consolidated to a new state of the art facility at Chullora, with the previous bakery at Gibbes and Mann Street closing down. Kennard bought the site and it is now used as Kennards Self Storage. While this appears to be one industrial use that has experienced growth in Chatswood, it is a relatively low intensity use providing limited employment.

1.4 The East Chatswood industrial precinct has evolved into a mixed business area

Up until the onset of the GFC, both the demand for and supply of Australian industrial property grew significantly, but this hasn't been consistent across the metropolitan area. Much of the demand for traditional industrial uses has been in outer suburban markets, with inner suburban markets either losing employment or changing focus to a more mixed use / mixed business format.

The high value of inner city industrial land means that industrial tenants looking to expand, requiring large land areas or serving large metropolitan regions will move out of inner suburban locations, with the vacated space (over time) being developed for more intensive uses.

The Chatswood East 4(B) Zone remains a significant employment zone, and while it is generally referred to as an industrial zone, it is home to a very broad mix of land uses, including wholesalers, retailers, business services, community uses and some high tech industries. Changes that have occurred over the past two decades include the following:

- Larger occupiers have re-located to outer metropolitan locations or large integrated business parks. Examples include manufacturers such as Fawcett Bros/Rosella and Tip Top;
- New development activity has primarily included multi-level strata unit developments, with a broad range of tenants, including office based businesses;
- Bulky goods uses have been attracted to and allowed to set up in East Chatswood;

- Other uses that have found a home in East Chatswood include non-industrial uses such as gymnasiums, places of worship, showrooms, retailing and offices;
- Smith Street, which is the “main street” of this zone, includes a mix of retail and office uses together with showroom and warehouse uses.

The structural changes that have occurred and will continue to occur in the industrial market will provide opportunities for a broader mix of uses in Chatswood East, which ultimately will contribute to a better mix of employment opportunities.

Clearly, the Chatswood East 4(B) Zone is not a land use zone purely for industrial uses. Very little manufacturing occurs in the zone and even businesses with a major service / repair function are in the minority. The zone is typical of many inner suburban former industrial precincts, with traditional manufacturing uses moving out and paving the way for a more robust mix of employment generating businesses.

1.5 A supermarket will generate more employment than the majority of industrial uses

Modern industrial premises such as warehouses and distribution centres are low employment generators. Furthermore, manufacturing is becoming increasingly automated with labour intensive manufacturing moving offshore.

In order to either retain current levels of employment or increase employment in existing industrial zones, a more flexible approach to the range of uses permitted within industrial zones may be needed.

Industrial uses with high warehouse content are relatively low employment generators when compared to office and retail uses.

Bulky goods retailing, while providing higher employment densities than transport and storage uses, is also a relatively low employment generator.

Office and retail uses will generate more employment than the vast majority of permitted uses in “employment zones”.

The supermarket is projected to directly employ 189 more employees than the existing Sundell Holden Service Centre.² Retail uses such as supermarkets generate higher levels of employment than industrial uses.

² Location IQ, Chatswood Woolworths Sydney – Economic Impact Assessment, 2010, p 47

Table 2: Comparison of Employment Generation by Land Use*Source: Jones Lang LaSalle*

Use	Employees per 1,000sqm Floor Area
Offices	50-60
Retail Shops (incl. supermarkets)	35-40
High Tech Industrial	30-35
Service Trade Premises	20-25
Manufacturing	10-20
Wholesaling	8-12
Bulky Goods Retailing	8-12
Transport & Storage	4-5

Note: employment based on Full Time Equivalent employees

Policies that encourage the retention of industrial employment lands for industrial uses only are not likely to promote employment growth. Such policies are more likely to lead to under-utilisation of valuable “employment generating” land.

Employment growth is more likely to come from promoting a broader mix of employment generating uses in such zones. This should include uses that are expected to witness employment growth over the next 20 years such as a range of property and business services and retail uses.

State government’s own projections suggest inner suburban locations such as Willoughby LGA are forecast to lose employment in key industrial sectors such as manufacturing, transport and storage and wholesale trade. Key areas of growth will be service sectors (including office based jobs, education, community and health services, and retail).

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2. Response to issues raised by City of Willoughby

In its response to Woolworths submission in relation to 17-19 Smith Street, Council staff made a number of statements relating to Woolworths supermarkets, alternative sites for a supermarket, and demand for convenience retailing within the 4(b) Light Industrial Zone. These are summarised below:

- (A shortage of supermarket space) does not justify using up the best industrial land in the City so that Woolworths can build a “one size fits all facility”;
- There are other opportunities for supermarket development in Willoughby including:
 - Chatswood Interchange
 - Royal North Shore Hospital site;
 - Northbridge Plaza Woolworths.
- Impact on High Street Markets and Penshurst Street / Victoria Avenue of a new supermarket;
- There is nothing to stop Woolworths establishing several smaller supermarkets within existing centres;
- Lot consolidation is generally necessary to create large supermarkets which serve a large catchment and generate large amounts of vehicular traffic;

In response to these statements, we make the following comments.

How is Council addressing a shortage of supermarket space?

While Council has indicated their concerns over loss of industrial zoned land, there appears to be no solution to addressing the lack of suitable land for retail purposes, particularly formats such as medium to large sized supermarkets.

Future population growth is expected to lead to increased demand for retail facilities such as supermarkets in inner suburban areas. Conversely, demand for industrial uses in inner suburban areas has diminished due to the structural changes that have occurred in this sector. These changes are summarised in Appendix A.

The opportunities identified by Council for supermarket development are areas that already have supermarkets.

The three opportunities identified by Council for supermarket development all have at least one supermarket. The Woolworths proposal would result in a supermarket serving a market with relatively poor access to convenient supermarkets and grocery stores.

There are limited opportunities to locate supermarkets that serve the “convenience retail” market within the Chatswood CBD. Development

sites are limited and a supermarket is unable to compete with high rise apartments and mixed use developments for such sites. The Chatswood Interchange is a significantly different market, serving predominantly the commuter market.

Furthermore, it should not be necessary for customers to visit regional centres such as the Chatswood CBD for supermarket shopping.

Development of supermarkets in existing centres has significant limitations

Land fragmentation, existing leases, and the relatively shallow depth of centre zones constrain opportunities for new supermarket development within existing centres such as Penshurst Street / Victoria Avenue.

Impacts will be minimal

Analysis undertaken by Location IQ suggests that the projected impacts on other retailers will not threaten viability.

Council's statements regarding negative impacts are not supported by any analysis.

We considered that the potential to develop further supermarkets in the Willoughby LGA in addition to the proposed supermarket at Smith Street is very limited. However, the demand for such facilities is significant, therefore there is a strong case for additional supermarkets in addition to Smith Street and the Chatswood Interchange.

One size fits all?

It is noted that the proposed supermarket at Smith Street is described by Council staff as a "one size fits all" development. This comment is not accepted. Woolworths is actively pursuing supermarket opportunities of varying sizes. The potential trade area of the Smith Street site clearly supports the development of a full-line supermarket, which is what is being proposed.

Appendix A: Industrial Property Trends

Both the demand for and supply of Australian industrial property has grown significantly prior to the onset of the GFC. The reason for this growth was a number of structural changes in the property needs of industrial occupiers. These are outlined below.

Rise of the Logistics Sector

The logistics sector has been a major consumer of industrial land in recent years, with the drive for greater efficiency to the supply chain process creating a need for larger, more efficient warehouses. These warehouses allow for greater quantities of stock to be transported with fewer truck movements controlled by less people.

Outsourcing of storage and distribution operations is reinforcing this trend, allowing logistics companies to achieve economies of scale by housing several companies' stock in one large building.

For these changes to be effected, purpose built facilities need to be available at a reasonable cost. The outer metropolitan industrial areas and large industrial estates have featured strongly in this trend as this is where large sites at an affordable price are found.

The development of new facilities on the urban fringe and in large industrial estates has freed up industrial land in the inner and middle suburbs for alternative, more intensive land uses.

From Manufacturing to Warehousing

Over the last 30 years, manufacturing has gone from approximately 20% of GDP to about 11%. Production has moved offshore, imports have risen and industrial requirements have changed from factories to warehouse space.

Automation has also seen manufacturing plants become less labour intensive, meaning that manufacturing employment has been hit by both off-shoring and greater efficiencies.

These changes have reduced employment densities in industrial areas.

Infrastructure

Good quality infrastructure has enticed companies to move to outer suburban areas or even regional locations. Infrastructure has effectively increased the appeal of industrial land on the fringe of metropolitan areas. Other "pull factors" to outer suburban locations include the availability of serviced land, lower real estate costs and a growing population base, providing both a large workforce and customer base.

Clustering

Clustering of like minded businesses facilitates the creation of business networks and has the potential to generate new market opportunities through collaboration. Again this activity favours relatively large industrial precincts where critical mass of operators together with support services, can be achieved.

Availability of Serviced Land

A supply of affordable, well located land provides the impetus for companies to consider moving premises, particularly those companies with either poorly located properties, facilities that are outdated, or undergoing expansion, contraction or consolidation.

Groups such as Fawcett Bros / Rosella Foods have chosen to move to new purpose built premises, in this case from Gibbes Street Chatswood to Seven Hills, where land is cheaper, development costs are lower and there is room to grow their business.

The Rise of Institutional Investors

Institutional investors and developers are very active in the Sydney industrial market. Institutional investors have been particularly drawn to emerging estates in the outer suburban areas of the metropolitan area, well served by key infrastructure such as motorways and rail.

Competing uses in Inner Suburban Areas

Inner suburban industrial areas such as Chatswood have undergone considerable change, due to strong competition from higher order land uses and the lure of larger industrial areas that offer better access, cheaper land and growth opportunities.

In the case of Chatswood, competition for land has come from bulky goods retail uses in Smith Street and Eastern Valley Way as well as some office uses.

New industrial developments have occurred along Eastern Valley Way and Barcoo Street, with recent developments comprising a high office content and targeting the high tech market. The multi-storey nature of these new developments has been positive in that considerably more floor area is now able to be provided in the Chatswood East precinct.

Conclusions

The above trends have seen quite dramatic changes in the industrial sector in recent years, including:

- A continued shift to outer metropolitan areas, where large, low cost industrial land is available;
- A greater emphasis on efficiency in “the freight task”, with accessibility to quality infrastructure (road, rail, sea) and large modern distribution centres key “pull factors; and

- Increased diversification of land uses in the inner suburban industrial areas, including a range of more intensive retail and office uses, and mixed business uses requiring both office space and warehouse space.

These trends are expected to continue and are part of the continuing evolution of industrial land.

While there is government pressure to ensure the vast majority of industrial zoned land is retained for industrial land uses, the evolving nature of the industrial market has seen demand for purely industrial uses diminish in the inner suburbs in favour of larger estates in the middle and outer suburbs. This has effectively freed up such land for a greater mix of employment generating uses, which should better serve the local labour force.

Appendix B: Employment Trends in Willoughby LGA

Table 3 provides trends in employment within the Willoughby LGA between 1996 and 2006. The key industrial land uses (Manufacturing, Wholesale Trade and Transport and Storage) have declined in terms of overall numbers. This trend is repeated across the vast majority of inner and middle suburban industrial areas and is a reflection of the structural changes occurring in the industrial property markets nationally.

Table 3: Employment in Willoughby LGA by Industry Classification, 1996-2006

Source: Jones Lang LaSalle, Australian Bureau of Statistics

Industry	1996	2001	2006	Change 1996-2006	Change 2001-2006
Agriculture, Forestry and Fishing	31	82	77	46	-5
Mining	84	42	76	-8	34
Manufacturing	3,997	4,641	3,233	-764	-1,408
Electricity, Gas and Water Supply	317	399	453	136	54
Construction	1,936	1,965	2,567	631	602
Wholesale Trade	4,716	3,661	2,997	-1,719	-664
Retail Trade	6,935	7,528	6,158	-777	-1,370
Accommodation, Cafes and Restaurants	1,231	1,463	1,838	607	375
Transport and Storage	889	982	1,366	477	384
Communication Services	1,961	4,910	5,805	3,844	895
Finance and Insurance	3,484	2,687	3,079	-405	392
Property & Business Services	9,508	11,004	9,147	-361	-1,857
Government Administration and Defence	1,781	851	1,738	-43	887
Education	2,039	1,999	2,301	262	302
Health, Community, Cultural & Recreational Services	7,920	8,019	7,845	-75	-174
Other, Not stated	2,062	1,953	2,746	684	793
Total	10,320	11,027	10,651	100.0%	100.0%
Key Industrial Land Uses	9,602	9,284	7,596	-2,006	-1,688

The NSW Government's Transport Data Centre provides forecasts of employment change across the Sydney metropolitan area by industry category. In the inner suburban local government areas such as Willoughby LGA, the key areas of employment growth are forecast to come from retailing and key office based employment sectors, in particular Finance, Insurance, Property and Business Services. There is also expected to be strong growth in food catering, which is highly correlated to the above sectors. Conversely, industrial sectors such

as manufacturing, wholesale trade and transport and storage are expected to continue to lose employment in the inner suburban locations, primarily to industrial areas in outer suburban areas.

While there is a strong state government desire to retain local employment, the fact is that industrial uses have been declining in importance as an employment generator and industrial employment zones that deliver a broader mix of employment generating uses will be most successful in retaining and potentially growing employment numbers.