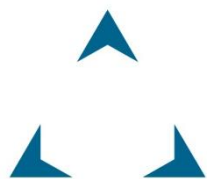


**East Chatswood Industrial
Precinct Review**

Woolworths Limited

**Final
July, 2012**



AECgroup

Outcome Driven

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Executive Summary

Background

Fabcot Pty Ltd (Woolworths Limited's retail property division) purchased 17-19 Smith Street, East Chatswood in 2010. The site is located in the East Chatswood Industrial Area and has been vacant since 2010. Woolworths Limited submitted a Planning Proposal to Willoughby City Council to allow a supermarket and liquor outlet to be developed on the site.

The 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 has been engaged to conduct an economic review of various planning documents and to identify the various economic and community benefits stemming from the potential development.

Planning Proposal

The site has an area of 4,377sqm and occupies almost the entire block surrounded by Smith Street, Lower Gibbes Street, Short Street and Alleyne Street with the exception of 2 Short St which is occupied by a car service centre. 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.

Economic Review of Planning Context

There is a variety of planning documents that are relevant for the proposed development, specifically the Willoughby Industrial Areas Study (2004) and the Review of the Planning Proposal 17-19 Smith Street (2012), as well as recent documents relating to the Employment Lands Task Force.

Willoughby Industrial Areas Study (2004)

This study considered the two main industrial areas in Willoughby City Council, Artarmon and East Chatswood. The study makes a series of recommendations and concludes that there is a 'critical' shortage of service industrial land. The report indicates that there will be future demand for 55ha of service industrial land on the Lower North Shore. The report clearly identifies the need to maintain all industrial land.

While there are a number of issues with the report, there are two critical factors that are a cause for significant concern and impact the validity of the recommendations:

- **Baseline data is out of date:** The study is based on 2003 population estimates and projections as well as Census 2001 data. The area has changed since 2001 and any recommendations based on data from this time period should be used with extreme caution.
- **Ratios used to determine future industrial land demand vary and provide results that are questionable:** The report contains four different ratios that are applied to current and future population figures in order to determine demand for industrial land. Additionally, the projections vary significantly and provide results that would not seem plausible (Table E.1 and Table E.2). Assertions that current (2003) levels of supply are between 87%-95% lower than demand would not seem possible, particularly across the entire North Shore region. Interestingly, if the benchmark ratio of 1.6sqm per capita (current provision in 2003) is used, it shows an oversupply of 2ha of service industrial land.

Table E.1: Current Service Industrial Land Supply and Demand Analysis

	Population (2003)	Per Capita Benchmark of Service Industrial Land			
		1.6 sqm	12.9 sqm	18 sqm	35 sqm
Ku-ring-gai	107,655	172,248	1,388,750	1,937,790	3,767,925
Land Cove	32,086	51,338	413,909	577,548	1,123,010
Mosman	27,851	44,562	359,278	501,318	974,785
North Sydney	58,713	93,941	757,398	1,056,834	2,054,955
Willoughby	61,795	98,872	797,156	1,112,310	2,162,825
Total	288,100	460,960	3,716,490	5,185,800	10,083,500
Surplus/Deficit (sqm)		-19,040	3,236,490	4,705,800	9,603,500
Surplus/Deficit (ha)		-2	324	471	960
Surplus/Deficit (%)		-4%	87%	91%	95%

Note: The study highlights an existing supply of 48 ha of service industrial land (page 128). % surplus/deficit measures the amount of demand that is unmet by supply.

Source: SGS (2004); AECgroup

Table E.2: Future Service Industrial Land Supply and Demand Analysis

	Population (2021)	Per Capita Benchmark of Service Industrial Land			
		1.6 sqm	12.9 sqm	18 sqm	35 sqm
North Shore Region	330,000	528,000	4,257,000	5,940,000	11,550,000
Surplus/Deficit (sqm)		48,000	3,777,000	5,460,000	11,070,000
Surplus/Deficit (ha)		5	378	546	1,107
Surplus/Deficit (%)		9%	89%	92%	96%

Note: The study highlights an existing supply of 48 ha of service industrial land (page 128). % surplus/deficit measures the amount of demand that is unmet by supply.

Source: SGS (2004); AECgroup

The report points to a 'scarcity' of industrial land on the Lower North Shore pointing to a 'desirable' supply of between 594ha-1,155ha for a population of 330,000 in 2021. Given that the existing provision of industrial land is 48ha for the current population of 288,100, the projected level of demand means either there is a major current market failure in current supply, or that the methodology use to determine the 'desirable' supply is flawed.

The results of the quantitative analysis in the report are irregular and any recommendations based on these calculations should be used with caution.

Review of Planning Proposal 17-19 Smith Street East Chatswood (2012)

This report provides a review of the planning proposal 17-19 Smith Street, East Chatswood. The review considers alternative sites and recommends two specific sites that "are probably the most viable alternative options (page 46)." The two sites identified are 173, 197 Victoria Avenue and 243 – 245 Penshurst Street:

- **173, 197 Victoria Avenue:** this site includes two properties. The first has an existing three storey, residential building on it and the second has a former Bunnings Warehouse. It is problematic to assume that these two properties could be easily amalgamated and that displacing residents to allow for commercial development is desirable. Additionally, given the existing structures on the sites, acquiring them may prove cost prohibitive.
- **243 – 245 Penshurst Street:** This site current houses the Australian Legion of Ex-Servicemen and Women and includes club facilities, bowling greens and the associated parking. It may be unlikely that the club would divest itself of part of its property holdings for a supermarket. Furthermore, Council would need to consider whether it would wish to replace community facilities with commercial facilities.

The development potential of both of these sites is considerably hampered by ownership issues as well as existing uses and structures. While potentially attractive from a planning perspective, the actual potential of developing a supermarket on these sites is highly unlikely.

The review does not dispute any of the economic arguments in support of the development.

Employment Lands Task Force Report (2012)

One of the key issues raised in the report is the need for industrial zones to provide sufficient flexibility in order to meet modern employment opportunities and facilitate new development and renewal in existing industrial zones. The report highlights the changing nature of many industrial precincts in Sydney with many contemporary industrial uses having relatively low-impacts that are compatible with other employment generating uses, such as large-format retailing and stand-alone offices.

The report highlights the need to increase the flexibility of industrial zones by increasing the range of mandatory permissible uses, allowing additional local uses in specialised locations.

This flexibility is necessary in order to ensure that traditional industrial areas in great proximity to the Sydney CBD can transform and contribute positively to the community.

NSW Government Response to the Employment Lands Task Force Report (2012)

This factsheet provides a response to the Employment Lands Task Force. It acknowledges the need for more flexibility in industrial areas to facilitate investment and employment outcomes. The response identifies that issue will be referred to the Local Planning Panel for consideration.

Economic and Community Benefits

The proposed development of a supermarket at 17-19 Smith Street, East Chatswood will create economic and community benefits, including:

- **Employment creations:** the development will create 176 jobs in an area that has suffered from a lack of employment and investment.
- **Transitioning nature of traditional industrial areas:** industrial development is highly unlikely to take place given current market dynamics. Two storey, small scale industrial units provide a negative 16.5% return on investment. The market factors that impair the feasibility of development are unlikely to change in the future. In order for any investment and employment generation to take place in the East Chatswood estate, other non-industrial land uses will be required.
- **Catalyst for redevelopment:** adding the retail amenity of a supermarket could help to encourage higher levels of office development, thereby acting as a catalyst for redevelopment of the estate.
- **Community support:** surveys of the community show that they are 67% in favour of the development proceeding. The support is likely based on the convenience and amenity that having a supermarket is such close proximity offers.
- **Reduced traffic to Chatswood CBD:** having another local supermarket could help to reduce traffic to the Chatswood CBD by having local residents shop at East Chatswood instead of having to travel to the Chatswood CBD.
- **Consumer choice:** currently, there is limited choice in terms of supermarkets within the LGA with only Coles and IGA represented. Adding another supermarket will encourage competition, which can ensure that residents have access to the best service and prices.

The proposed development provides considerable economic and social benefits to the community beyond its current vacant and derelict state.

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1. Introduction

1.1 Project Background

Fabcot Pty Ltd (Woolworths Limited's retail property division) purchased 17-19 Smith Street, East Chatswood in 2010. The site is located in the East Chatswood Industrial Area and has been vacant since 2010. Woolworths Limited submitted a Planning Proposal to Willoughby City Council to allow a supermarket and liquor outlet to be developed on the site.

The 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. Council's assessment was informed by a review of the planning proposal undertaken by SGS Economics and Planning, the 2004 Willoughby Industrial Areas Study and other planning documents.

1.2 Purpose of the Study

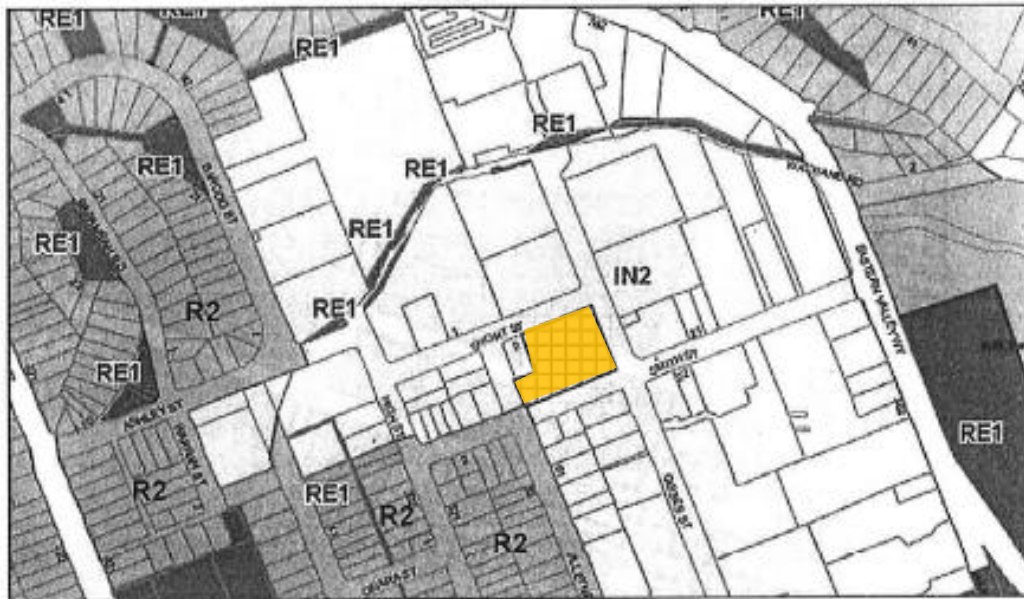
The purpose of the study is to undertake an economic review of planning reports to evaluate the findings and implications relating to the East Chatswood Industrial Area and its future development.

The study also comprises an economic assessment of the Planning Proposal to identify and evaluate its community and economic benefits.

2. Planning Proposal

Woolworths Limited submitted a Planning Proposal to Willoughby City Council to amend planning controls to allow a supermarket and liquor shop at 17-19 Smith St, East Chatswood within the East Chatswood Industrial Area. The site has an area of 4,377sqm and occupies almost the entire block surrounded by Smith Street, Lower Gibbes Street, Short Street and Alleyn Street with the exception of 2 Short St which is occupied by a car service centre.

Figure 2.1: Proposed Site



Source: Willoughby Council

The Planning Proposal submitted by Woolworths Limited sought to amend the Willoughby Local Environmental Plan 1995 to allow for the development of supermarket retail on the site. At present the subject site is zoned 4(b) Light Industrial, in which supermarkets (not separately defined but covered by the definitions of 'shops') are not a permissible land use. The planning proposal seeks an enabling clause in the 4(B) zone as part of the current LEP to allow supermarkets as a permissible land use. The proposal also requests that this should also apply to any zoning changes to be carried over into the draft Willoughby Local Environmental Plan 2009.

Woolworths submitted an indicative concept plan as part of the Planning Proposal that included a "full line" supermarket and liquor outlet totalling 3,950sqm and 184 parking spaces in two levels of underground car park.

Table 2.1: Indicative Concept Plan

Component	Approximate GFA
Supermarket	3,650sqm
Mezzanine	200sqm
Loading	100sqm
Total	3,950sqm
Parking	
CP1 Level	92 spaces
CP2 Level	92 spaces
Total	184 spaces

Source: Woolworths

3. Economic Review of Planning Context

This section provides an overview of existing planning studies that relate to the East Chatswood Industrial Estate and broader metropolitan planning documents. Documents reviewed include:

- Willoughby Industrial Areas Study (2004)
- Review of Planning Proposal 17-19 Smith Street East Chatswood (2012)
- Employment Lands Task Force Report (2012)
- NSW Government Response to the Employment Lands Task Force Report (2012)

3.1 Willoughby Industrial Areas Study (2004)

3.1.1 Background

SGS Economics and Planning was commissioned by Willoughby City Council to undertake a study of industrial land in the Willoughby LGA including the Artarmon and East Chatswood industrial precincts.

3.1.2 Approach

SGS conducted a comprehensive process including research and analysis, consultation and surveying. An assessment of supply and demand was conducted that considered existing uses, recent trends and benchmarks to determine appropriate levels of existing and future supply based on population levels. This approach does not include any actual modelling of future demand based on population, employment or future economic activity.

The use of simple population based ratios can potentially lead to misleading results, as population is often not the best driver for future industrial activity. There are numerous factors which can impact on the future demand for industrial land, including globalisation, use of technology and the changing landscape of manufacturing and industrial activities in Australia. The report discusses some of these issues but fails to account for them in the demand projections.

3.1.3 Assumptions Used

The Willoughby Industrial Areas Study was prepared during 2004 and based largely on socio-economic data from the 2001 Census, which is now eleven years old. Data has now been released from the 2011 Census providing updated information relating to characteristics of the resident population, workforce and in the future industrial employment. The out-dated data used to inform the analysis and findings in the study is a concern and could potentially limit the validity of the findings in the current economic environment.

SGS Economics and Planning 'observed' a need for 18sqm per capita of service industry land in the catchment area. There is no quantitative justification for this benchmark but rather a statement that "From previous work on industrial land supply and demand, SGS has observed typical service industrial land per capita ratios of around 18sqm per capita (page 11)". The quantitative evidence provided in the report (Table 2, page 11) shows the ratio for Willoughby to be 12.9sqm per capita in 2003. Additionally, the report later states "an absolute maximum up to perhaps 35 sqm per capita (page 85)". Again, no quantitative evidence is provided for this assumption. Finally, on page 128 the ratio of 1.6sqm per capita is identified. This range of benchmarks provides a substantial range of potential demand for industrial land.

Additionally, the existing supply points towards 48ha of existing service industrial land based on what can be seen as highly approximated estimates such as "Say 20% (page 128)" as opposed to an actual figure from a land audit of existing activities.

3.1.4 Findings

The study found that there is a 'scarcity' of industrial land in the Lower North Shore. This was based on comparing the benchmark need of 594-1,155ha of service industry land based on the benchmark of 18sqm and 35sqm, respectively. The report also identifies a future demand of 55ha based on a future population of 330,000 (benchmark 1.6sqm per capita). The study identifies a total supply of industrial land of approximately 142ha with an approximate supply of 48ha of service industrial land.

AECgroup has used the population, various benchmarks and existing service industrial land as identified in the study to demonstrate the variance in resultant demand for land, ranging from an oversupply of 19,000 sqm to an undersupply of 10.0 million sqm.

The study identifies a 'scarcity' of industrial land, however, at the time of the 2004 study, an estimated 22% of the total land area within the East Chatswood Industrial Area was vacant. It is highly unlikely that a chronic shortage of industrial land (between 87% and 95% of demand) has ever existed. The more plausible scenario is that demand levels were considerably lower, in line with the benchmark of 1.6sqm, which would align more with the 22% of vacant land in the East Chatswood Industrial Area.

Table 3.1: Current Service Industrial Land Supply and Demand Analysis

	Population (2003)	Per Capita Benchmark of Service Industrial Land			
		1.6 sqm	12.9 sqm	18 sqm	35 sqm
Ku-ring-gai	107,655	172,248	1,388,750	1,937,790	3,767,925
Land Cove	32,086	51,338	413,909	577,548	1,123,010
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Surplus/Deficit (%)		-4%	87%	91%	95%

Note: The study highlights an existing supply of 48 ha of service industrial land (page 128). % surplus/deficit measures the amount of demand that is unmet by supply.

Source: SGS (2004); AECgroup

Table 3.2: Future Service Industrial Land Supply and Demand Analysis

	Population (2021)	Per Capita Benchmark of Service Industrial Land			
		1.6 sqm	12.9 sqm	18 sqm	35 sqm
North Shore Region	330,000	528,000	4,257,000	5,940,000	11,550,000
Surplus/Deficit (sqm)		48,000	3,777,000	5,460,000	11,070,000
Surplus/Deficit (ha)		5	378	546	1,107
Surplus/Deficit (%)		9%	89%	92%	96%

Note: The study highlights an existing supply of 48 ha of service industrial land (page 128). % surplus/deficit measures the amount of demand that is unmet by supply.

Source: SGS (2004); AECgroup

The study attempts to address the issue of the transitional nature of older industrial estates. There is considerable discussion of the transitioning nature of manufacturing in Australia and in the local area, the increase demands of bulky goods retailing, the increasing demand for higher proportions of office space and more of a 'high tech' nature of manufacturing. However, the study fails to identify development options that are feasible into the future. There is no consideration of development feasibility, market rents vs. investment costs and appetite for investment and job generation in the estate.

SGS Economics and Planning recommended that all industrial land in the East Chatswood Industrial Area be retained for industrial uses due to the perceived shortage of industrial land in the Willoughby LGA and wider Lower North Shore region. Given the assumptions used, these recommendations may be inaccurate. Additionally, given the time that has passed since this analysis was conducted, the findings and recommendations should be considered with a high degree of caution.

Subsequent market activity and development trends do not support the findings and recommendations of the SGS report. If there were a significant shortage of service industrial land, the market would react with high prices, which would have triggered development of remaining parcels in the estate as well as redevelopment of existing properties.

3.2 Review of Planning Proposal 17-19 Smith Street East Chatswood (2012)

3.2.1 Background

SGS Economics and Planning was commissioned by Willoughby City Council to review the planning proposal for 17-19 Smith Street Chatswood. SGS Economics and Planning reviewed the planning proposal and supporting information submitted by Duane Location IQ and Jones Lang LaSalle as part of the planning proposal.

3.2.2 Approach

SGS Economics and Planning states that the review “does not constitute a full peer review as it has not included any parallel modelling or major quantitative analysis. It mainly focuses on the supporting documentation and the case for the proposal (page 3).” As such, this document provides only qualitative discussion and review of the planning proposal.

3.2.3 Findings

The report points to numerous planning studies and concepts to confirm the refusal of the planning proposal. The review does not dispute any of the economic arguments contained in the planning proposal.

Site Assessment

Willoughby City Council nominated 14 possible alternative sites to the subject site in Smith Street. As part of the report, SGS Economics and Planning assessed the sites against six criteria including their practicality, location, their position within council policy and the metropolitan planning framework and what their constraints were.

“The site assessment indicates that taking into account all factors, Sites 1 and Site 11 are probably the most viable alternative options to the subject site at East Chatswood. These sites do however offer a genuine alternative and have many beneficial attributes, not present in the subject site at East Chatswood. Both alternate sites are located in close proximity to each other as well as the subject site and the assumed trade catchment boundaries. (page 46)”

Site 1

Site 1 is located at 173, 197 Victoria Avenue and comprises a total area of 4,384sqm. The subject site contains a three storey residential flat building, whilst the western part of the site is a former Bunnings Warehouse which moved premises to East Chatswood. The assessment of the site by SGS Planning and Economics found that:

“Assessment of potential: **If amalgamated**, the site has considerable potential as a supermarket site. The majority of the site was formerly used for a Bunnings Warehouse. The area has good public transport access and connectivity and is within an already identified commercial zone.

Assessment against the subject site: In terms of location, transport and current zoning, the site is in a more desirable location than the site at East Chatswood. **Disadvantages of the site are the potential traffic impacts and the complex site ownership issues.** (page 54)”

While the assessment has some merit, some critical factors were overlooked. Assuming the two sites can be easily amalgamated is flawed, not only because different owners may have different views and require different price points to acquire the land, but there are existing structures on the sites. These structures have inherit value to the owners, making the purchase of each individual sites potentially costly and development of a supermarket cost prohibitive. Additionally, the residential development may be strata titled, multiplying the ownership issues. Finally, Council needs to be prepared to advocate displacing residents in order to allow for commercial development. The assumption that the simple acquisition and demolition of the existing structures would in any way yield a commercially viable development is not practical.

Alternatively, 17-19 Smith Street, East Chatswood has an owner that is keenly interested in developing the site now.

Site 11

Site 11 is located at 243 – 245 Penshurst Street and comprises a total area of 13,209sqm. The site is currently used by the Australian Legion of Ex-Servicemen and Women. The site consists of recreational space used for bowling greens, a large car park and the buildings associated with the club.

The assessment of the site by SGS Planning and Economics found that:

“Assessment of potential: Site 11 has strong potential to accommodate a supermarket. The site is presently underutilised and has considerable space on a flat parcel of land with dual road access.

Assessment against the subject site: Site 11 compares very well against the subject site. Its attributes make it a genuine alternative site and in terms of location and centres policy it is more appropriate for a supermarket than the site in Smith Street East Chatswood. (page 60)”

As stated, the site is currently occupied by the Australian Legion of Ex-Servicemen and Women. While the density of development is not high, the site is used as an important community and recreational facility for the area. In this sense, the site provides a valuable community and social use. It should not be assumed that the club would be interested in divesting any of its property (i.e. a bowling green, existing car park or existing buildings) that its members currently use.

By contrast, 17-19 Smith Street, East Chatswood is current vacant and derelict, providing no economic or social value to the community.

Development Viability

The SGS Economics and Planning Report identifies the redevelopment of 25 Gibb Street as an example of a successful development that has been undertaken in the East Chatswood Industrial Area. The development was undertaken by Willoughby City Council and involved the redevelopment of the depot site with eighteen units of around 200 sqm each. SGS Economics and Planning notes that the units have been fully occupied in the five years since the development was completed with rents averaging between \$170 to \$200/sqm/pa (including outgoings).

AECgroup conducted a high level feasibility assessment to test the commercial feasibility of this type of development in order to assess the probably of future similar light industrial developments. The proposed Woolworth’s site has been used to assess the feasibility of developing several small warehouse/office units, specifically considering the development of 24, two-storey warehouse/office units with each unit averaging 200sqm.

Key assumptions used in the feasibility assessment include:

- A land value of \$500/sqm based on average land values reported by CBRE for the Sydney North area in the December Quarter 2011. This equates to a land value of \$2.19 million for the Woolworths site, which has a land area of 4,377sqm.
- Demolition costs of \$66/sqm for the existing building on the site based on estimates from the Rawlinsons Construction Handbook, equating to an estimated cost of \$184,000.
- A site building footprint of 55% with the remaining area of the site used for parking.
- Building costs of \$1,960 for two-storey warehouse/offices based on estimates from the Rawlinsons Construction Handbook, equating to an estimated cost of \$9.44 million.
- Open car parking construction costs of \$93/sqm based on estimates from the Rawlinsons Construction Handbook, equating to an estimated cost of \$177,000.
- Statutory fees of \$20,000 (associated with planning and building approval) and professional fees (including design, planning and legal fees) equating to 8% of construction costs.
- An interest rate of 8% with holding interest over 18 months during the planning, construction and selling phase.
- Average rental rates of \$200/sqm/pa based on average rents in the East Chatswood Industrial Area with a yield of 9% applied to rents to calculate the capitalised value of the development.

Table 3.3: Feasibility of Industrial Development

	Option 2
Capitalised Costs	
Land Cost	\$2,188,500
Demolition Costs	\$183,834
Building Costs	\$9,436,812
Parking Costs	\$177,269
Statutory Fees	\$20,000
Professional Fees	\$783,833
Capitalised Interest	\$1,534,234
Less GST Input Tax Credits	\$1,279,025
Sub-Total	\$13,086,981
Capitalised Revenue	
Revenue	\$10,164,367
Less Selling Costs	\$482,807
Less GST payments	\$1,016,437
Sub-total	\$8,665,123
Development Profit (\$)	-\$4,421,859
Sales margin (%)	-33.8%
Return on Investment	
Capitalised costs	\$11,511,223
ROI (\$)	-\$2,846,100
ROI (%)	-16.5%

Source: Rawlinsons (2012), AECgroup

Based on the feasibility assessment (Table 3.3), if the developer was able to lease the units for \$200/sqm/pa, the development would have a negative return of -16.5%. Generally, a return on investment of 15% is considered the minimum rate of return that a property developer would require to make a project financially attractive. In order to achieve a return on investment of 15%, a developer would need to achieve an average rent of \$325.

Further analysis shows that the feasibility of this development is unlikely to change in the future. The market would require real annual growth of 5.0% over ten years to reach a rent of \$325. However, construction costs are currently escalating at a faster rate (4.1%) than inflation (2.9%)¹, so it would take longer than ten years for market rents to reach a level that would make the development viable. Unless market pricing changes dramatically, the feasibility of developing industrial units in East Chatswood will be challenging for some time.

AECgroup recognises that Council has been successful in developing a similar type of product in the estate. However, it would appear that Council accepted a return on investment that was lower than what is commercially viable and/or may not have fully accounted for the market value of the land, having likely owned the land for some time.

This assessment has presented alternative sites for a supermarket that would be preferred from a planning perspective. In reality, neither of these sites is suitable given the difficulties around ownership and their current uses. Furthermore, AECgroup's high level feasibility assessment demonstrates that industrial development in the form of small, individual, 2-storey units is highly unlikely in the foreseeable future. Using the Council development as a case study and evidence of future potential is misleading. This assessment demonstrates a lack of understanding and appreciation of property development.

3.3 Employment Lands Task Force Report (2012)

3.3.1 Background

The Employment Lands Task Force is an industry and multi-agency group which was formed early in 2011, following an action in the Metropolitan Plan for Sydney 2036. The Task Force is chaired by the Director General of the Department of Planning and Infrastructure and includes senior representatives from industry groups, local government and state government. The purpose of the Task Force is to advise on strategies, policies and implementation actions to secure appropriate development of employment lands in NSW to underpin jobs and economic growth.

3.3.2 Approach

Based on input from independent members of the Employment Lands Task Force, the report identifies several issues relating to employment land planning that need to be addressed.

3.3.3 Findings

The report found that current stocks of employment lands at different stages of the development cycle (i.e. strategy identified, undeveloped zoned and unserviced land) are adequate to meet supply standard benchmarks. However, the report found that the levels of serviced land is currently inadequate, which puts the focus on developing services to existing stocks of industrial zoned land.

One of the central issues that the report addresses is improving the flexibility of industrial zones.

Improve Flexibility in Industrial Zones

One of the key issues raised in the report is the need for industrial zones to provide sufficient flexibility in order to meet modern employment opportunities and facilitate new development and renewal in existing industrial zones. The report highlights the changing nature of many industrial precincts in Sydney with many contemporary industrial uses having relatively low-impacts that are compatible with other employment generating uses, such as large-format retailing and stand-alone offices.

¹ Construction cost escalations sourced from Rawlinsons Construction Handbook. Inflation sourced from ABS for the year ending March 2012.

The report highlights the need to increase the flexibility of industrial zones by increasing the range of mandatory permissible uses, allowing additional local uses in specialised locations.

It is this flexibility that is needed to facilitate development within traditional industrial areas that are undergoing change. While retail development was not compatible with other industrial land users in years gone past, the transition towards 'high technology' uses in areas such as the East Chatswood Industrial Area has resulted in opportunities for retail development to drive economic growth and employment generation in these areas. East Chatswood needs to continue its on-going transition to consider office and retail uses that can provide employment, investment and greater levels of economic and social benefits to the community.

Additionally, the report also addresses issues relating to employment in Western Sydney. There is a distinct focus on generating employment growth in Western Sydney, including the provision of employment lands and highlights that 50% of future employment growth for the Sydney Metropolitan Region will be in Western Sydney.

3.4 NSW Government Response to the Employment Lands Task Force Report (2012)

3.4.1 Background

The Employment Lands Task Force Report outlined several issues relating to employment land planning recommended to be addressed that were identified by independent members of the Employment Lands Task Force. This report summarises the Government's response to these issues.

3.4.2 Approach

Following the submission of the Employment Lands Task Force Report, the NSW Government prepared a three page fact sheet responding to the report. The NSW Government focussed on responding to each of the issues raised by the independent members of the Employment Lands Task Force.

3.4.3 Findings

The fact sheet outlines what the Government is doing to address each of the issues raised, including the improved flexibility in industrial zones.

Improve Flexibility in Industrial Zones

One of the key issues raised in the report is the need for industrial zones to provide sufficient flexibility in order to meet modern employment opportunities and facilitate new development and renewal in existing industrial zones. The NSW Government's response to the Employment Lands Task Force is that the issue will be referred to the Local Planning Panel for consideration.

The NSW Government proceeds to highlight that there are several employment related zones in addition to the traditional industrial zones. These include B5 Business Development, B6 Enterprise Corridor and B7 Business Park zones that allow for more business-related flexible uses in combination with light industrial or warehouse uses. The NSW Government argues that the range of industrial and business zones together give Councils improved flexibility in planning for current and future industrial locations and uses.

In the draft Willoughby Local Environmental Plan, the East Chatswood Industrial Area is proposed to be zoned IN2-Light Industrial. The changing nature of industrial estates, particularly those with great proximity to the urban core (i.e. City of Sydney), need to consider non-industrial uses in order to generate the highest and best economic and social benefits for their communities.

4. Economic and Community Benefits of Planning Proposal

This section outlines the various economic and community benefits of the planning proposal for 17-19 Smith Street, East Chatswood.

4.1 Employment Creation

Woolworths estimates the proposed development would create 176 jobs, which would be a significant boost for the local economy. While the development of the site could generate an estimated 150 jobs if it was used for 'high tech' manufacturing, it is important to note that the site (and several other large sites in the East Chatswood industrial precinct) remain vacant and are not facilitating any employment. These vacant sites depress the local economy through their underutilisation and lack of any economic activity.

SGS Economics and Planning assert that employment in a new supermarket development typically "transfers" employment that would occur elsewhere in the retail "system". While this would be accurate if the population remained static, it is not the case in terms of a growing population. Willoughby City Council area has been growing the fastest out of all the North Shore, having added over 9,000 new residents (or 15.5%) since 2001. Adding more residents adds the requirement for more retail provision, which provides a stimulus for net new employment, since the existing retail provision remains.

Table 4.1: Feasibility of Industrial Development

LGA	2001	2006	2011	Growth (2001-2011)	Average Annual Growth
Ku-ring-gai	100,152	101,083	109,297	9.1%	0.9%
Lane Cove	30,340	30,427	31,510	3.9%	0.4%
Mosman	25,475	26,236	27,453	7.8%	0.8%
North Sydney	54,970	58,257	62,289	13.3%	1.3%
Willoughby	58,319	63,605	67,356	15.5%	1.5%
Total	269,256	279,608	297,905	9.9%	0.9%

Source: ABS (2011)

Additionally, the retail and economic impact analysis undertaken by Location IQ concludes the development of the proposed supermarket would have a relatively low impact on nearby centres. As such, the development is expected to have a relatively low impact on the number of people employed in the nearby centres. Indeed, should the impact on nearby centres be within normal trading ranges, there may be no loss of employment. Therefore, the creation of the estimated 176 jobs is expected to result in a low transfer component and strong 'net' employment generation for the area.

17-19 Smith Street, East Chatswood was previously a service centre for a Holden dealership. The building and site are specialised for a service centre with building structures catering for automotive repair, small reception/service centre for customers and considerable parking. This site configuration is not easily adapted to other processes or non-automotive related businesses. In particular, this configuration does not suit 'high tech' manufacturing industries and would not be attractive to them. While likely well suited to a dealership for service and repair, not being located adjacent to the sales centre would likely create some issues as having the service next to the sales would create a number of synergies from the business's perspective. Given the limited potential future use of this site and the challenges to redevelop the property for industrial use, it is likely that this site would sit vacant in the future.

4.2 Transitioning Nature of Traditional Industrial Estates

The nature of traditional industrial estates in great proximity to capital cities is currently transitioning from former industrial uses (with some buildings 50 years old or older) to newer uses more conducive to their current location and contributing considerably more economic and social benefits for the community. Many traditional industrial areas are converting to residential, commercial (office) and retail, creating vibrant mixed-use developments and helping these communities to remain vibrant places. In many cases, these traditional industrial areas become completely vacant and derelict, creating no value for their communities.

This trend can be seen in Melbourne, Brisbane and Sydney.

Melbourne

In Melbourne, industrial development has been attracted to the Outer West and South East regions and is a rarity in close proximity to Melbourne. These outer lying regions include areas like Wyndham and Greater Dandenong, which both consume an average of close to 50 ha of industrial land per year, compared to areas like Maribyrnong and Yarra, which are older, more traditional industrial areas directly adjacent to the City of Melbourne. Maribyrnong has seen decreasing demand for industrial land, while Yarra has actually converted industrial land into other uses, yielding a negative consumption rate. These areas have seen considerable redevelopment with residential, retail and commercial uses, which has reinvigorated the localities.

Table 4.2: Industrial Land Consumption in Melbourne (ha)

LGA	2006 to 2007	2007 to 2008	2008 to 2009	Average
Maribyrnong	5.4	5.3	2.5	4.4
Wyndham	37.7	52.1	37.0	42.3
Yarra	-0.0	-0.8	-0.3	-0.4
Greater Dandenong	62.0	51.6	54.2	55.9

Source: DPCD (2010)

In Collingwood (part of Yarra LGA), there has been considerable redevelopment of former industrial buildings that today house considerable residential, retail and commercial (office) components. This area was vacated by industrial users, who likely moved further to the South East to areas like Dandenong or Knox. By transitioning the area to other uses, the precinct has become a vibrant place for local residents. A brand new 3,500sqm Coles has been recently approved for development on Smith Street, directly adjacent to the former industrial area.

Brisbane

Brisbane's western corridor stretching out to Ipswich and including Carole Park, CitiSwitch, Synergy and Larapinta, has seen considerable industrial development over the recent past, while at the same time, the only industrial development to take place near the CBD is at the Australia Trade Coast precinct surrounding the Port and Airport. Similarly, industrial estates closer to the Brisbane CBD have started to transition into other uses.

A stand-alone Aldi supermarket has recently been developed at the front of a small industrial area along Bishop Street in Kelvin Grove, which is currently undergoing significant redevelopment.

The Brendale Industrial Estate is a large industrial estate approximately 16km north of the Brisbane CBD. The estate houses numerous industries that have been in existence for more than 50 years. As the population around the estate has increased over time, retail and bulky goods properties have started to develop. Today, there is a small shopping centre anchored by an IGA supermarket in the middle of the industrial estate. The supermarket provides amenity and retail convenience to many residents as well as the considerable amount of people that work in the estate. This precinct has become one of the major bulky goods destinations in the area and industrial properties continue to be developed on the western side of the estate. This example demonstrates how multiple

uses can be accommodated in the transitioning of traditional industrial areas that can generate numerous economic and social benefits for the community.

Sydney

The Sydney Metropolitan Region, Western Sydney has been identified for the majority of the future employment growth of the region, as highlighted by the Employment Lands Task Force. Norwest, Erskine Park, Eastern Creek and Greystanes have seen the majority of industrial development over the recent past, as these areas provide flexibility, cost advantages, proximity to workforce and greenfield development opportunities.

In the Southern Sydney area, the transition of traditional industrial areas is rapidly taking place. Green Square is converting areas that were traditionally industrial lands to residential, commercial (office) and retail. There have been a number of recent supermarket developments in Southern Sydney, including a Coles on Danks Road and an IGA at 68 McEvoy Street. Additionally, retail analysis identified suitable future demand for a total of 6 or 7 stores in the area, which historically was an industrial area.

In planning for the South Sydney development, the City of Sydney produced the Southern Industrial Area Land Use and Urban Design Study in 2008. As part of this study a retail analysis was conducted that highlights that it is 'reasonable' to have a stand-alone supermarket outside the Green Square Town Centre to allow residents, in the absence of any neighbourhood centres to access a full-line supermarket without needing to travel to a larger centre.

This Southern Sydney area is roughly the same distance away from the Sydney CBD as East Chatswood.

4.3 Catalyst for Redevelopment of Industrial Area

The development of the Woolworths Supermarket has the potential to act as a catalyst for the redevelopment and renewal of the East Chatswood Industrial Estate. There has been limited development within the industrial area in the last five years, which is evidenced by numerous old industrial buildings. The amenity of the local area is an important consideration for high technology companies that look for quality areas in order to assist in attract employees. Additionally, to support the recent commercial development on Smith Street and to encourage more commercial (office) development in the precinct, increasing amenity in the precinct by adding a supermarket would help.

Larger commercial developments with very high proportions of office space would be more feasible in the precinct from a development perspective, given the higher rents that these properties command. Adding a supermarket increases the local amenity, which would encourage these types of developments as workers can easily access food during the day for lunch as well as easily visit the store either before or after work to purchase groceries needed at home.

4.4 Community Support

Consumer research undertaken by Woolworths, involving the interviewing of 400 residents, found that there was strong support for the proposed development with a total of 68% of people in favour of the development (37% of people strongly supporting the proposal and 31% somewhat in favour).

These residents likely favour the convenience that the store would provide them personally as many of these residents likely travel greater distances to Chatswood or Northbridge currently. The results of this research point to the positive social benefits that can be expected from the development.

4.5 Reduced Traffic to Chatswood CBD

The development of the proposed supermarket would reduce traffic within the Willoughby LGA as residents in proximity to the East Chatswood Industrial Area would not have to travel as far to reach the nearest supermarket. This would generate benefits for local residents as well as environmental benefits as a result of lower travel times and fuel use. The supermarket would also reduce traffic congestion within the Chatswood CBD which is one of the major constraints of the centre.

Allowing residents to shop more locally in the East Chatswood area would be another step in reinvigorating this precinct. As these residents shop locally, there is no need to further constrain transport infrastructure and parking issues around the Chatswood CBD.

4.6 Consumer Choice

Currently, there are two Coles in Chatswood and an IGA Castlecrag. Providing another supermarket within the LGA will broaden consumer choice and increase competition, which will benefit consumers (i.e. residents) over the long term.

Increased competition puts downward pressure on prices and increases service levels. In terms of supermarkets, ensuring there is sufficient levels of competition locally will ensure that residents have access to the best services and prices available.

Summary

The proposed supermarket development at 17-19 Smith Street, East Chatswood will provide additional economic and social benefits for the community.

The development would employ 176 people, providing considerable employment creation into an area that has been losing employment. The site in question is currently vacant and not generating any employment. It is also worth noting that this level of employment is higher than the potential employment if the area was developed for 'high tech' industry (which AECgroup has demonstrated is highly unlikely).

Industrial development will predominately take place in Western Sydney, where larger and more suitable industrial precincts exist. Traditional industrial areas with proximity to the Sydney CBD need to consider the current transition of their nature and function. Numerous examples exist, where allowing these traditional industrial areas to transition to other uses such as residential, retail and commercial (office) has reinvigorated the local areas and generated numerous economic and social benefits for the community. These outcomes, while not ideal given the historic uses of these areas, are a dramatic improvement on current and likely future use. It is highly likely that the historical industrial uses will not return and unless other uses can be found, these lands risk becoming significantly underutilised and providing no benefit to the community.

The proposed supermarket would act as a potential catalyst for further redevelopment through the added amenity that it brings to the precinct, which is particularly important for more office intensive businesses. The community also supports the development, with 67% of residents surveyed favouring the supermarket being built. Many of these residents are likely in favour of the development because it is easier for them access and provides an alternative choice against the existing local options. Improving consumer choice can benefit residents because competition can ensure residents receive the best service and prices.

Overall, the proposed supermarket provides considerable economic and social benefits to the community.

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