Proposed Kaufland Store - Belmont North
Peer review of Deep End Services EIA

November 2019

Dimasi
& CO

Dimasi
& CO

Tony Dimasi, Director – Dimasi & Co

dimasi@bigpond.com

Table of contents

Reviewer details:

Name and address

Mr Tony Dimasi

Director

Dimasi & Co

12 Argent Court

Riddells Creek VIC 3431

dimasi@bigpond.com

Qualifications and experience

- Bachelor of Arts (Hons.), University of Melbourne

- Master of Arts, University of Melbourne

My CV is included as Appendix 1 to this statement of evidence. I have extensive experience in the field of retail economics and analysis gained over the past 32 years, having provided independent advice on numerous retail development projects and proposals throughout all parts of Australia, to a broad range of clients.

As detailed further below, I have appeared as an independent economic expert in courts and planning jurisdictions across all states of Australia over the past 30 years, and the expertise and experience that I have set out both above and in my CV demonstrate my qualification to present this statement to the Tribunal.

I have practised as a consulting economic and retail analyst since 1982. During that time I have worked in all states of Australia and also in New Zealand and Asia, and have advised on many thousands of retail developments of all types and sizes.

My assessments have covered demand and supply analysis, commercial feasibility assessments and economic impact assessments, for many thousands of shopping centres of all sizes and mixes, as well as numerous freestanding retail stores, including supermarkets, discount department stores, toys category killer stores, book stores, special apparel stores, smaller foodstores and packaged liquor stores of all sizes.

I have appeared as an expert witness in the various jurisdictions across all states of Australia and New Zealand on numerous occasions, including:

- The Administrative Appeals Tribunal (AAT) of Australia;

- The Land and Environment Court of New South Wales;

- Independent Ministerial Panels and VCAT in Victoria;

- The Planning and Environment Court of Queensland;

- The State Administrative Tribunal in Western Australia;

- The Environment, Resources and Development Court of South Australia;

- The Resource Development Planning Commission in Tasmania;

- The Liquor Licensing Court of South Australia;

- The Petroleum Products Retail Outlets Board of South Australia; and

- The Environment Court of New Zealand.

I have also appeared as an expert witness before various government and ACCC inquiries into the retailing of food, liquor and groceries industry in Australia, including:

- the 1999 Joint Parliamentary Inquiry into the Australian Retail Sector (the Baird Inquiry);

- the Inquiry into the Competitiveness of Retail Prices for Standard Groceries (2008) undertaken by the Australian Consumer and Competition Commission (ACCC); and

- the 2004 ACT Grocery Inquiry (the Martin Inquiry).

I have undertaken work of this nature on numerous occasions throughout Newcastle, Lake Macquarie and the Hunter Region.

Tony Dimasi, 12 November 2019

Introduction

This report presents a peer review of the report titled: *Kaufland Belmont North, Economic Impact Assessment*, which is dated 24 January 2019 and was prepared by Deep end Services for BWP Trust, in relation to the site located at 393 Pacific highway, Belmont North.

In order to provide this peer review I have conducted my own investigation of critical data used in the EIA, in particular population levels and retail spending capacity for trade area residents, and I have also inspected both the subject site and the surrounding network of competing supermarkets and retail centres. The report is presented in two sections, the first setting out my review of the EIA while the second details additional analysis undertaken by me.

Summary of findings and conclusions

I consider that the methodology adopted for the EIA as well as the data utilised for the purpose are sound and reasonable.

I also agree with the conclusions that Deep End reaches and consider that each of those conclusions can reasonably be drawn having regard to the data, information and analysis set out in the EIA.

In my view a net community benefit will result from the proposed development.

Review of Economic Impact Assessment

In my peer review of the Deep End EIA, I have assessed the following aspects of that report:

    i.   the methodology adopted;

    ii.   the data and information utilised for the analysis;

    iii.   the numerical analysis conducted; and

    iv.   the conclusions drawn, addressing in particular how those conclusions relate to the analysis presented.

My findings and conclusions on each of these points are set out below.

2.1 Methodology

Deep End has adopted what I would consider to be a typical, and robust, methodology for the preparation of the EIA. Specifically, the document sets out the following:

    i.   The site location and site context discussion.

    ii.   A description of the development proposal.

    iii.   An assessment of the demand for retail, including supermarket, floorspace in the relevant area, which in turn is based on a number of steps as follows:

- First, the anticipated catchment for the proposal is defined. The catchment is further sub-divided into three sectors, defined as one primary sector and two secondary sectors. I consider that the catchment definition which has been adopted is reasonable given the nature and scale of the proposed development.

- The resident population of that catchment area is then assessed, including the population numbers both current and forecast; the socio-demographic profile of the population within each trade area sector; and the retail expenditure capacity of the population.

Projections of expected future population growth for the catchment area are also presented, and the basis for those projections is included as a footnote to the relevant table (Table 2).

The retail hierarchy which serves the identified catchment is then detailed, representing the supply of available retail facilities at present. Quite extensive detail is provided on each relevant centre, included at Table 4 on page 10 of the document.

Deep End Services then provides its estimates of the current (2018) trading volumes (i.e. levels of retail sales), by retail category, for each of the relevant identified competitive centres, at Table 5 on page 11. The basis for the estimates is set out in the accompanying text.

The assessment of economic impacts expected to result from the development of the proposed Kaufland store is then set out, drawing on the information presented in each of the previous sections of the EIA. This impact assessment proceeds as follows:

- First, the potential sales expected to be achieved by the proposed new Kaufland store of approximately 4,000 square metres and associated specialty floorspace, which is minor at only approximately 500 square metres, are estimated ($44 million, at 2023 which is assumed to be the first year of operation). This estimate is based on the market shares of available expenditure within each trade area sector that the new store is assessed as likely to achieve.

- The diversion of sales which is expected to occur, from each identified competitive centre, as a result of the proposed Kaufland development is then presented, in Table 9 at page 14 of the EIA. As a result of the proposal, whether or not the estimated sales diversions are reasonable, is addressed later at pages 9-10 of this report.

Finally, other economic effects expected to result from the development, including the level of job creation, are considered.

In my view, the methodology adopted by Deep End Services, as I have outlined above, is appropriate for the purpose of preparing an EIA, and I would adopt a similar methodological approach in preparing an EIA for a planned development such as this.

2.2 Data and information

In preparing an EIA as has been prepared by Deep End Services for the Belmont North Kaufland proposal, the most critical data and information which will impact on the outcome of the EIA includes the following:

- The available population levels within the identified area(s).

- The estimates of retail expenditure volumes, across the various retail categories, that are generated by those populations.

- The estimated retail floorspace provision which exists within the relevant area, or in locations sufficiently close to it, as well as allowance for future additions to that retail floorspace provision.

In this particular instance, the key question at issue is the proposed addition of a new supermarket at the subject site, that store being a planned Kaufland store of approximately 4,000 sq.m. Therefore, with regard to data and information utilised in the Deep End EIA, the most critical elements can be further narrowed down as comprising:

- the estimated population levels, both current and future;

- the estimated expenditure volumes on <u>take-home food, packaged liquor and groceries</u> (FLG) generated by those population levels, since supermarkets compete for take-home food & groceries expenditure plus packaged liquor; and

- the existing provisions of retail, and especially FLG being primarily supermarket, floorspace.

With respect to each of the above, I make the following comments regarding their treatment within the Deep End EIA.

<u>Population levels</u>

I have reviewed the resident population levels within the catchment area as defined by Deep End, by drawing on the published results from the 2016 Census of Population and Housing conducted by the ABS. In my view, the 2016 (i.e. starting point) population estimates utilised by Deep End for the catchment area are accurate and reasonable.

I have reviewed the population forecasts for the region and catchment areas identified by Deep End, and again I conclude that the estimates adopted in future years (at 2018, 2021 and 2026) in the EIA are accurate and reasonable. I provide further details on this point in the following section of this review.

Expenditure levels

The estimates of expenditure on take-home food, packaged liquor and groceries (FLG) utilised by Deep End are set out in its Table 3 at page 8 of the EIA.

I have prepared my own estimates of expenditure by the respective populations within each trade area sector identified by Deep End, and I also discuss those in greater detail in the following section of this review. I conclude that the expenditure estimates presented by Deep End in the EIA were reasonable.

Retail Floorspace supply

The current provision of FLG floorspace at each of the locations considered to be of relevance to the identified trade area is set out in Table 4 at page 10 of the EIA. I have inspected each of the supermarkets identified within the defined trade area in Table 4, and I consider that the information set out in that table by Deep End is accurate.

I conclude, therefore, that the data and information which has been utilised by Deep End throughout the EIA, in particular the data and information which are of most importance to the key question at issue, are accurate and suitable for the purpose.

2.3 The numerical analysis

The numerical analysis which underpins the conclusions drawn by Deep End in the EIA comprises the following key components:

- First, at Section 2.6 on page 11, the estimated sales performance for each of the relevant competitive centres is set out, for both the FLG and Non-food retail categories. In addition, estimates of likely future sales performance under a base case scenario (that being the assumption that the proposed Kaufland development at Belmont North is not built) are also presented on the same page.

- Next, the anticipated sales volume for the proposed Kaufland project is presented, at Section 3.1 of the report on page 13. That sales volume is disaggregated into an estimate of supermarket sales for the proposed Kaufland supermarket (which is the number of greatest importance) and an estimate of expected sales performance for the other small tenancies that would be created as a result of the redevelopment.

- Third, at Section 3.2 on page 14, estimates are presented of the expected level of sales diversion from each of the existing centres as a consequence of the proposed Kaufland development. Those estimates are also disaggregated into FLG and Non-food retail categories, and the projected diversions of sales are then expressed both as dollar figures and percentage impacts, on the FLG and Non-food categories, for each of the identified competitive centres.

Turning first to the sales estimates at 2018 that are presented for the existing retail facilities within the relevant area, at Table 5 on page 11 of the EIA, I consider that the estimates are reasonable.

It is worth noting in this regard that estimates of this nature can never expect to be precise, and in many cases, other than for those centres which appear in the PCA Shopping Centre Directory, there is no information publicly available to verify such estimates. This is most often the case for strip retail centres. It is also worth noting that whether or not the actual sales achieved by each of the identified centres is a little higher or a little lower than the estimates presented in Table 5 of the EIA is not a matter of great significance, as the resultant change in the magnitude of impact on each centre would be minimal.

The projected future estimated sales performance for the existing facilities, shown in Table 6, is reasonable having regard to the base year estimates presented in Table 5. The estimates in Table 7, which are presented for 2023 – expected to be the first trading year for the proposed new supermarket – reflect an expectation of modest growth generally on the 2018 estimates, an outcome which I would expect to be the case given the equally modest population growth adopted for the purpose.

The estimates of sales performance for the proposed new Kaufland development put forward by Deep End, shown in Table 7 at page 13, indicate an expected first year trading level, in 2023, of $40.4 million. I agree with the statement at page 13 of the EIA that such a sales volume would represent a strong first year performance. It is also worth noting that the market share of available FLG spending within the defined catchment that the proposed development is expected to attract is 6.7% - a relatively modest share, with 93.3% of available expenditure continuing to be directed to the existing network.

Again, I make the point that whether or not the actual sales achieved by the new supermarket were to be a little higher or a little lower than estimated by Deep End, this would not result in any material change to the conclusions drawn in the EIA.

Finally, I turn to the question of estimated trading impacts which are set out in Table 9 at page 14 of the EIA. These show percentage impacts, on the FLG retail category, ranging from -9.6% at Belmont Town Centre to -1.8% on the Warners Bay town centre.

The question of impacts across a range of centres is a zero sum game – if it is postulated, for example, that the impact likely to be experienced by a particular centre will be greater than that which is estimated in the EIA, then it must follow that the impacts on one or more of the remaining centres will be smaller than shown in the EIA – unless the estimated total sales expected to be diverted in aggregate from all of the competitive centres is significantly in error, which I do not consider to be the case in this instance.

In my view, the estimates of sales diversion shown at Table 9 of the EIA appear to be reasonable, and reflect the pattern that I would expect to see given all of the circumstances, in particular the likelihood that the closest and most comparable traders/centres (in this instance the closest chain supermarkets) are likely to carry a greater than pro-rata share of the impact.

2.4 Conclusions drawn

The key conclusions drawn in the Deep End EIA are set out at Section 3.2 under the sub-heading *Trading impacts*.

With respect to trading impacts, Deep End concludes that the average impacts across the catchment area will be in the order of 7.1% for FLG retailers and 5.3% on an overall basis. Deep End further concludes that the proposed development will not have an unreasonable detrimental economic impact on the commercial viability of any existing centre.

I consider that the above conclusions drawn by Deep End are reasonable and supportable having regard to each of the other components within the EIA that I have outlined above.

With regard to other economic effects, Deep End focuses primarily on new employment creation, and estimates that – excluding construction related employment - in the order of 125 full time equivalent jobs will be created as a result of the redevelopment, 100 of which will result directly with a further 25 being generated indirectly in related supplier industries. Construction of the project will clearly result in significant additional employment, estimated by Deep End to be some 125 direct jobs and a further 265 indirect jobs during the construction phase. I agree that substantial additional employment will result from the project and the Deep End estimates of such employment are reasonable.

Deep End also draws the further conclusion that the development will enhance the range and choice available to residents in the area by providing an additional and new to Australia supermarket offer. I agree with this conclusion, which I consider to be self-evident.

Finally, in Section 4.1 *Summary of opinion*, Deep End points to the strategic location of the subject site and the redevelopment opportunity that the proposal will represent as Bunnings vacates the site as well as the downward pressure on food and grocery prices that the surrounding community can reasonably expect to see with the introduction of Kaufland. This last point is, in my view, of great importance from the viewpoint of net community benefit.

3. Dimasi analysis

I previously indicated at page 6 of this report that with regard to the data and information utilised in the Deep End EIA there are what I consider to be three critical elements, namely:

- the estimated population levels, both current and future;

- the estimated expenditure volumes on <u>take-home food, packaged liquor and groceries</u> (FLG) generated by those population levels, since supermarkets compete for take-home food & groceries expenditure plus packaged liquor; and

- the existing provisions of retail, and especially FLG being primarily supermarket, floorspace.

As detailed previously, I have inspected the various supermarkets and retail centres/precincts within the defined trade area for the purpose of this review, and I conclude that the estimates of existing provisions of retail floorspace as set out in the EIA are reasonable. I have also undertaken my own investigations in relation to each both population levels and retail expenditure capacity. First, with regard to trade area population levels, Table 1 below shows the relevant data sourced from the most recent Census of Population & Housing (2016) as well as my estimates of population levels at 2018, based on the most recent inter-censal estimates published by the ABS. My population numbers correlate almost identically with those utilised in the EIA.

Table 1
Belmont North Trade Area Population, 2016 - 2018

Sector	<u>Population*</u>	
	2016	**2018**
Primary	30,991	31,065
<u>Secondary:</u>		
North	17,456	17,520
South	<u>14,493</u>	<u>14,613</u>
Total Secondary	**31,949**	**32,133**
Main Trade Area	**62,940**	**63,198**

As at June 30
Source: ABS Census 2019 & ABS Estimated Resident Population, 2018

Next, I turn to the level of FLG expenditure generated by the trade area population. In order to estimate this expenditure, which I have set out in Table 2 below, I have utilised the detailed retail expenditure data set that is made available by MarketInfo, which is a robust, independent assessment of retail expenditure by Australian households by fine category on a small area basis. The MarketInfo estimates are used widely throughout the retail analytics sector.

Table 2

Belmont North Trade area

Estimated Food, Packaged Liquor and Groceries Expenditure, 2018

Sector	Popn.	FLG Exp. Per Cap.	F&G Exp. $m.
Primary	**31,065**	**6,656**	**206.8**
Secondary:			
North	17,520	6,430	112.7
South	14,613	6,559	95.8
Total Secondary	**32,133**	**6,489**	**208.5**
Main Trade Area	**63,198**	**6,571**	**415.3**

Source: MarketInfo

Again, my estimates of FLG expenditure by the trade area population correlate very closely with those adopted by Deep End in the EIA.

Overall, I consider that the Deep End EIA of the proposal is based on a sound methodological approach and the data utilised are accurate. I also consider that the conclusions reached are reasonable and follow logically from the data and analysis. In my view a net community benefit will result from the proposed development.

Appendix 1: Curriculum Vitae

TONY DIMASI

Managing Director, Dimasi & Co.

Contact

+61 409 216 450
contact number

dimasi@bigpond.com
Email

in linkedin.com/in/tony-dimasi

Qualifications

- Bachelor of Arts (Hons.),
  University of Melbourne
- Master of Arts,
  University of Melbourne

Tony graduated with Honours and Masters Degrees in Economics and Mathematics from the University of Melbourne, where he also taught Economics and Statistical Methods for a number of years.

In 1982 he commenced work as a consultant in the then emerging field of retail and property economics, and for the past 35 years he has provided independent analysis and advice to shopping centre owners and developers, retailers, service providers and public authorities. Over that time Tony has had the opportunity to work extensively with most of Australia's shopping centres and retail precincts, and also most of the country's major retailers, participating first hand in the development and evolution of the Australian retail sector, and particularly the shopping centre industry.

As a micro-economist, Tony's emphasis in his work over the past four decades has been on the ever changing needs and wants of the consumer, which philosophically he has always regarded as being the essential underpinning of economic analysis for the retail sector.

Tony has worked across all parts of Australia and New Zealand, and has provided advice in relation to virtually every significant activity centre location in both countries. The range of projects has included CBD properties; super regional centres; regional and sub-regional centres; district and neighbourhood centres; homemaker retail facilities; freestanding stores; and all other retail formats, as well as commercial and industrial precincts.

Tony has also advised extensively on optimal retail and related services provisions to support major education and health facilities, including universities and hospital/health precincts. He has also advised widely on non-retail development projects, including residential and industrial projects, dairy processing, cattle export facilities, and poultry farming.

Tony appears regularly as an independent expert in state planning courts and tribunals across all states of Australia and in New Zealand, including:

- The Administrative Appeals Tribunal (AAT) of Australia;
- Independent Ministerial Panels and VCAT in Victoria;
- The Land and Environment Court of New South Wales;
- The Planning and Environment Court of Queensland;
- The State Administrative Tribunal in Western Australia;
- The Environment, Resources and Development Court of South Australia;
- The Liquor Licensing Court of South Australia;
- The Petroleum Products Retail Outlets Board of South Australia;
- The Resource Development Planning Commission in Tasmania; and
- The Environment Court of New Zealand.

He has also appeared regularly as an independent expert in federal parliamentary inquiries, including the Joint Parliamentary Inquiry into the Australian Retail Sector (Baird Inquiry); in ACCC hearings, including the Inquiry into the Competitiveness of Retail Prices for Standard Groceries in 2008; as well as Federal and County Court hearings.

He is also a regular conference speaker and columnist in retail industry publications.