



PADSTOW PLANNING PROPOSAL - ECONOMIC IMPACT ASSESSMENT PEER REVIEW



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1. INTRODUCTION

1.1 Overview

The City of Canterbury Bankstown has engaged SGS Economics and Planning to carry out a peer review of an economic impact assessment (EIA) related to a planning proposal covering a number of contiguous properties (numbers 1 to 17) on Segers Avenue in Padstow.

An applicant has lodged a planning proposal to rezone these properties from Zone R2 Low Density Residential to Zone B1 Local Centre in accordance with the Bankstown LEP 2015. Such a change would result in the following changes:

- An increase in the FSR from 0.5:1 to 2.5:1
- A change in the permissible building height from 9 metres to 20 metres.

Application of the proposed controls would deliver a development comprising the following:

- 2,495sqm of retail/ commercial floorspace
- 143 units residential units.

Conversion of the present urban form (comprising detached dwellings) would have substantial economic impacts. The project will have a 'one-off' economic impact linked to construction and ongoing impacts linked to increased economic induced by development at the site.

1.2 This report

Hill PDA have produced an EIA focussed on analysis of the anticipated economic impacts of the proposed development. This EIA is comprised of the following sections:

- Chapter 2 – reviews the surrounding retail hierarchy with particular focus on centres that could influence the provision of retail uses on the site and the extent of Padstow local centres trade area
- Chapter 3 – identifies a trade area for Padstow local centre based on the retail composition of centre and surrounding hierarchy. The Chapter then provides an assessment of population and retail expenditure generated in this area
- Chapter 4 – having forecasted the total amount of retail expenditure generated in the trade area, Chapter 4 quantifies the amount and type of retail floorspace that could be accommodated in Padstow local centre
- Chapter 5 – assesses the economic implications generated under the planning proposal.

SGS will focus its assessment the outputs of Chapter 3 to 5, with the review of each chapter focussing on the validity of the key findings, and an assessment of underlying data, assumptions and the methodology adopted to generate these findings.

2. TRADE AREA ANALYSIS

2.1 Overview

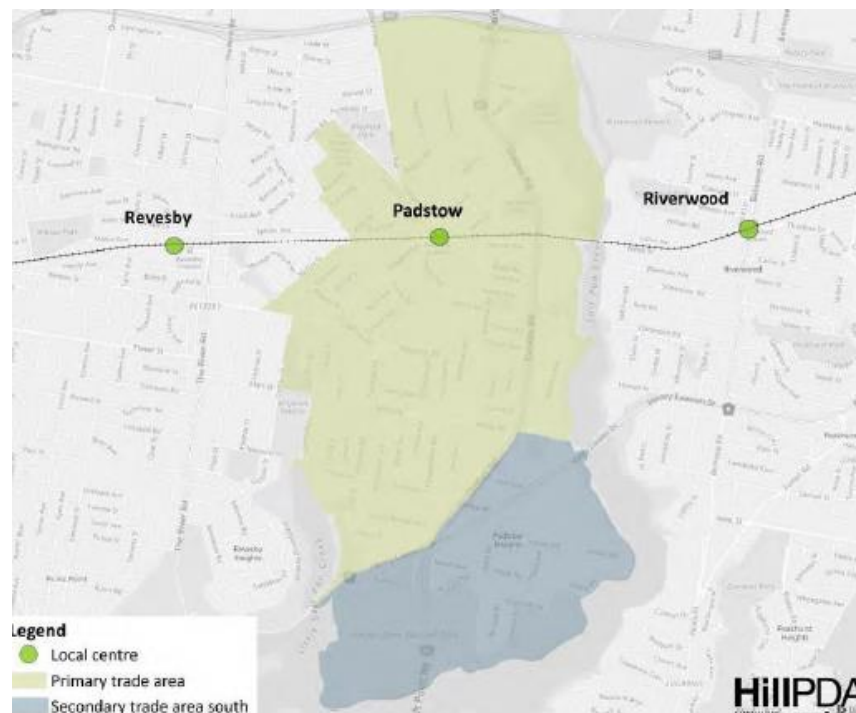
This chapter seeks to isolate the retail impact, estimating the impact of increased residential activity on forecast demand for retail floorspace.

2.2 Trade area

Hill PDA state that in defining a trade area served by the Padstow centre, they considered:

- The strength and attraction of the centre, as determined by factors such as the composition, layout, ambience/atmosphere and car parking in the centre
- Competitive retail centres, particularly their proximity to the centre and respective sizes, retail offer and attraction
- The location and accessibility of the centre, including the available road and public transport network and travel times
- The presence or absence of physical barriers, such as rivers, railways, national parks and freeways.

FIGURE 1. PADSTOW CATCHMENT



Source: Hill PDA

In doing this, Hill PDA produced the catchment as depicted in Figure 1. The general shape of this catchment appears reasonable based on the comparable offers in the neighbouring centres of Revesby and Riverwood, and the barrier represented by the M5 Motorway. The depiction of the secondary catchment (shaded blue) also seems reasonable given access to neighbouring regions via Point Road and Henry Lawson Drive.

It is unclear from a simple reading of the report how the catchment has been constructed, with the catchment boundaries not aligning with ID Consulting forecast areas. It appears that the catchment is comprised of SA1s. For the sake of clarity and transparency, this should be confirmed within the report.

2.3 Population projections

In order to understand future retail expenditure in the region, Hill PDA have produced population projections.

The Hill PDA projections estimate that, including the 310 people to be accommodated within the proposed development, the population of the MTA will increase by more than 3,000 between 2016 and 2036. This represents growth of around 19 per cent over the period.

A review of population growth in the Padstow – Padstow Heights forecast area (ID Consulting) shows that over the same period, population is set to grow by 2,299, from 17,360 to 19,659 to 2036. The estimated growth rate adopted by ID Consulting is significantly lower - around 15 per cent over that period.

TABLE 1. POPULATION GROWTH NUMBERS

Source	Geographical base	2016 population	2036 population	Change	Growth rate (2016-36)
Hill PDA	SA1s	15,706	18,709	3,003	19.1%
ID Consulting	Forecast area	17,360	19,969	2,609	15.0%

Population growth rates differ between the Hill PDA numbers ID Consulting numbers used by Council (and referenced by Hill PDA). This discrepancy should be reviewed and sufficiently detailed explanation of the approach used by Hill PDA to generate the figures should be incorporated within the report.

2.4 Resident retail expenditure

Hill PDA estimate retail expenditure for the entire catchment of around \$212.7 million in 2017. SGS note that these figures have been developed using HES and Anysite data.

SGS typically use Marketinfo data to calculate expenditure figures across a given area. Our analysis reveals that for the area identified as the catchment, the volume of expenditure in 2016 was an estimate \$207.9 million. Assuming inflation of around 2 per cent, this total catchment expenditure figure is almost identical to that adopted by Hill PDA.

3. RETAIL DEMAND ASSESSMENT

3.1 Overview

This section quantifies the amount and type of retail floorspace that could be accommodated within the Padstow centre.

3.2 Retail capture

In understanding the total demand for floorspace, it is important to understand what proportion of total catchment expenditure calculated in the previous section is likely to be retained in the local area under an aspirational setting.

The numbers derived are vital in informing subsequent analysis, directly feeding into the calculation of expenditure likely to find expression within the Padstow centre.

In seeking to understand how much local expenditure would occur within local centres, SGS would assume between 5 and 10 per cent is lost to online retailers. With online expenditure growing more rapidly than expenditure in 'bricks and mortar' retailing, it would be reasonable to assume that the proportion of retail expenditure directed online will grow in future years.

Hill PDA define a set of aspirational targets for the capture of retail expenditure, though it is unclear from where these proportions have been derived.

SGS recommend that Hill PDA outline how online expenditure has been incorporated within the analysis.

SGS recommend that Hill PDA explain their justification for the retail expenditure capture proportions.

This aside, and noting the likelihood that expenditure will be lost in other ways (as set out in the Hill PDA report), in SGS's view the retail expenditure figures are reasonable. As rule-of-thumb, a sub-regional centre such as Padstow should be able to attract around 40 per cent of its catchment expenditure. Hill PDA has estimated expenditure of around 43 per cent, which confirms the reasonableness of the predictions.

3.3 Demand for retail floorspace

Hill PDA have produced a set of 'expenditure per square metre' figures for a range of retail types. SGS have reviewed these and they appear justifiable and reasonable.

Hill PDA have suggested that the centre could support '40-50 or more' non-supermarket retailers, though they have not explained their methodology for arriving at this figure.

SGS recommend that Hill PDA explain the assumptions adopted to arrive at the '40-50 or more' figure.

3.4 Supply vs demand

The alignment of current supply with future demand demonstrates that whilst the centre is presently in equilibrium, population and expenditure growth is expected to lead to the development of a supply gap of around 3,750 square metres by 2036.

Whilst in an aggregate sense, the centre is at equilibrium, analysis of retail demand and supply by sub-category may present a picture in which the centre is experiencing an overprovision in one category, and an under-provision in another. An analysis of demand and

supply at this sub-category level has the potential to yield important insight into the requirement for floorspace across subcategories, in particular those expected to increase as a result of the proposed development.

SGS recommends that Hill PDA aligns supply and demand of retail sub-categories. Such an analysis would provide a more nuanced view of the extent to which the market is in 'equilibrium'.

SGS also recommends that Hill PDA provide an explanation of how the figure for 'retail floorspace supply' was arrived at as it is currently unclear.

SGS also notes that lower rates of population growth (discussed in section 2.3 of this peer review) would feed into a reduced requirement for retail floorspace.

3.5 Impact on surrounding centres

SGS agree that the impact of the development on surrounding centres is likely to be minimal.

However, it is noted that the extension of retail into an arcade running off Padstow Parade can have a negative impact at a local centre level on footfall to other shops in the retail strip. This is something that an Economic Impact Assessment is likely to look at, and more aligned with an urban design outcome. However, it is an important consideration that if the new quantum of retail floorspace shifts the balance away from one end of the strip, this may impact on the viability of established businesses.

4. ECONOMIC IMPACT ASSESSMENT

4.1 Overview

This section seeks to quantify the economic impacts of the proposal during and after construction.

4.2 Impacts vs benefits – general commentary

The chapter conflates *economic net benefit* and *economic impact*. In SGS's view, these terms are clearly distinct and should be understood and assessed separately.

Economic impacts, as calculated using I-O modelling, are not necessarily representative of the generation of a benefit to the broader community. Indeed, it is entirely possible for a proposed development to generate employment and expenditure impacts, yet to be detrimental to the community (for example an apartment development that results in the loss of public parkland, or an out-of-centre retail development that undermines the existing activity centre network)).

4.3 Input-output modelling

Input-output modelling is a commonly adopted approach to assessing the merits of a given proposal. It is favoured for its simplicity, the fact it is widely known and understood, and for its production of simple, easily-understood and interpreted outputs.

In reality, I-O modelling is likely to overstate the benefits of a given increase in activity or expenditure for a range of reasons. In some cases these limitations are addressed by Hill PDA, while at other times they aren't.

SGS recommends Hill PDA include a detailed and comprehensive summary of the limitations of I-O modelling.

4.4 Construction economic benefits

SGS note that Hill PDA has discussed the limitations of I-O modelling in the section titled 'construction multiplier effects'.

In the discussion of the impact of 'construction related employment' it is noted that 134 job years will be created as a result of the construction. In reality, unemployment rates for construction workers are relatively low. It is therefore unlikely that those employed to work on the construction of this development would not otherwise be sitting idle. Therefore, it is likely that the proposal represents a diversion of construction activity that would otherwise have been occurring elsewhere in metropolitan Sydney.

A section should be added explaining that these jobs can only be considered 'net jobs' if it can be demonstrated that those employed at the site would otherwise be idle.

4.5 Other benefits discussed

A number of *economic benefits* are also discussed. As highlighted in section 4.2 of this peer review, these are different to the economic impacts addressed as part of 5.1.1 and 5.1.2 of the Hill PDA report. As such, they would be best discussed in a separate section.

Notwithstanding the methodological issues associated with the conflation of impacts and net benefits, there is also 'double counting' where the 'benefit' of increased worker expenditure is addressed twice: firstly, in the identification of consumption induced economic impacts (in the I-O modelling), and secondly in the discussion of expenditure linked to construction workers.

Retail from construction (and other) workers

In seeking to understand the benefit associated with retail expenditure linked to construction workers, an estimate of likely expenditure has been made.

The total expenditure linked to workers is not, in and of itself, an economic benefit. In order to isolate the economic benefit linked with this expenditure, Hill PDA should calculate a figure for value add associated with these expenditure transactions. This number is equivalent to the producer surplus (and net benefit) associated with these transactions.

In addition, the assumption that worker expenditure averages \$15 per day appears high given many workers are likely to bring lunch.

Hill PDA should provide an explanation of the approach adopted to arrive at the \$15 per worker per day figure, and rationale for the assumption that all workers will be spending on a daily basis.

Post-construction employment generation

Hill PDA have assumed that the project will result in the creation of 118 ongoing jobs.

An expanded centre is unlikely to generate a significant increase in aggregate retail expenditure across the metropolitan network – rather, it can be assumed that at least some of the increase in retail expenditure at Padstow will result from a diversion of expenditure presently occurring in nearby centres. It is reasonable to assume that a reduction in expenditure at neighbouring centres will result in a reduced requirement for retail workers in those locations.

Hill PDA estimate additional employment, which once more is not a benefit in and of itself. The economic benefit associated with an increase in employment should be estimated by subtracting a standard 'hourly leisure rate' from an estimated hourly wage. This would allow Hill PDA to derive a 'labour surplus' figure, which is equivalent to the true net benefit accruing to employed workers.

Hill PDA adopt figures of 15sqm and 25sqm per worker for commercial and retail floorspace respectively. The commercial floorspace figure in particular appears low. Whilst 15sqm per worker would be reasonable in a central Sydney context, in a suburban centre such as Padstow, adoption of a rate of closer to 30 sqm per worker would be more reasonable.

Hill PDA should ensure justification for the 'sqm per worker' figure is provided.

Salaries generation

Hill PDA has estimated salaries for workers on site. This benefit is could perhaps be considered in the same section as 'employment generation'.

SGS do not have access to IBIS World Industry Reports, so are unable to confirm the source of the average wage for commercial works (\$86,800). The figure does appear high however. If this is the average/ median figure for metropolitan Sydney, the figure should be sure to account for

the fact that commercial jobs at small centres like Padstow are likely to be relatively unskilled and low-paying.

Expenditure from residents

Hill PDA have calculated the impact of increased expenditure from residents.

The correct approach to identifying economic benefit linked to this activity would be to identify the producer surplus linked to the transactions.

There is also a concern linked to the identification of new resident expenditure as a net benefit. SGS would typically be reluctant to consider any benefit linked to new residents to be a net benefit unless it could be demonstrated that, in the event this development does not go ahead, this retail expenditure would not be occurring in the economy. In other words, this should only be considered as a benefit if it can be shown that the proposed development induces activity in the NSW economy by attracting new people to the state, or inducing people to reduce savings in favour of consumption.

Show that this retail expenditure would not otherwise be occurring within NSW or remove.

Hill PDA claim that 50 to 60 per cent of new resident expenditure will be spent locally – different to the 43% of resident expenditure capture estimated as part of the retail expenditure assessment. Assume this high rate is due to proximity?

Confirm and explain how this figure has been derived.

Expenditure from workers

Hill PDA estimate worker expenditure of \$20 per day. Given that the bulk of workers will be retail workers, and that retail workers are among the lowest paid of all sectors, this assumption appears high.

Hill PDA should provide detailed justification for their estimated daily expenditure figure.

4.6 General comments

This section would benefit from a restructure with the assessment of economic impact clearly separated from the assessment of net economic benefits.

The net economic benefits component could seek to identify key impact categories and monetise them where appropriate. This would help readers to assess the relative scale of impacts. These benefits could be summarised in a table at the conclusion of the chapter. It is important these are considered separately to the economic impact assessment which should not be presented or interpreted as a measure of net benefit.

Also, in the interests of putting forth a balanced assessment, it is important that both potential benefits and potential detriments are addressed. In this case, only one detrimental impact has been addressed (noise and activity linked to construction). Others that might be considered include:

- Loss of amenity for neighbouring residents (i.e. noise, loss of light).
- Increased vehicle traffic and congestion in surrounding streets.
- The possibility that a diversion of foot traffic from other parts of the centre may lead to reduced viability in these parts of the centre.
- Transfer of expenditure from neighbouring centres, potentially impacting the long-term viability of smaller, less attractive centres (e.g. Riverwood).

5. CONCLUSION

5.1 Summary of findings

This peer review has focused solely on the Economic Impact Assessment and not the wider strategic planning merits of the Planning Proposal. Overall, SGS finds that there are several issues that would benefit from clarification or review. These are:

Primary concerns

No discussion of 'net community benefit'

NSW legislation requires an 'economic impact assessment' to be carried out for any planning proposal. The measurement of impacts with the use of an input-output (I-O) model is one way to do this, and this report calculates and discusses those impacts in line with the wording of the legislation. In SGS's view however, I-O modelling fails to achieve the intent of the legislation, which is surely to ensure that the incremental social, economic and environmental effects of a planning proposal on the affected community are beneficial.

To reiterate, as stated earlier in this review, assessment of the overall merits of a planning proposal through the use of I-O modelling is of limited use, and it is entirely conceivable that a proposal deemed likely to generate employment and economic output (as measured by an I-O model) has a detrimental impact on local communities when its wider consequences are assessed.

For this reason, in SGS's view it is important to take a broader view of the economic 'impacts' of a planning proposal. We recognise that Hill PDA have sought to do this, however in SGS's view, this assessment of incremental benefits and detriments associated with the proposal should be the focus of the assessment of any planning proposal and its supporting documents such as an Economic Impact Assessment. These incremental impacts should be identified and discussed (and where possible monetised). At the end of this process, an assessment of whether the impact is either positive or negative for the local community should be carried out. Based on this analysis, a clear and justifiable conclusion in regard to the 'net benefit' of the planning proposal should be set out.

I-O modelling outputs may still be included but, in recognition of its limitations, though these should not drive the report conclusions.

Conflation of impact and benefit

The Economic impact assessment reports economic impacts as economic benefits which is considered misleading. This section should be addressed to clarify the language and, if required, revise the methodology.

Potential double counting

The separation of the retail impact and economic impact is noted and appropriate. However, the economic impact assessment reports separately on the expenditure of workers (in both construction and operational phases) in the local economy. This, however, is likely captured in the input-output modelling process itself and could therefore be considered a double count of economic impact. If modelling has separated that out, this should be made clear.

Secondary concerns

Disaggregate the current retail floorspace demand

While the aggregated retail floorspace demand identifies a local economy in balance, a disaggregation of the retail sub-types will provide a clearer insight into what type of retail floorspaces may be over or under-supplied and guide the development to best meet future demand.

Clarification of assumptions

There are a number of assumptions that are referenced throughout the study that would benefit from justification.

Consider the urban design impact

While not directly an economic impact assessment consideration, Council should be satisfied that the development will not adversely impact the flow of pedestrian movement to existing shops along Padstow Parade to such a degree that the centre expansion comes at the expense of existing retail activation.

5.2 Conclusion

SGS notes that the individual pieces of analysis are all methodologically standard ways of ascertaining the economic impact of a proposed development. However, SGS recommends that the study be reviewed in light of the issues identified above to clarify the true economic impact of the proposal.

The major critique of this EIA is the lack of reporting of the Net Community Benefit that the development would present, as a marginal improvement on what is currently there. While it reports on economic impacts, there is no clear comparison for council to make an informed decision regarding the overall merits of the proposal, compared with a baseline 'no development' scenario. This should be made more explicit in a revised study to ensure that the noted economic impacts are incrementally beneficial to the local economy.

It is difficult to ascertain whether the EIA's findings would be appropriate until these concerns are addressed. While SGS notes that the individual components of the EIA are largely methodologically appropriate (notwithstanding the various clarifications sought in the comments above), it is unclear whether the overall impact of the development will deliver a positive outcome for the local community.

If the methodological clarifications are addressed and the report demonstrates that the proposal will in fact deliver a net community benefit, the EIA would present a rational and acceptable analysis to support the planning proposal.

