

Tim Nott

Economic Analysis + Strategy

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Unchain St Kilda
St Kilda, Victoria 3182

Dear Sir

St Kilda Triangle Development – Economic Implications

Thanks for asking me¹ to provide independent comment on the economic implications of the current development proposal for the St Kilda Triangle site.

This letter provides comments on:

- the process undertaken to judge the net community benefit, particularly the economic impact of the development proposal
- the quality of the existing analysis of net community benefit
- the potential scale of the retail impact and its effect on neighbouring activity centres

In conclusion, the letter makes several recommendations for Council to consider. These relate, in particular, to the need for an adequate *independent* assessment of the likely economic impact of the development proposal.

1. Process

In determining whether to approve plans for significant commercial development in activity centres, planning authorities are bound by the State Policy Planning Framework to consider the “net community benefit” of any proposal (see clause 17.02 of the SPPF). The normal practice of planning authorities is to require the proponent to prepare an assessment of the net community benefit of their proposal. Where development proposals contain a significant retail component, a retail economic impact assessment usually forms a crucial part of the assessment of net community benefit. Such economic impact studies provide an analysis of the catchment area, retail supply and retail demand into the future, as well as quantifying the likely impact of the proposal on the trade and sustainability of other activity centres that may be affected by the change.

¹ I am an urban economist with extensive experience in the economic analysis of activity centres and the economic impact assessment of development proposals. I have worked as a consultant in this field since 1991 (at Henshall Hansen Associates, Essential Economics and Sinclair Knight Merz), including the past three years as a sole practitioner

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These assessments are made public and can then be scrutinised by interested third parties as well as by decision-makers. In many cases, the assessment of impact is contested: very few major retail development proposals are approved without alternative interpretations of economic impact being placed before decision-makers at Council, at VCAT or at a Panel hearing.

The **values of this process** are that:

- the proponents must make their case as to the net benefit to the community of their development
- parties who feel that they will disbenefit from the development have an opportunity to respond and to quantify how they will lose out
- decision-makers are able to weigh the evidence from both sides in order to reach an informed decision about net benefit
- the process is transparent
- decision-makers can make recommendations about how to ameliorate any specific disbenefits of a proposal, either by amending the proposal or through some other means

I note that in the approvals process for the development plan of the St Kilda Triangle site currently before Council, **no economic impact assessment has been prepared** by the proponent, nor by the Council. In this case, then, decision-makers cannot be fully informed about the net community benefit of the proposal. Indeed, since only the *gross* benefits of the development are described in the documentation accompanying the proposal (see below), Council is likely to be mis-informed about the likely balance of benefits to the community.

2. Existing economic evidence about the development plan

Council has undertaken, and made available, a review of strategic planning considerations for the development plan (see *Internal Referral – St Kilda Triangle Development Plan 2007 – Strategic Planning Considerations*, Coordinator Strategic Planning, Port Phillip City Council). This document attempts to provide, amongst other things, an assessment of net community benefit.

The referral document notes that an economic impact assessment of the development plan has not been undertaken. Nevertheless, the referral concludes that the development will produce community benefit. A more appropriate response, given the lack of adequate assessment, would be to conclude that net community benefit has not been demonstrated.

There are several aspects of the conclusion in the strategic planning review on net community benefit (section 3.6 of the review) that are mistaken. In particular:

- The review identifies an economic value of \$116m per year from the development. However, this conclusion is quoted from *St Kilda's Edge Economic Impact Paper*, a report written in 2004, before the present development plan was even prepared.
- The benefits of the development are noted, but there are no entries on the other side of the ledger. Every development has benefits and disbenefits. It is the balance of the two that is important.

Elsewhere, the review does allude to potential impacts on the retail trade of Fitzroy Street and Acland Street. However, it quotes, out of context, a comment in a report

by Essential Economics (*Retail Floorspace Forecasts for Metropolitan Melbourne 2006 to 2030* - March 2007) that strip centres “*have demonstrated over many years the remarkable ability to survive competition*”. This ignores the demonstrated potential for strip centres to be downgraded in their role and service to the community as a result of competition from new freestanding centres. In many instances this has led to extended periods of high vacancy rates, low rental values, poor capital appreciation and a deterioration in building fabric and public realm.

[I note, in this context, the letter from Simon Rumbold of Urbis dated 30 November 2007 that was recently posted on the proponent’s website. This letter argues that strip shopping centres in the inner city have not been affected by new freestanding shopping centres because of an expansion in the market and a separation of roles between these two types of retailing. Whilst I agree that strip centres have undergone a resurgence, this does not make them “bulletproof”. Sydney Road in Brunswick, one of Melbourne’s biggest strip shopping centres, still has a vacancy rate of 8%, for example, partly as a result of competition from enclosed freestanding shopping centres. In addition, it appears that the proposed centre on the Triangle site will not have a different role from other centres in St Kilda but will compete directly with both local convenience retailing and regional/metropolitan dining and entertainment that are already provided in the existing centres.]

In concluding, Council’s strategic planning review suggests that:

Community benefit will be best achieved by three viable and complementary retail nodes (that is, Fitzroy St, Acland St and the Triangle development) existing within the wider St Kilda Activity Centre. (Coordinator Strategic Planning, 19 November 2007)

Here is the crux of the matter. There is no evidence that the three nodes are likely to be viable, at least in their present existing and intended roles. And plainly, the three centres will not be complementary: the presence of a substantial convenience retail component in the proposed Triangle development will compete head-on with the convenience role of Acland Street; and the large number of proposed dining opportunities will compete strongly with the offering on Fitzroy Street and elsewhere in the precinct.

3. Potential economic impacts

This letter does not provide a full economic impact assessment as a consequence of the very limited time available. A comprehensive independent economic impact analysis and assessment of net community benefit would take a month or so. Nevertheless, I provide here an exploration of some of the retail issues that would need to be taken into account in a more comprehensive assessment as a contribution to Council’s decision-making process. (In addition to the following retail issues, a more comprehensive assessment would also examine competitive effects of the other aspects of the development plan, such as the effects on the patronage and viability of local cinemas, gymnasiums and other entertainment venues.)

▪ Retail spending at the proposed development

In a report prepared for the proponents of the development Urbis estimates that the retail floorspace of the St Kilda activities precinct (including Acland Street, Fitzroy Street and surrounds) is approximately 37,000 sq m (see Urbis, *St Kilda Triangle: Summary of Market Potential*, 2006). The retail turnover of the precinct is estimated

at \$240 million per year. This equates, broadly, to \$6,400 in average annual turnover per square metre across all shop types.

If we apply this same turnover density to the new development proposed for the Triangle site, (and without allowing for differences in retail mix or the potential for the new development to achieve a premium) the annual retail turnover of the new development is of the order of \$170 million, and probably within the range of \$150-\$200 million. (This is based on 26,500 sq m of retail floorspace as identified in the strategic planning review by Council.)

This retail spending at the development will come from three sources:

- Additional spending by visitors to the precinct (implying more visitors, particularly in the dining facilities that are associated with a day out at the beach)
- Reduction in escape spending by local residents – and this is likely in the clothing segment, given the high proportion of clothing stores envisaged in the proposal and the current low provision of clothing stores in St Kilda
- Transfer from other shops in the wider precinct and nearby activity centres – particularly in the segments where the new development will compete strongly with the existing offering of Acland Street and Fitzroy Street in convenience shopping and dining

A comprehensive economic impact assessment is needed to provide estimates of each of these sources of spending. Nevertheless, it is possible to indicate the possible scale of the economic impact through the use of **scenarios**. Consider the following, quite reasonable scenario:

- the retail spending at the new development comes from each of these three sources equally
- the transfer of spending is mainly from the nearby shops in the St Kilda precinct
- the rest of the St Kilda activity centre loses up to \$57 million per year in retail turnover (that is, one third of \$170 million)
- the loss of trade at the remainder of the centre is around 24% (that is, \$57 million out of \$240 million), well beyond the 10% to 15% level considered “significant” in retail planning

I should stress that this is just a scenario and that the real situation needs to be understood in more detail. Nevertheless, it does provide an indication of the potential for major impacts on the existing retailers in St Kilda.

▪ **Supermarket retailing**

Of particular concern is the inclusion of a supermarket within the development. This will compete directly with the two supermarkets (and other grocery providers) in Acland Street.

Current supermarket floorspace in the St Kilda precinct is 5,700 sq m (Urbis, 2006). At industry standard turnover densities (around \$10,000 per sq m), existing supermarket turnover is approximately \$57 million per year. The size of the proposed new supermarket is at least 3,000 sq m; annual turnover could therefore be expected to be at least \$30 million. This is over half the annual turnover of the existing two supermarkets. Even allowing for some growth in the market and increased spending by visitors, the result is likely to be the closure of one of the existing supermarkets.

This will significantly reduce the convenience retail role of Acland Street, downgrading the service to local residents and creating greater demand for car-based shopping trips.

Other studies have identified a demand for more full-service supermarket provision in the City of Port Phillip (see SGS, *City of Port Phillip Activity Centres Review*, 2006). However, the **location on the triangle site is a poor one in providing a better service for residents.**

- The SGS study identified additional demand for supermarket retailing in the major activity centres of Port Phillip required by 2016. The St Kilda precinct (Acland St and Fitzroy St) had the lowest demand of any of the centres. Bay Street, Clarendon Street and Carlisle Street all had higher forecast demand than the St Kilda precinct.
- Given its location on the foreshore, the Triangle site is not central to a residential catchment for convenience shopping. It is more likely than most locations in Port Phillip to be accessed by car, with adverse impacts on the environmental sustainability of the activity centre network.

4. Summary and Recommendations

This brief review shows that an adequate assessment of net community benefits arising from the proposed development plan for the St Kilda Triangle site has not been undertaken. Furthermore, the retail and dining components of the development have the potential to have a major adverse effect on the trade and economic health of nearby shopping centres. In particular, the proposed supermarket included in the development plan is likely to result in the reduction of services, amenity and convenience offered by the Acland Street activity centre.

I recommend that the Council ask the proponent of the development to prepare a comprehensive assessment of net community benefits, including as a key component an economic impact analysis. Without such an analysis, I believe it is not possible for Council to make a rational, informed decision on the project. This is likely to require deferment of a decision on the project to enable the work to be undertaken.

The benefits of the project have been stated by the proponent. However, Council and the wider community have a legitimate interest in knowing what must be traded off to achieve those benefits, and to judge whether that trade is worthwhile.

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Tim Nott
economic analysis + strategy

I trust this brief review is of assistance. Please let me know if I can provide further advice.

| Yours sincerely

A handwritten signature in black ink that reads "Tim Nott". The letters are cursive and slightly slanted to the right.

Tim Nott