

# appendix b

Leyshon Consulting  
Economic Impact Assessment

ADVICE  
to  
LEICHHARDT MUNICIPAL COUNCIL  
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PROPOSED REDEVELOPMENT of  
BALMAIN LEAGUES CLUB SITE

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# 1 INTRODUCTION

## 1.1 Background

This Report has been prepared for Leichhardt Municipal Council (LMC) by Leyshon Consulting Pty Ltd. The Report provides an evaluation of aspects of a proposed mixed-use redevelopment of the Balmain Tigers Leagues Club at Rozelle. In particular, the Report focusses on the retail component of the proposed redevelopment.

We understand the proposed redevelopment will incorporate the following retail elements:

- supermarket ... 3,315 m<sup>2</sup>
- mini-majors ... 2,930 m<sup>2</sup>
- specialty retail/food court ... 3,800 m<sup>2</sup>
- total retail ... 10,045 m<sup>2</sup>.

The specialty component broadly converts into between 30 to 40 small shops while provision for some 544 parking spaces for shoppers is also proposed.

The redevelopment proposal also envisages a gymnasium, new facilities for the Balmain Tigers Club together with a significant residential component.

The proposed development will have an “address” to Victoria Road as well as a pedestrian link (at the retail plaza level) to Darling Street, Rozelle.

# 2 ECONOMIC IMPACT ASSESSMENT

## 2.1 Overview

We have reviewed and economic impact assessment (EIA) report prepared in relation to the proposed development by Urbis (*Rozelle Village Economic Impact Assessment*) dated February 2012.

The EIA is predicated on the retail component of the scheme opening in 2015 and completing its first full year of trading by 2016.

## 2.2 Assumptions

We have reviewed the major assumptions upon which the analysis set out in the EIA is based such as the defined trade area, estimates of population growth and estimated available retail spending. In broad terms we do not disagree with the basic assumptions or expenditure estimates which have been made by Urbis.

The primary trade area (PTA) of the development has been defined by Urbis to include the suburbs of Lilyfield, Rozelle, Balmain, Balmain East and Birchgrove. Its southern boundary is delineated by the City West Link Road. The secondary trade area (STA) includes Birkenhead Point, Drummoyne and Russell Lea.

We consider this trade area to be appropriate having regard to the location of other competing retail facilities, particularly those containing a major supermarket, as well as traffic barriers in the general area.

The EIA report estimates the trade area contained some 45,970 residents in 2011 of which 65% or 30,090 lived in the PTA. These projections appear to be consistent with relevant Census and ABS population estimates.

The EIA also identifies that the population of the defined trade area had above average socio-economic characteristics as at the 2006 Census (latest available data) namely:

- household income was 36% above the Sydney average
- average household size of 2.2 persons which was some 18.5% below the Sydney average
- well above average incidence of lone person households
- well above average incidence of rental housing
- average levels of car ownership.

At the 2006 Census the trade area also had a very high labour force participation rate of 75% which compared with 66% for the Sydney Region at that time. The unemployment rate was only 3% compared with 5% for the Sydney Region.

In summary, of most relevance to prospective retail development is that the trade area population has above average levels of income and is highly likely to be “time poor” as far as shopping is concerned. Shoppers with these characteristics tend to shop more frequently—either locally or near their place of work—for a smaller range of goods at small supermarkets and convenience stores and may be less inclined to undertake the large weekly or fortnightly shopping trip to a major supermarket as might other shoppers.

## 2.3 Retail Floorspace Demand/Supply

The Urbis report correctly, in our view, identifies there is a shortfall in the supply of supermarket floorspace in particular in the trade area and retail floorspace in general. This is consistent with the advice given to Council in a report prepared by ourselves in 2006.

We understand some in Council question the “relevance” of a full-line supermarket in terms of the shopping patterns of local residents. While it is true that local smaller independent food and grocery stores do operate successfully, particularly in the Balmain peninsular, we consider there is still a valid role for a full-line supermarket. The evidence for this is the success of Coles at Norton Plaza and Woolworths at Leichhardt Marketplace.

# 3 IMPACT ANALYSIS

## 3.1 Introduction

Sections 4.3 and 4.4 of the Urbis report deal with the issue of the potential sales of the proposed centre and hence its impact on existing centres. Critical to this analysis is the volume of sales likely to be captured by the proposed development.

As discussed below, we have some concerns about this specific issue and, hence, what this could mean for the future performance of existing local centres.

## 3.2 Potential Centre Sales

Urbis estimate the proposed centre will achieve sales of \$67 million per annum in 2016 excluding GST (\$2011; Table 7, page 22 refers). This equates to average sales of \$6,787 per square metre per annum based on retail floorspace of 9,876 sq.m. as stated by Urbis in their report.

Urbis elect to present their estimates of sales on an “ex-GST” basis. Other reporting groups in Australia, however, do so on an GST-inclusive basis. Factoring in GST to the Urbis estimates would in this instance increase the projected sales to about \$72.4 million per annum or \$7,327 per sq.m. per annum (\$2011).

We note Table 7 in the Urbis report details the proposed centre will trade at a rate approximately **20.5% below** the average for single supermarket-based centres in Australia in 2009-10. The sales estimate made by Urbis with respect to the specialty stores meanwhile indicate they will trade at a rate some **43.3% below average**.

Surprisingly, Urbis does not offer any substantial comment about this outcome except for the observation that multi-level supermarket-based shopping centres tend to perform less well than single level centres with at-grade parking.

Notwithstanding the truth of this comment, the example of sales achieved by two other centres in Leichhardt lead us to conclude that the potential sales of the proposed development are, based on the Urbis analysis, unusually low.

### 3.2.1 Comparable Local Centres

Norton Plaza is a nearby example of a single supermarket-anchored centre which is multi-level in nature. Norton Plaza is a modern centre located within the Norton Street strip with abundant car parking.

According to the Property Council of Australia's (PCA) *New South Wales and ACT Shopping Centre Directory 2011-12*, Norton Plaza contains a retail area of some 9,030 m<sup>2</sup> and recorded total sales in the year to June 2011 of \$101.3 million per annum (\$2011; TABLE 3.1 refers). This equates to average sales of \$11,218 per square metre per annum (\$2011) or 65% above that projected by Urbis for the subject development. On a GST-inclusive basis the sales at Norton Plaza are 53% higher than those projected for the subject development.

**TABLE 3.1**  
**PROJECTED SALES OF PROPOSED CENTRE and SALES DATA for COMPARABLE CENTRES**

Category ...	Subject Proposal, Rozelle	Norton Plaza	Leichhardt Marketplace	Stockland Balgowlah	Gordon Centre
Retail Space (Sq.M.)	10,045	9,030	<sup>1</sup> 17,891	7,732	9,905
Supermarket (Sq.M.)	3,315	3,770	4,365	4,464	3,586
Mini-Majors (Sq.M.)	2,930	1,360	1,258	0	3,619
Specialties (Sq.M.)	3,800	3,900	8,307	3,278	2,700
Car Parking Spaces (No.)	544	485	771	700	575
Annual Sales	<sup>2</sup> \$72.4	<sup>3</sup> \$101.3	<sup>3</sup> \$153.4	<sup>3</sup> \$134.4	<sup>3</sup> \$101.1
Average Annual Sales	\$7,327	\$11,218	\$8,574	\$17,382	\$10,196

1: Includes Target of 3,961 Sq.M..

2: Adjusted for GST.

3: Year to June 2011 (\$2011) includes GST.

Source: *PCA NSW & ACT Shopping Centre Directory, 2011-12.*

Similarly, although not an equivalent centre because it is much larger, Leichhardt Marketplace recorded annual sales to June 2011 of \$153.4 million (\$2011) or average sales of \$8,574 per square metre per annum. This is **24.4% above** the Urbis estimate for the proposed development (or about 17% above on a GST-inclusive basis). Leichhardt Marketplace, however, is an older-style centre with poor parking and limited weekend trading hours. It is reasonable to expect, therefore, that a new centre will trade at a higher rate on a per square metre basis.

### 3.2.2 Other Examples

We have also reviewed the sales achieved by two other centres which we consider to have some relevance to the subject proposal namely:

- ☛ **Stockland Balgowlah** — a recently constructed supermarket-anchored centre with a gym and a significant residential component above the centre which fronts Sydney Road at Balgowlah; and

- ☛ **Gordon Centre** — a smaller multi-level centre anchored by Woolworths and a small Harvey Norman store which fronts the Pacific Highway at Gordon.

As can be noted from TABLE 3.1, these two centres respectively achieved average sales of \$17,382 per sq.m. per annum (Balgowlah) and \$10,196 per sq.m. per annum (Gordon) in the year to June 2011. These average sales levels are also well above those projected for the proposed centre at Rozelle even after adjustments for GST are taken into consideration.

### 3.2.3 Implications

In view of the Rozelle trade area's above average income profile and the existing under-supply of supermarket floorspace in particular and retail space generally, it is difficult to accept the proposed centre will trade as poorly the estimates made by Urbis suggest.

We cannot identify any sound reason to explain why the proposed development would trade at an average so far below Leichhardt Marketplace and Norton Plaza especially given both these are multi-level centres trading in a similar market context.

If the average sales rate proposed for the development was equivalent to, say, Leichhardt Marketplace, its sales would be in the order of \$85 million per annum in 2016 (\$2011) including GST. If it traded at the same rate as Norton Plaza then its annual sales would be some \$111.0 million (\$2011) in 2016 including GST.

In summary, we consider the potential sales of the proposed centre have been significantly under-estimated by Urbis. Consequently, its impact on existing centres (which Urbis say range up to -11%) must be significantly higher than that identified by them (Table 8, page 24 refers).

### 3.3 Impact on Centres

As noted above, Urbis have estimated the impact of the proposed development on existing centres assuming the centre achieves annual sales of only \$67 million in 2016 (\$2011). Under this scenario, the impact on the annual sales of local strip centres in 2016 is estimated by Urbis to be:

- Darling Street Balmain ... -11.2%
- Darling Street Rozelle ... -5.3%.

The impact on local centres (as opposed to strips) meanwhile is estimated to be:

- Birkenhead Point ... -5.0%
- Leichhardt Marketplace ... -3.4%
- Norton Plaza ... -1.6%.

If the annual sales of the proposed development in 2016 were, in fact, \$85 million, as we believe to be more likely, then the impact on Darling Street, Balmain could be about -14.7% and about -7.0% with respect to Darling Street, Rozelle.

Apart from the low level of sales assumed for the proposed development, we also have a number of other concerns about the impact analysis contained in the Urbis EIA (Section 4.4 refers).

First, Urbis assume that in relation to the total sales of \$67 million per annum in 2016, fully 31.6% (or \$21.2 million) of the impact will fall on "other centres". These other centres are described as being in dispersed locations including the Sydney CBD, Chatswood and "Five Dock/Parramatta Road". In our view this assumption regarding the extent to which the proposed development will draw a substantial proportion of its sales from outside the trade area is overly optimistic.

Although having exposure to Victoria Road, the attraction of the proposed centre to west-bound motorists in particular will be diminished by the “hassle” of exiting and rejoining extremely heavy peak hour traffic in this locality.

Given the tenancy mix of the proposed centre and traffic conditions in the Rozelle area, we consider the impact will be far more localised than has been allowed for in the Urbis EIA. Accordingly, we consider the impact will fall principally on existing nearby shopping centres which offer full-line supermarkets and associated specialty shops as well as on local strip centres.

No doubt the proposed centre would attract some “passing trade” but it is highly unlikely in our view to comprise 31.6% of its annual sales—as projected by Urbis. We consider passing trade of 25% (\$16.7 million per annum) to be a more realistic assumption. This, in turn, means the proposed centre’s impact on local centres would be some \$4.5 million per annum higher than that identified by Urbis.

Second, the Urbis analysis assumes the impact on the Darling Street, Balmain strip will be equivalent to -\$18 million per annum in 2016 while the impact on the adjacent Darling Street, Rozelle strip will be only -\$2.4 million per annum. We presume Urbis’s reasoning behind the extent of this differential impact may be that the Balmain strip contains a small over-trading Woolworths supermarket. That said, given the proximity of the Rozelle strip to the proposed development, we consider its impact on the strip will be significantly higher than -\$2.4 million per annum in 2016 identified by Urbis.

### 3.4 Implications of Impact

In Section 4.5 of their report Urbis comment on the viability of existing retail centres in the general locality with particular reference to the impact of the proposed development on nearby retail strips.

In relation to Darling Street Urbis observe that “...*this retail strip is generally healthy with a diverse retail mix, low vacancy levels and good rents*”.

In preparing this Report, we have held discussions with the leading commercial real estate agent operating in the Balmain/Rozelle area. The tenor of these discussions suggest agency representatives do not consider the Balmain and Rozelle retail strips are “generally healthy”. Rather, their firsthand knowledge of the local market indicates both are currently experiencing considerable stress. As evidence of this they point to a number of tenants who are significantly behind in their rental payments. In addition, we are advised that recent rental re-negotiations have seen rents in the two strips fall by as much as -20% to -30%.

These observations are in line with the depressed conditions generally being experienced by the Australian retail sector at present. They also suggests the retail strips immediately adjacent to the proposed development are not as healthy as purported by Urbis. Accordingly, unless economic conditions improve significantly over the next several years, the proposal’s planned 30 to 40 small shops—if introduced in 2016—are highly likely to place considerable additional stress on small retailers in the Rozelle/Balmain area.

## 4 POTENTIAL RETAIL BENEFITS

We have been asked to comment on the potential benefits the proposal may bring to the adjoining retail strip on Darling Street, Rozelle. The proposed development is planned to connect with Darling Street close to its intersection with Waterloo Street. This has been achieved by the proponent acquiring control of two existing shopfronts slightly to the north of Waterloo Street which will enable the creation of an arcade linking the proposed development with Darling Street.

New developments such as that proposed can make a positive contribution to the economic health of adjacent retail strips. Much depends, however, on the location of the development in relation to the strip in question and how well it is integrated with the strip itself. In this case, retail development along Darling Street to the south of Victoria Road will be connected directly to the proposed development. The significant component of retailing along Darling Street to the north of Victoria Road will remain disconnected from it, however.

One of the best examples of where a supermarket-anchored centre has made a positive contribution to a retail strip is Norton Plaza in Leichhardt. Norton Plaza fronts Norton Street and is positioned midway between Parramatta Road and Marion Street. The centre also has an address to Balmain Road but this is very much a “rear entrance”.

The majority of the retail floorspace in Norton Plaza is at street level and the centre has only two levels of parking below street level. Further it is possible to walk from the two levels of underground car parking via a pedestrian walkway directly on to Norton Street. A pedestrian crossing directly outside Norton Plaza also means the centre is well-connected with both sides of Norton Street.

While cars can access Norton Plaza from both Norton Street and Balmain Road it is our impression the Norton Street entrance/exit is more heavily used than the entrance/exit onto Balmain Road. There is little doubt that the car parking in Norton Plaza is used extensively by patrons of surrounding cafés and retail businesses on Norton Street.

In our opinion, Norton Plaza in terms of its location and design represents a “best case” outcome for integrating a new supermarket-anchored centre with an existing retail strip centre. By contrast, the proposed development has a number of deficiencies compared with the way Norton Plaza is integrated with strip retailing along Norton Street.

First, the subject proposal is less desirably located as far as benefiting the adjoining strip retailing is concerned. Its main point of access/egress by vehicles will be Victoria Road. This means that car-based shoppers can come and go from the centre without needing to interact with the surrounding strip.

Second, while the proposed development will provide a significant quantum of parking this may not generate substantial benefits for all of the surrounding strip. As we understand plans for the development, there will be five levels of car parking below the retail podium levels. Hence shoppers parking in the proposed development frequently will need to make their way up through several layers of parking and the supermarket level of the development and then through the specialty retail component before reaching Darling Street. Clearly, there will be significant opportunities provided by the proposed specialty retailing to capture the spending of local residents “in-house” rather than that same spending being directed to businesses on Darling Street.

That said, there will be some benefit to retail businesses in Darling Street particularly those south of Victoria Road from having such a substantial increase in car parking in the immediate precinct. We consider that this benefit may not be significant, however.

# 5 CONCLUSIONS

Based on the EIA submitted on behalf of the applicant, as well as other matters reviewed in this Report, we conclude that:

- the EIA prepared by Urbis should not be relied upon in terms of identifying the likely economic impact of the proposal on local shopping centres;
- the annual sales projected for the centre—and upon which the EIA is predicated—appear to be too low having regard to the performance of similar centres in Leichhardt LGA and other comparable localities;
- the projected impacts on nearby local centres are too low having regard to a more realistic sales level for a centre such as that proposed;
- the distribution of impact identified by Urbis is questionable, most particularly the limited impact projected for the adjacent Darling Street, Rozelle strip compared with that projected for Darling Street, Balmain; and
- the impact of the proposed development on local strips will be particularly significant in 2016 given that 30 to 40 shops will be added to the local supply. Anecdotal evidence points to local traders already struggling in the current poor retail trading conditions.

In summary, if the retail component of the proposed development trades as poorly as is predicted in the Urbis EIA, it throws into question whether the development is indeed appropriate for local market conditions and the specific factors which apply to this particular site.

