

# Marrickville Metro – Proposed expansion

## Review of Hill PDA Economic Impact Assessment

May 2011



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This report presents a review of the *Marrickville Metro Economic Impact Assessment* (EIA) prepared by Hill PDA and dated March 2011 (Hill PDA 2011). The report was commissioned by Marrickville Council, and presents an economic impact assessment of the proposed expansion of Marrickville Metro.

Hill PDA has previously prepared an economic impact assessment of the proposed expansion of Marrickville Metro on behalf of Marrickville Chamber of Commerce, dated August 2010 (Hill PDA 2010).

## Hill PDA 2011 key findings and conclusions

The key findings and conclusions are presented at page 6, where Hill PDA 2011 states:

*In terms of impact on individual centres, the Economic Impact Assessment identifies the following:*

- The impact on Marrickville Road and Illawarra Road will be a 14% reduction in retail sales which is deemed to be a moderate impact. We do not expect the centre to be able to absorb a fall in turnover forecast of this level and remain viable. Vacancy rates in the centre are expected to increase to between 14% and 15%.*
- The impact on Enmore is considered moderate at 12%. In all likelihood it is currently trading at least 20% below national average.*
- The impact on Newtown will be 8% which is considered low to moderate. If permitted, the Marrickville Metro expansion would result in a rise in the proportion of vacant units in Newtown to around to 10% to 15%.*
- Petersham will experience a low to moderate impact of 6%. This will have significant implications for the centre given that it is currently underperforming by around 35% below national average.*

In our view, Hill PDA's conclusions about each of these centres are not reasonable or supportable. Further, they have been incorrectly calculated, and as a minimum, they are overstated by 13%.

The reason they are overstated by 13.2% is because Hill PDA has calculated its estimates of impact on the basis of an incremental retail turnover for the expanded Marrickville Metro of \$90.0 million at 2013 (refer Table 5 at page 26 of Hill PDA 2011).

However, Table 5.6 at page 76 of the November 2010 EIA prepared by Pitney Bowes Business Insight (PBBI 2010) shows that the estimated incremental turnover post expansion for Marrickville Metro at 2013 will be \$79.5 million. The figure adopted by Hill PDA is therefore 13% higher than the correct figure.

Hill PDA has confused the information presented in Table 5.6 of PBBI 2010, which shows that the projected 2013 retail turnover for the expanded Marrickville Metro is \$90 million greater than the centre's 2009 turnover level (which was the starting point of the analysis). However, clearly the centre's turnover will increase to some extent between 2009 and 2013 if left in its current form. PBBI projected that if left in its current form, Marrickville Metro could be expected to achieve a retail turnover of \$214.9 million at 2013, as compared with a turnover of \$294.4 million if expanded – the incremental turnover from expansion will therefore be \$79.5 million.

Therefore, all estimates of impact presented in Hill PDA 2011 are, as a minimum, overstated by 13% as a result of this miscalculation by Hill PDA.

With regard to the impact on Marrickville Road/Illawarra Road strip, Hill PDA 2011 concludes that the impact would be a 14% reduction in retail sales, and deems this to be a 'moderate' impact. If this estimate by Hill PDA is adjusted for the overstatement due to miscalculation as noted above, then the 14% would in any case reduce to 12.4%.

However, Hill PDA 2011 then goes on to conclude that such an impact would result in vacancy levels for the centre increasing to 'between 14% and 15%'. It

must be stressed that this is a purely subjective view by Hill PDA. Even if the trading impact were to be a 14% reduction in retail sales, a vacancy rate of between 14% and 15% will not necessarily follow from such an impact, and Hill PDA is not in a position to be able to make this claim – what is its basis? Which stores will vacate, and why?

Hill PDA 2011 concludes that the impact on the Enmore centre will also be ‘moderate’.

With regard to the conclusion drawn on the Newtown centre, again the Hill PDA statements presented at page 6 of the report are neither reasonable nor supportable. The impact is estimated by Hill PDA at 8%, and is deemed to be ‘low to moderate’. If this estimate is also adjusted for the overstatement due to the miscalculation noted above, then 8% would reduce to 7%.

However, again Hill PDA 2011 then goes on to draw the very subjective conclusion that if permitted, the Marrickville Metro expansion will result in a rise in the proportion of vacant units in Newtown to ‘around 10%–15%’. Again, in our view, Hill PDA is simply not in a position to make this claim, and its own conclusion regarding impact does not support this claim.

The conclusion which Hill PDA 2011 draws regarding the Petersham centre is that the impact will be ‘low to moderate’ (at 6%) but that such impact will have significant implications for the centre ‘...*given that it is currently underperforming by around 35% below national average*’. Again, if the 6% estimate presented by Hill PDA is adjusted for the overstatement due to miscalculation, then it reduces to 5.3%.

Hill PDA, unless it has undertaken an extensive survey of the sales performance of individual retailers within the centre, and is prepared to make that information available, and unless it has similarly robust information to demonstrate the ‘national average’, is simply in no position to make the claim that the Petersham centre is trading 35% below the national average, whatever that national average might refer to.

In any case, if Hill PDA 2011 were correct in its claim regarding Petersham, in essence this statement is saying that the Petersham centre is struggling to such a degree that any impact would result in 'significant implications for the centre'. If that is the case, then it must in turn bring into question the role and need for the centre in its current form – surely centres cannot at all times be protected from any competitive impact, no matter how minor.

## Hill PDA methodology

The Hill PDA 2011 analysis, like Hill PDA 2010, rests entirely on a gravity model approach. In the November 2010 Economic Impact Assessment prepared by Pitney Bowes Business Insight (PBBI 2010), Section 6.1 reviewed the Hill PDA approach, and raised a number of matters which, in our view, serve to make the Hill PDA conclusions, which are drawn on the basis of that gravity model, unsupportable.

Hill PDA 2011 has now responded, at Section 6.7, to the concerns expressed in the PBBI November 2010 EIA. However, the responses are brief, vague and general, and have not directly addressed any of the issues previously raised by PBBI. The most important of those issues, which remain unaddressed by Hill PDA, are the following:

- There is no identification of the key aspects of the gravity model, including the specification of the model, the data fed into the model by Hill PDA, the assumptions made in its running, or any other aspect of detail.
- As previously noted, the gravity model is a highly deterministic analysis, and essentially assumes that shopping behaviour can be modelled by a set of complex mathematical relationships that operate in a similar fashion to the pull of gravity. However, the model itself requires a vast amount of factual data relating to each centre, which Hill PDA has not demonstrated in any of its reports. The model also requires the application of subjective 'attractiveness co-efficients' for each premises in each centre, and again this information has not been disclosed by Hill PDA.

By contrast, the PBBI approach is transparent, and is based on well understood principles regarding consumer behaviour and shopping centre composition. Furthermore, the conclusions drawn in the PBBI analysis have the benefit of input regarding the behaviours of residents of the relevant trade area, in their capacity as shoppers. That input is invaluable in seeking to understand both how shoppers are currently behaving, and how they might change those behaviours as a result of a change in the provision of retail floorspace, such as that proposed by the expansion of Marrickville Metro.

Nowhere in either of the two Hill PDA analyses is there any reference to customer behaviour. Indeed, in its latest report prepared for Marrickville City Council, Hill PDA provides information which suggests that its understanding of customer behaviour is at odds with the reality. At page 30, Hill PDA 2011 states as follows:

*PB is critical of Hill PDA for not differentiating between demand for strip retail facilities and shopping centre facilities. However, the designation of the type of floorspace is not important but rather it is the nature of the goods provided that matters. The great majority of goods sold in the indoor centres are the same as goods sold in the main street centres – whether it be food and groceries, sit down meals and take-away foods, clothing, pharmaceuticals, stationery and newspapers/magazines, hair and beauty services, etc. The different formats of centres do not affect the product sold or types of retail stores. Therefore when assessing demand and competition it should be considered on the basis of retail store type or retail merchandise being sold. It should not be assessed on the design format of the shopping centre.*

The comments above suggest first of all that Hill PDA has not had sufficient regard for the fact that shoppers do use different types of centres for different purposes. It is not sufficient to simply say that the goods sold are all the same, regardless of centre.

The customer behaviour analysis previously presented by PBBI has shown quite clearly that many shoppers of the Marrickville area are choosing to leave the area for particular types of shopping, and are directing that shopping primarily to large, enclosed shopping centres located outside the area. This is a fundamental point.

Among other things, the customer research, the results of which have previously been presented to Marrickville Council, showed the following:

- The centre used most as the main destination for clothes, homewares and gifts shopping was Marrickville Metro, accounting for 21% of all residents interviewed. The next two most important were Sydney CBD (18%) and Broadway SC (16%), with Westfield Burwood (6%) and Westfield Bondi Junction (4%) also used. By contrast, the scores achieved on this measure by the local strip centres were as follows:

- Newtown	11%
- Marrickville Road shops	2%
- Enmore Road shops	1%

13% of local residents indicated no particular place was their main destination for shopping for clothes, homewares and gifts.

Therefore, of the 87% of local residents who indicated a preference, more than half indicated that their shopping on clothes, homewares and gifts is mainly undertaken outside the Marrickville area, at enclosed shopping centres.

Furthermore, those same shoppers also said that they would frequent the expanded Marrickville Metro SC to a greater degree, and they welcome the proposed expansion. The information previously presented to Marrickville Council relating to local residents' shopping behaviours and preferences also showed that most local residents (58%) like to shop at both strip and shopping centres, while 21% prefer centres only and 21% prefer strips only. Therefore, for the 58% who like to shop at both strip and shopping centres, the Marrickville area is providing a very limited amount of shopping centre space (only Marrickville Metro in its

current form) while for those who prefer centres only (21%), again the Marrickville region is providing a very limited offer. Importantly, only 21% of all residents want to shop solely at strip centres.

Hill PDA has noted the vast amount of strip shopping facilities available throughout the Marrickville region, but nowhere has it taken into account the fact that there is effectively an oversupply of such floorspace, and a corresponding undersupply of shopping centre floorspace. If indeed the Petersham centre is trading at 35% below 'national average' as Hill PDA claims, and if the Enmore centre is trading at 25% below 'national average' as Hill PDA also claims, then the primary reason for that is the oversupply of such floorspace within the area. The residents of the area are deliberately choosing not to use those centres to the extent that the Hill PDA gravity model claims they should be using them.

The type of facilities which would be added in an expanded Marrickville Metro shopping centre will mirror the type which is available at centres such as Broadway, Sydney CBD, Westfield Burwood, Westfield Bondi Junction and Westfield Eastgardens.

Given these findings, it is not sufficient justification for Hill PDA to simply assert that the type of shopping centre does not matter when shopping choices are made.

In any case, the reality is that the 'nature of the goods' does differ across centre types, and again Hill PDA does not seem to have taken account of these differences in applying its gravity model.

For example, the types of retailers which are prevalent in the enclosed shopping centres noted above, and which are some of the important reasons why the customers choose to visit those centres, are generally quite different to the types of retailers represented in the main in the strip centres. This point has been dealt with at length in the Retail Strip Review prepared in May 2010 by PBBI, as part of the total impact assessment process.

One of the very important features of the strip centres around Marrickville is the ethnic focus of many of their stores, a fact which again is clearly identified in the PBBI Retail Strip Review. This is another reason why the 'nature of the goods' differs to a great extent between the strip centres and the enclosed shopping centre alternatives.

Hill PDA has therefore missed the point – it is not the 'design format' of the shopping centre which is the issue, it is the choices which customers make about which centres they use, and their reasons for making such choices, which matter. These are facts which are not taken into account in the Hill PDA model, and they are simply not able to be factored into any gravity model. These are also the reasons why a gravity model approach is not used or relied upon by the significant owners or developers of shopping centres throughout Australia for the purposes of conducting effective research to generate robust conclusions of likely outcomes.



