

Response to economic peer review of proposed East Chatswood Supermarket

Final Report

Willoughby City Council
February 2013



Independent insight.



This report has been prepared for Willoughby City Council. SGS Economics and Planning has taken all due care in the preparation of this report. However, SGS and its associated consultants are not liable to any person or entity for any damage or loss that has occurred, or may occur, in relation to that person or entity taking or not taking action in respect of any representation, statement, opinion or advice referred to herein.

SGS Economics and Planning Pty Ltd
ACN 007 437 729
www.sgsep.com.au
Offices in Brisbane, Canberra, Hobart, Melbourne, Sydney

TABLE OF CONTENTS

1	INTRODUCTION	1
2	REVIEW OF AEC REPORT	2
2.1	Introduction	2
2.2	Response to AEC's 'Economic Review of Planning Context'	2
	Review of aspects of the 2004 Willoughby Industrial Areas Study	2
	Review of the Planning Proposal 17-19 Smith Street East Chatswood	3
	2012 Employment Lands Taskforce Report and NSW Government's Response	6
2.3	Response to AEC's 'Economic and Community Benefits'	6
	Employment creation	6
	Transitioning nature of traditional industrial uses	9
	Catalyst for Redevelopment of Industrial Area	9
	Community support	10
	Reduced Traffic to Chatswood CBD	10
	Consumer Choice	10
3	CONCLUSION	11

1 INTRODUCTION

Woolworths Limited submitted a Planning Proposal to Willoughby City Council to allow a supermarket and liquor outlet to be developed on 17-19 Smith Street, in the East Chatswood light industrial area. The site has an area of 4,377sqm and is surrounded by Smith Street, Lower Gibbes Street, Short Street and Alleyne Street. The proposed development would include a “full line” supermarket and liquor outlet totalling 3,950sqm and 184 parking spaces in two levels of underground car park.

Bunnings Warehouse is located immediately to the east of the site. There are residential properties located diagonally opposite in Smith St, other bulky goods and light industrial uses nearby. Smith St, where the site is located is the main route through the East Chatswood industrial area that connects to High St.

A number of reports and studies were prepared on behalf of the proponent in order to justify the Planning Proposal. These were reviewed by SGS Economics and Planning as an input into Council’s decision.

Council’s assessment of the Planning Proposal by Willoughby City Council concluded that the proposal did not provide sufficient justification to support the development of a supermarket within the employment lands precinct and recommended that it be refused.

AECgroup was engaged by the proponent to conduct an economic review of various planning documents and to identify the various economic and community benefits stemming from the potential development.

In turn, SGS Economics and Planning has been asked by Council to respond to AEC’s report (as well as the accompanying letter and related material from the proponent’s planner). As well as these documents Council has also forwarded the officer report to the Council.

The report includes a review of AEC’s report (section 2) and a conclusion (section 3).

2 REVIEW OF AEC REPORT

2.1 Introduction

AEC's 'peer review report' for the proposal contains an 'Economic Review of Planning Context' section that includes:

- a review or critique of aspects of the 2004 Willoughby Industrial Areas Study by SGS Economics and Planning
- a review of the proposition in SGS Economics and Planning's 2012 Review of the Planning Proposal that there may be two other sites in or near centres more suitable for a supermarket than the proposed Smith Street, East Chatswood site
- a commentary on aspects of the 2012 Employment Lands Taskforce Report and the NSW Government's Response to the Employment Lands Task Force Report, also 2012.

The AEC report then outlines what it calls the 'Economic and Community Benefits' aspect of the proposal.

The following observations are provided on AEC's report under these headings.

2.2 Response to AEC's 'Economic Review of Planning Context'

Review of aspects of the 2004 Willoughby Industrial Areas Study

The AEC report includes a critique of aspects of the 2004 Industrial Areas study relating to future demand and the supply situation.

The first point AEC make is that the '*baseline data is out of date*', given that the report quotes 2003 population estimates and projections and 2001 census data. We agree that the demand and supply picture needs to be established based on more recent data and noted in our Review of the Planning Proposal report that a study with a longer term focus is required to establish the demand and supply picture into the future.

The second point AEC makes is that the '*ratios used to determine future industrial land demand vary and provide results that are questionable*'. AEC misrepresent the nature of the 2004 study. It should be noted that the 2004 study did not include a comprehensive review of future industrial land supply and demand. The objectives for the study from the brief are laid out on page 3, and are repeated here.

1. *To ensure that land is available in the City of Willoughby for uses which will provide employment and services as required by the residents and to ensure the sustainability of the City*
2. *To allow for the retention of existing industries which have few alternative locations in the region.*
3. *To allow for the retention of existing service industries to the community*
4. *To implement the aims and strategies included in State and Regional Planning Instruments and Ministerial Directions*
5. *To ensure that the economic viability of the employment uses in Willoughby is maintained*
6. *To encourage a reduction in traffic congestion in the City and the resulting air and noise pollution*
7. *With specific reference to Artarmon, to encourage industries related to the hospital medical/research/education in conjunction with Royal North Shore Hospital.*

8. *To promote new forms of employment generating industrial development.*
9. *To make explicit and explore the range of benefits/disbenefits accruing to the public/community as a whole resulting from the planning strategy.*
10. *To have regard to the impact of development on the interface with other land uses including residential.*

The focus is more on the preservation and health of the industrial areas, and to this end the report concentrates on gaining an understanding of the changing nature of industrial activity and accommodating these changes into the future by appropriate planning controls (similar arguments run by AEC and others in reports prepared in support of the current proposal).

The limited future demand and supply analysis in the report was focussed on objectives 1, 2 and 3, the last in particular, on allowing for the retention of existing service industries. The range of per capita ratios used was intended to illustrate how the provision of industrial land varies across the different subregions of the metropolitan area, though we concede the links between these ratios and future potential demand for industrial land in Willoughby lack clarity. However such arguments are not material to the conclusions in the report.

The application of a per capita ratio of the (2003) supply of **local service industry** land (this is a subset of total industrial land or what is now typically termed 'employment land'), estimated at 1.6 per sqm per capita, is perhaps the key one. The report notes that applying this to the future population at 2021 in the lower north shore area generates a '*rough estimate*' of a future need for around 55 ha of service industry land, which was somewhat above the amount of industrial land (Lane Cove West, Artarmon and East Chatswood) in 2003 in this category (estimated at around 48 ha).

The main point being made here is that service industry uses will persist and are likely to grow with an increasing population and there will be a need to ensure that industrial land '*remains accessible to service industry...and their operating conditions need to be respected, while encouraging modernisation and re-investment*'. There was also a focus on making these points in relation to Artarmon as it hosted the greatest share of service industry activities but at the time was under pressure for more intense uses including office.

Demands from **strategic industry** require additional land. The report then goes on to discuss the role for some office activities and, if planned appropriately, '*emerging retail forms*', referring principally to bulky goods (but not supermarkets), in industrial areas in Willoughby.

AEC critique other assumptions used in the report as being unsourced or '*highly approximated*' estimates. One example cited is the use of 'say 20%' (of the share of industrial land in East Chatswood utilised by service activities) on page 128, which AEC suggest should have been '*an actual figure from a land audit of existing activities*'. In fact the figure **was** sourced from a land audit which is prominently reported in Table 12 on page 70 and a map on page 71. Though the link to the 'say 25%' assumption on page 128 could have been clearer it was based on the findings from this land audit, reported in the quote on page 68, namely '*this area [East Chatswood] generally has less local service industry activities at around 20 to 25% of the area compared to the 40 to 50% observed in Artarmon*'.

Review of the Planning Proposal 17-19 Smith Street East Chatswood

AEC's comments on SGS Economics and Planning's April 2012 Review of the Planning Proposal report focuses on:

- the identification of possible alternative, more suitable sites for a supermarket in Willoughby
- development viability.

Alternative supermarket sites and formats

AEC comment that the two sites identified by SGS as being more suited to a supermarket (site 1 at 173, 197 Victoria Avenue and site 11 at 243-245 Penshurst Street), based on an assessment of a number of

sites suggested by Council, are ‘considerably hampered by ownership issues as well as existing uses and structures’ and that while ‘potentially attractive from a planning perspective, the actual potential of developing a supermarket on these sites is highly unlikely’.

SGS’s review acknowledged constraints and disadvantages of the sites, and was intended as a prima facie assessment to illustrate that there are other potential and more suited sites including in areas already zoned for retail uses (shops). It is acknowledged that the proposed site is easier to develop but this in itself is not necessarily a reason to support it.

The proposed site is attractive to Woolworths because they will be able to develop their preferred supermarket format of a stand-alone building amidst surface level parking. However, supermarkets have been able to adapt to locate on more challenging sites in centres (see Figure 1). To achieve such outcomes in support of centres policy, alternatives should be fully considered before out of centre sites are contemplated.

FIGURE 1. NON TRADITIONAL SUPERMARKET FORMATS



Source: SGS Economics and Planning

Woolworths, Bourke Street, Surry Hills, NSW

- 1495 sqm
- Re-use of hospital building
- No associated parking



Source: SGS Economics and Planning

Coles, Kings Cross, NSW

- 2306 sqm
- Ground floor of mixed use tower
- No associated parking



Source: SGS Economics and Planning

Woolworths, McLeay Street, Potts Point, NSW

- 2,867sqm
- 2 levels in podium of apartment building
- No associated parking



Source: Le Max Group

Leo's, Summerhill Road, Glen Iris, Victoria

- Approximately 3,200 sqm with around 90% site cover.
- 25-30 car spaces at grade at front, rest in multi-level car park at rear and above, accessed by a side ramp
- On a tight site between traditional shopfronts and housing in the southern part of the centre

Source: SGS Economics and Planning (2009), City of Sydney (2009), Property Council of Australia (2010)

Development viability

AEC's feasibility analysis of a standard two storey industrial units development usefully illustrates the difficulty of making such a development 'stack up' in the current market using conventional and readily available revenue and cost side data. However, two points are worth making in response.

The first is that different owners and investors have different motivations for investment, and may be able to access lower cost approaches and cheaper supplies than those documented by the likes of Rawlinson's Construction Handbook, as utilised by AEC. SGS Economics and Planning also utilise this source for construction costs though our industry contacts decry its inaccuracies.

SGS has attempted to replicate AEC's feasibility analysis¹, using the same sources of data as AEC, assuming the same hypothetical industrial units development in Marrickville (see Table 1), and the return on investment appears to be much worse than the AEC calculations for East Chatswood (the CBRE input data counter-intuitively suggests land values are more expensive and revenues per sqm lower in the South region where Marrickville is located).

TABLE 1. APPARENT FEASIBILITY OF INDUSTRIAL DEVELOPMENT IN EAST CHATSWOOD AND MARRICKVILLE

	Chatswood	Marrickville	Source for Marrickville inputs
Capitalised Costs			
Land Cost	\$2,188,500	\$3,365,913	Land value of \$769/sqm based on average land values reported by CBRE report for the Sydney South industrial area in the Second Quarter 2012.
Demolition Costs	\$183,834	\$183,834	Uses AEC assumptions i.e. demolition costs of \$66/sqm for the existing building from Rawlinsons Construction Handbook
Building Costs	\$9,436,812	\$9,436,812	Uses AEC assumptions i.e. 55% with the rest for parking. Building costs of \$1,960 for two-storey warehouse/offices from Rawlinsons
Parking Costs	\$177,269	\$177,269	Open car parking construction costs of \$93/sqm from Rawlinsons
Statutory Fees	\$20,000	\$20,000	AEC estimate
Professional Fees	\$783,833	\$783,833	AEC estimate equating to 8% of construction costs
Capitalised Interest	\$1,534,234	\$1,676,119	An interest rate of 8% with holding interest over 18 months during the planning, construction and selling phase.
Less GST Input Tax Credits	\$1,279,025	\$1,396,766	
Sub-Total	\$13,086,981	\$17,040,546	
Capitalised Revenue			
Revenue	\$10,164,367	\$8,034,203	Average rental rates of \$138/sqm/pa and yield of 8.27% based on average rents and yields in Sydney South in the CBRE report for the Sydney South Industrial area in the Second Quarter 2012.
Less Selling Costs	\$482,807	\$482,807	
Less GST payments	\$1,016,437	\$803,420	
Sub-total	\$8,665,123	\$6,747,976	
Development Profit (\$)	-\$4,421,858	-\$10,292,571	
Sales margin (%)	-33.8%	-60.4%	
Return on Investment			
Capitalised costs	\$11,511,223	\$12,570,895	
ROI (\$)	-\$2,846,100	-\$5,822,919	
ROI (%)	-16.5%	-46.3%	
Source:	AEC	SGS	-

Without getting too concerned about the precise detail of the feasibility analysis, the available figures would indicate a 'soft market' for industrial development in both East Chatswood and Marrickville.

¹ We couldn't precisely replicate or understand the relationships that AEC included in their table 3.3 on the Feasibility of Industrial Development. In particular our calculation of the ROI returned -25%, not -16.5%.

Nevertheless, SGS is aware of at least three recently completed industrial developments in Marrickville (see Figure 2). The two in Fitzroy Street are very recently completed. The one in Carrington Road was completed early in 2012 and has been slowly gaining tenants. At face value, using a broad feasibility analysis, these do not appear to be viable developments. Clearly though, the developers and investors in these developments have different development parameters which, for them, make sense (as Council's development, used as a case study in SGS's initial Review report, did for it).

The second and more important point to make is that while planning needs to have regard to short term land economics, by its nature it is about anticipating and providing for longer term prospects for wider community benefit. Through market cycles the feasibility of development will vary. The zoning and development control regime established by planning (particularly in industrial areas) is actually about moderating land values such that longer term needs are provided for (speculative land purchasing such as that undertaken by Fabcot on behalf of Woolworths in the current case can push up land values beyond their apparent inherent value given the zoning).

As SGS's earlier 'Review' report noted, a *'longer term evaluation of supply-demand prospects in the precinct is required'*. This would place the precinct in the context of the wider set of metropolitan and subregional trends. Notwithstanding AEC's apparent evidence regarding the lack of current demand no case has yet been made with regard to the longer term prospects for non mainstream retail but mixed business and industrial activities in the East Chatswood employment lands area.

SGS also note that the vacancy rate in the southern Sydney employment lands in 2012 (in Alexandria, south of Green Square and Rosebery) is estimated at 19 percent of floorspace.² This is also a transitioning area but is highly valuable from an employment perspective, though not necessarily for supermarket based retail employment. Elsewhere, on the northern beaches, in 2012 SGS audited a range of employment lands and observed vacancies for the likes of Brookvale East at 7.7 percent, Brookvale West at 9.9 percent and Cromer at 5.7 percent. A very low vacancy rate of 2.9 percent was reported for Lane Cove in 2012³.

2012 Employment Lands Taskforce Report and NSW Government's Response

AEC highlight the theme of improving 'flexibility in industrial zones' from these two reports. Given the changing nature of industry, in particular in inner and middle ring suburban areas, there is definitely a need to constantly update controls to allow for businesses to have a mixed employment and operating complexion. The 2004 Willoughby Industrial Areas study anticipated the need for this flexibility and Council responded accordingly, by allowing greater office content and some bulky good activities in the East Chatswood area.

However, neither the 2012 Employment Lands Taskforce Report, nor the NSW Government's Response to the report, equate 'flexibility' with allowing supermarkets into industrial areas. This would be contrary to the notion of orderly planning based on centres policy which has been a cornerstone of metropolitan planning policy in Sydney for decades.

2.3 Response to AEC's 'Economic and Community Benefits'

Employment creation

The AEC report claims that the proposed development will create 176 jobs, and that this will consist of a *'low transfer component and strong 'net' employment generation for the area'*. We strongly dispute this assertion.

² SGS Economics and Planning and City of Sydney land and floorspace audit

³ <http://www.smh.com.au/business/property/north-shore-keeps-its-shine-20120316-1vad7.html#ixzz2M4tOVDj3>

A photograph showing the exterior of the Carrington Centre building. The building has a light-colored facade with large, dark-framed windows. A black metal fence runs along the foreground, partially obscuring the lower part of the building. To the right, there is a red signpost with the number '49' at the top. Below the number, it lists various businesses and services, including 'Good & Beautiful Beauty Salon', 'The Garden Centre', 'The Gardening Workshop', 'The Sweet Maker', 'The Garden Centre', 'The Gardening Workshop', 'Garden Beds', 'Garden Beds', 'F.I. Food Factory', and 'The Garden Centre'. The Carrington Centre logo is also visible on the signpost.

A photograph of a modern industrial building with a grey facade and dark blue vertical panels. A large orange sign on the upper part of the building reads "ENTERPRISE INDUSTRIAL ESTATE MURRUMBIDGE". A smaller white sign with a red diagonal banner says "LOT 4" and "ENTERPRISE". A blue door is visible on the ground floor. A small tree and some landscaping are in the foreground. A utility pole is on the right.

Source: SGS Economics and Planning

AEC argue that part of the 'net' employment generation will be due to the growth in the population generating overall growth in retail expenditure and thereby requiring more retail floorspace. The reality is that if the supermarket wasn't developed the growth in expenditure would be captured by existing retailers, or other new entrants, who would need to increase employment to meet the additional demand.

The economic impact analysis undertaken by Location IQ re-allocates 100 percent of the turnover of the proposed supermarket on its opening from existing centres (23 percent from Chatswood and the other centres in the main trade area, and 77 percent from 'facilities beyond the main trade area'⁴). It goes without saying that employment declines can be expected in the shops in these existing centres, particularly those in smaller food and grocery sectors disproportionately impacted upon by the new supermarket and already operating on modest margins (until demand again builds up through population and expenditure growth).

The other reality is that full-line supermarkets are inherently more productive than smaller format grocers (or even the previous generation of supermarkets) that they might replace or whose income they might erode. This means that typically they can drive down the need for labour while maintaining or increasing revenues.

The Productivity Commission report on retailing⁵ includes an extensive discussion of retail productivity in Australia, including in comparison to other countries. Some relevant quotes from this report, related to productivity, include the following:

A Commission Staff Research Paper Productivity in Australia's Wholesale and Retail Trade (Johnston et al. 2000) found that the increase in the capital intensity of retail in the 1980s was due largely to the growth of market share of large firms at the expense of smaller firms which are typically more labour-intensive.

The industry experienced substantial rationalisation which allowed retailers to benefit from economies of scale with a trend away from small stores toward large speciality chains and the emergence of 'category killers' in big box retailing formats. (p.62)

Over the period 1985-86 to 2005-06, capital deepening in the retail industry was also driven by information and communications technology (ICT)... This was due, in part, to the increased use of scanning technology, EFTPOS facilities and computerised inventory management systems.... While barcode scanners in checkouts were available in the large retail chains by the end of the 1980s, it was throughout the 1990s that the technology was disseminated to smaller retailers. This technology has continued to develop with the roll-out of customer operated scanners during the 2000s. (p.63)

The underlying trends which supported MFP growth in the United States include the rationalisation of wholesale and retail processes with barcode scanning technology, the replacement of low- with high efficiency store formats, especially big-box retailers that can take advantage of greater economies-of-scale and the spread of innovation in management systems. (p.66)

The replacement of small, low-productivity retail stores with larger, higher-productivity stores that are better able to exploit economies of scale and scope has been identified as one of the main drivers of the retail productivity gains in the United States (Higon et al., 2010). In an empirical study of US retail, Foster, Haltiwanger and Krizan (2002) found that labour productivity growth in

⁴ Duane Location IQ (2010) Chatswood Woolworths, Sydney Economic Impact Assessment, prepared for Woolworths Property Group, 20th May

⁵ Productivity Commission (2011) Economic Structure and Performance of the Australian Retail Industry, No. 56, 4 November

the sector was mostly explained by high-efficiency entrants displacing low-efficiency firms, rather than by existing firms becoming more efficient. (p.69)

The success and dissemination of the Walmart model in the United States has been cited as making an important contribution to the US productivity boom (McKinsey 2001). (p.69)

These quotes point to the following patterns in relation to one aspect of the drive for productivity in the retail sector. Larger format retailing (including larger supermarkets), technologies utilised in larger stores by larger firms, the displacement of smaller firms by larger firms and ever larger stores reduce the need for labour relative to turnover. From this perspective large supermarkets which attract market share from other smaller players are likely to drive down the need for labour.

While it is difficult to identify any 'one to one' job relationships in terms of the shifting share of retail expenditure between individual facilities or centres as new entrants emerge in the market, it is our contention that the East Chatswood supermarket proposal is unlikely to lead to quantifiable net additional jobs (in the wider subregion) other than those that would have been generated in any case with a growing population and related expenditure.

Transitioning nature of traditional industrial uses

SGS agree that industrial uses are changing, with some industrial areas getting more complex, including more office, services and ancillary retail activities. This was discussed almost ten years ago in the Willoughby Industrial Areas study, and the planning control changes that followed the 2004 report have facilitated transitions in East Chatswood in recent years. However, as mentioned above, there is no good planning reason to make the leap in logic which would allow traditional retailing such as supermarkets to proliferate in industrial areas in an ad hoc way.

Sydney has had great success with its centres policy in concentrating retail and higher density residential development principally in strategically designated centres. AEC cite examples of industrial areas transitioning to include retail developments in both Brisbane and Melbourne. Both those cities have had a much more laissez faire approach to retail development and centres policy than Sydney, with a number of large car based and stand alone shopping centres. As a result indicators for such items as distance travelled for shopping trips and car usage for shopping trips (see Table 2) are greater in Melbourne than in Sydney (it is difficult to find comparable statistics for Brisbane).

TABLE 2. SHOPPING TRIPS BY TRAVEL MODE

Mode	Willoughby LGA	Sydney Metro	Melbourne Metro
Vehicle driver	46%	55%	62%
Vehicle passenger	12%	13%	19%
Total vehicle	58%	69%	81%
Train/Tram	4%	2%	3%
Bus	4%	3%	2%
Walk	35%	25%	14%
Other	0%	1%	1%

Source: HTS (NSW) and VISTA (Vic)

Catalyst for Redevelopment of Industrial Area

SGS agree with AEC that the supermarket is likely to catalyse additional redevelopment. While some of the new development will be higher order employment consistent with the changing nature of activities in industrial areas, a share is likely to be retail development seeking to benefit from expenditure linked to that on food, grocery and liquor spending taking place in the proposed supermarket and liquor store. It will be very hard for the Council to resist this additional retail development given the precedent

created by the supermarket. There may also be pressure for 'pure' office development. SGS's earlier Review report made the strong contention that a 'centre by default' is likely to emerge.

There is no strategic framework in place that supports a centre in this location. The area is currently not well served by public transport, and traffic systems and management are not yet planned to accommodate a much higher intensity of development.

Community support

It is nice to have the evidence of community support for the development provided by such surveys but wholly irrelevant, unless it contributes to a considered planning or net community benefit analysis which seeks to 'weigh up' the costs and benefits. There is no evidence that the participants in the survey were asked to consider the 'downsides' or broader implications of the supermarket development at the same time as considering the potential benefits.

Reduced Traffic to Chatswood CBD

Given that Duane Location IQ report suggests there will be reduced trade for the Chatswood CBD on the opening of the East Chatswood supermarket (which SGS does not dispute) it could be expected that there will also be reduced traffic. It could even be that there is less trip generation and vehicle kilometres travelled (VKT) overall provided the number of walking, cycling and public transport shopping trips to Chatswood CBD was not also significantly eroded. Modelling to build a stronger case in favour of the supermarket from this perspective has not been undertaken.

Consumer Choice

The proposal will obviously provide a further food and grocery offering in the trade area and to this extent will add to 'choice and competition'. Generally though the 'consumer choice' and 'competition' impact is likely to be modest, given that as currently proposed the supermarket is to be a Woolworths, who along with Coles and Metcash (including Franklins) have 85 percent of the Australian grocery market⁶.

Though not traditionally a planning concern it is also worth considering the 'consumer choice' issue when it comes to the range of goods and products a store such as Woolworths stocks. There is currently a debate about the possible role of so-called house or home brands, owned by Woolworths and Coles, in actually reducing consumer choice (as well as harming competitive suppliers while reducing prices in the short term). The data shows house-brand products made up 25 percent of supermarket sales, up from 13.5 percent in 2007-08⁷ and from 12 percent of sales in financial terms and 19 percent of volume sales in 2005⁸. As Rod Sims, the Australian Competition and Consumer Commission Chief Executive was quoted as saying, "Where you've got a supermarket that is selling both its own products and selling the products of competing businesses, that vertical relationship is a situation that always is a concern for misuse of market power"⁹.

Now that 'consumer choice' and 'competition' appear to increasingly be planning concerns it will be necessary to take a more sophisticated view of the issues. The above discussion shows that arguing that consumer choice and competition is enhanced simply by the opening of a new supermarket is insufficient: things such as firm structure and concentration, attitudes to suppliers and increasing proliferation of supermarket house brands at the expense of brand diversity may be increasingly relevant.

⁶ Productivity Commission (2011) Economic Structure and Performance of the Australian Retail Industry, No. 56, 4 November, p.37

⁷ Murphy, J. (2012) 'ACC to target home brands', *Australian Financial Review*, 2 August, viewed 28 February 2013 at http://www.afr.com/p/national/acc_to_target_house_brands_ee7QomqEpXcAgkFyMcUUkO

⁸ Cowie, T. (2011) 'Stacking the shelves: the rise and rise of home brand products' *Crikey*, 29 March, viewed 28 February 2013 at <http://www.crikey.com.au/2011/03/29/stacking-the-shelves-the-rise-and-rise-of-home-brand-products/>

⁹ Murphy, J. (2012) op cit

3 CONCLUSION

There are three key points to be highlighted from AEC's work and SGS's response to it discussed in the previous section.

- The first point is that while the industrial market in East Chatswood appears soft, with hurdle rates of return apparently difficult to currently achieve for new investors in industrial development, there is still no compelling research which justifies a significant shift away from a non-retail business or industrial zoning. AEC's case on this point rests on the assertion that industrial areas are transitioning (consistent with what SGS has argued) and that a typical industrial development is currently not feasible and may not be for some time (SGS notes this analysis is useful but not likely to account for a wide range of motivations and parameters that developers adopt). As previously stated by SGS, a longer term evaluation of supply-demand prospects in the East Chatswood precinct is required to support a case for losing industrial land to supermarket and other retail.
- The second point is that, notwithstanding AEC's commentary on 'Economic and Community Benefits', a clear case in relation to the proposed development's net beneficial impact has not yet been made. For example in SGS's opinion there is unlikely to be quantifiable net additional jobs generated, other than those occurring in any case with a growing population and related expenditure, and though a survey has shown community support for the development, the questions did not seek to 'weigh up' the costs and benefits (i.e. participants in the survey weren't asked to consider the 'downsides' of the supermarket development at the same time as commenting on the potential benefits). AEC do make a valid assertion that the proposal might lead to reduced traffic to the Chatswood CBD, though modelling to build a stronger case in favour of the supermarket from this perspective has not been undertaken. Though the opening of another Woolworths at face value appears to enhance 'consumer choice', the issue is made more complex by such things as firm structure and concentration, attitudes to suppliers and the increasing proliferation of supermarket house brands at the expense of brand and product diversity.
- The third point is that to allow a supermarket in East Chatswood is likely to catalyse additional development (as also argued by AEC). It is not appropriate to grant a site specific re-zoning (that would be anti-competitive and reward rent seeking behaviour) so with a wider rezoning it is inevitable that the development would create a precedent such that additional retail and business uses would be attracted to the area. The emergence of a 'centre by default' is not justified by any policy and strategy context. As previously stated by SGS,

"if the development was to go ahead there is a strong case for analysis and the development of a structure plan and associated planning controls for basically a new centre in this location, building on the supermarket anchor, with a small complex of supporting retail activities and potentially residential development."¹⁰

¹⁰ SGS Economics and Planning (2012) Review of Planning Proposal 17-19 Smith Street East Chatswood, p.v

Contact us

BRISBANE

PO Box 1177
Level 1, 76 McLachlan Street
Fortitude Valley QLD 4006
+61 7 3124 9026
sgsqld@sgsep.com.au

CANBERRA

Level 1, 55 Woolley Street
Dickson ACT 2602
+61 2 6262 7603
sgsact@sgsep.com.au

HOBART

Unit 2, 5 King Street
Bellerive TAS 7018
+61 (0)439 941 934
sgstas@sgsep.com.au

MELBOURNE

Level 5, 171 La Trobe Street
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au

SYDNEY

Suite 12, 50 Reservoir Street
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au