

Tim Nott

Economic Analysis + Strategy

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Dear John and Jan

Review of “*Triangle Site Development Economic and Community Impact Assessment*” prepared by SGS Economics and Planning for Port Phillip City Council

This letter provides a brief review of a report entitled *Triangle Site Development Economic and Community Impact Assessment* prepared by SGS Economics and Planning Pty Ltd (SGS) for Port Phillip City Council and dated January 2008.

In particular, this letter looks at the assessment of potential retail impacts in the SGS report, and at the social benefit cost analysis used to estimate the net benefit of the proposed Triangle development in St Kilda. This letter should be read in conjunction with my previous letter to you, dated 9th December 2007, providing advice on economic impact assessment for the Triangle site.

Key findings of this review

- The SGS report estimates that the retail impacts on Acland Street and Fitzroy Street will be relatively small and manageable. However, the report does not use the established method for measuring impacts and its results are misleading. This review estimates that the real impact on neighbouring centres is likely to be significant, with the new development probably generating a loss of between 10% and 30% of retail turnover in Acland Street and Fitzroy Street, with consequent shop closures and loss of community function.
- SGS has undertaken a social benefit cost analysis which estimates a positive benefit-cost ratio for the development. However, the assessment of benefits is highly contentious and, in some cases, so subjective as to be meaningless. The finding of net community benefit is not proven.
- Some of the adverse impacts of the development could be ameliorated by eliminating the convenience retailing (supermarkets, fresh food etc), reducing the scale of the development to concentrate on the tourism, entertainment and specialty shopping functions.

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1. The genesis of the SGS report

Port Phillip Council considered a statutory planning report on the proposed development of the St Kilda Triangle site on 13 December 2007. Whilst providing conditional support to the proposed development, the Council deferred a decision on whether to approve the planning application pending a more detailed investigation of the economic impact of the development, amongst other things. This deferral followed community concerns that the impacts of the proposed development had not been properly understood. SGS was hired to provide the economic impact assessment. Its report was released to the public on 16 January 2008.

The main objectives of the report are to:

- *“assess the economic impact of the extent and composition of retailing proposed for the Triangle Site Development on the Acland, Fitzroy and Carlisle Street shopping precincts, and make recommendations which maximise the potential for future economic viability of each of the centres;*
- *consider the major social impacts associated with the Triangle Site proposal in the context of appraising the extent to which it generates a Net Community Benefit”.*
(SGS, 2008 p 5)

The way in which the report addresses each of these objectives is examined separately here.

2. Retail impact assessment

Established assessment method

The established method of undertaking a retail impact assessment¹ is to estimate the change in retail turnover of existing shops/shopping centres *in the first year of operation of the proposed new retail facilities*. The usual steps in such an assessment are:

1. Identify the catchment for the proposed new development
2. Estimate the retail spending of the catchment at the time when the new development begins to operate
3. Estimate the existing retail supply in the catchment and the sales in existing shops
4. Identify the existing balance between retail supply and demand, including the flow of retail spending by catchment residents to shops outside the catchment (escape spending) and the volume of spending by visitors to the catchment
5. Estimate the likely sales to the proposed new development
6. Identify the sources of those sales, that is, the balance between a reduction in escape spending by catchment residents, increased spending by visitors, and capturing the sales of existing shops
7. Identify the change in retail sales to existing shops and whether that will result in significant impacts on viability or major changes to the role of existing centres

¹ That is, the method which has been established by experts presenting on retail development impacts to Planning Panel hearings and at VCAT.

This method provides decision-makers with good information about the likely immediate impact of a new retail development on the existing hierarchy of shopping centres and the change in service to the local community. If a new development is likely to cause a decline of retail sales of more than 10%-15% in another centre, that is considered a significant adverse impact. The findings of such impact assessments form a substantial part of the judgement about the “net community benefit” of a proposal.

However, the SGS report does not follow this established method. Instead, it uses a method which is guaranteed to under-estimate the impact of the proposed Triangle development on other shopping centres.

The SGS retail impact method

Scenarios

Following initial description of the existing retail situation and of the proposed development, SGS has provided two scenarios of how the Triangle development will affect the rest of the St Kilda shopping and activity centres.

- Scenario 1 assumes that the Triangle development will blend seamlessly with the Acland Street and Fitzroy Street activity centres to create a single very large activity centre (a Principal Activity Centre, in planning terms). The scenario assumes that the additional retail turnover at the Triangle development will come from a reduction in escape expenditure of residents and from increased expenditure of visitors. It assumes that almost no spending will be transferred from existing centres to the new centre (and this despite the very significant overlap in the retail offer of the Triangle and Acland Street and Fitzroy Street).
- Scenario 2 assumes that the Triangle development will compete directly with the retail offering of Acland Street. The retail turnover at the Triangle development is assumed to be transferred from Acland Street (in particular).

The SGS report suggests that the real impact will be somewhere between these scenarios and that “*the extent to which scenario one would obtain as opposed to scenario two, would most likely depend on the integration of urban design and management of both centres*” (SGS p44).

The use of scenarios suggests that the authors have insufficient data or experience to estimate the balance between the three sources of potential trade to the new centre (that is reduction in escape spending, increase in visitor spending, or transfer of spending from other centres). The scenarios chosen represent the possible extremes rather than the likely outcomes. From this point of view, they may mislead decision-makers about the potential impacts. Given the present design and proposed occupancy of the Triangle development there is almost no possibility, for example, that scenario one will prevail. In addition, the size and retail mix of the new development rather than urban design and management, as argued in the report, will be the key factors in reducing the impact on existing centres. A retail mix which complements that in the other St Kilda centres will clearly have a smaller adverse impact on those centres than a mix which replicates what already exists.

Impact analysis

The SGS report projects the supply and demand situation forward to 2011, which is likely to be the first year of operation of the Triangle development given a two to three year design and construction period. The report then projects forward again by five

years and estimates the change in the retail turnover between 2011 and 2016 under each scenario.

However, the analysis masks the true impact of the development; the results produced by this method are misleading because the impact is measured *five years after the development begins to operate*. In those five years, retail spending by residents and visitors will inevitably rise because of local population growth and because of general growth in retail spending per capita. These factors will reduce the impact of the Triangle development over time. The SGS analysis does not capture the full and immediate impact of the development. This is important; existing retailers whose viability is adversely affected by the new development are unlikely to be able to survive for a number of years until population growth rescues them.

Alternative impact assessment

A definitive alternative retail impact assessment is beyond the scope of this brief review. However, it is clear that the Triangle development will compete strongly with some parts of the retail offering of Acland Street (supermarkets, fresh food, cafés and restaurants) and Fitzroy Street (cafés and restaurants). This will inevitably involve some transfer of spending from existing shops to the new development, even allowing for some increased spending from visitors and retention of more resident spending.

The scale of this transfer is just not captured by the SGS analysis because of the assessment method they have chosen. In my view, the brief scenario in my original letter is likely to be closer to the mark than either of the scenarios provided by SGS. In this previous scenario, the sales to the new development are sourced equally from increased visitor spending, retention of more resident spending and transfer from existing shops. The following table uses the estimated retail turnover figures for 2011 in the SGS report to restate the original scenario.

Table 1: Alternative scenario of the retail impact of the Triangle development, 2011

Location	Retail turnover \$m
Acland St	\$120
Fitzroy St	\$151
Total existing turnover in St Kilda (A)	\$271
Triangle development	\$169
<i>increase in visitor spending</i>	\$56
<i>retention of resident spending</i>	\$56
<i>transfer from other shops in St Kilda (B)</i>	\$56
Impact on other shops in St Kilda (B/A)	21%

Source: SGS; Tim Nott; figures rounded

This alternative scenario of the retail impact of the Triangle development shows an impact of 21%; that is, the existing shops in Acland Street and Fitzroy Street will lose 21% of their retail sales when the Triangle development becomes operational. Not all shops will be affected equally; but overall, this is a significant impact. This is a

scenario, but I would expect that the real impact is likely to be a decline of between 10% and 30% in sales to existing shops. This scale of impact is likely to result in shop closures and a reduction in the service of existing activity centres to their communities.

The scale of likely impacts goes beyond the normal range of competition. These are impacts that many businesses will not recover from and which will cause a loss of existing investment in public and private infrastructure. The impacts represent a transfer of viability from an existing set of businesses to a new set of businesses. As well as the losses to individual operators, there will be a decline in resources invested in local properties and a loss of existing social networks.

Amelioration measures

SGS was charged with making recommendations to maximise the viability of each of the activity centres in St Kilda following the Triangle development. In particular SGS was asked: *What is the optimum business / tenancy mix for the Triangle Site (within contract scope) which maximises opportunities for the Acland, Fitzroy and Carlisle Street shopping precincts?* (SGS, p6)

The SGS report suggests improvements to urban design to improve the circulation between the centres and improvements to the management of the retail strips in order to create a better retail mix. However, it makes no recommendations about the retail mix of the Triangle development; and yet this is the single most important way of reducing the adverse impacts on other centres and generating a larger retail spend overall.

The best way to reduce the adverse retail impact of the Triangle development would be to:

- Reduce the provision of convenience shopping that is provided for residents elsewhere in St Kilda (supermarkets in Acland Street etc)
- Maintain the businesses which trade mainly on the spending of visitors (gifts, tourism-related outlets, entertainment)
- Maintain the shops selling goods that cater for residents but which are not strongly provided in existing centres (eg clothing)

Simply removing the proposed supermarket and fresh food offering within the development would be one step in reducing the adverse impact on other centres (and would allow the development to be smaller and less capital intensive).

3. Community Impact Assessment

The SGS report

SGS has undertaken a social benefit cost analysis of the proposed Triangle development. This attempts to measure the net benefits of the development to the wider Victorian community. The benefits and costs measured by SGS exclude “privately traded benefits and costs”, that is, the costs of constructing the development and the surplus derived from operating and trading from the development. The benefit/cost items include:

- Travel efficiency and sustainability
- Enhanced international and interstate tourism

- Heritage value preserved (the refurbishment of The Palais Theatre)
- Stimulus to the music industry through the availability of more venues
- Improved employment prospects for disadvantaged members of the labour-market
- Changes in the culture of St Kilda
- Construction impacts on St Kilda beach
- Changes to crime and safety in the area

The report estimates a benefit-cost ratio (BCR) of 5.05:1 and a net present value (NPV) of \$41.1 million compared with a no-build case. However, the report fails to mention over what timeframe the stream of costs and benefits has been assessed, or what discount rate has been used to arrive at the NPV. In addition, the summary table does not make clear which items are costs and which are benefits of the development.

Leaving aside these issues of presentation and elucidation, the analysis is highly problematic in its particulars. In some cases, the measurement of impacts fails to take account of the possible disbenefits; in others, the assessment is so subjective as to be meaningless. Consider the following:

1. The SGS report assumes that the additional retail space proposed in the Triangle development will reduce the need for St Kilda residents to travel elsewhere to do their shopping, thereby reducing travel costs. However, it fails to take into account the additional visitors to St Kilda (from Port Phillip, the rest of Melbourne and further afield) as a result of the development. I would estimate that the additional travel costs of these people would at least match any savings of St Kilda residents. (It may also be that many local residents have increased travel costs because of the need to travel further to supermarket facilities in the Triangle development compared with the more accessible supermarkets in Acland Street.)
2. SGS contend that, *The development will not create addition(al) traffic congestion rather it will transfer congestion from other parts of the supply chain. Congestion at the site will, arguably, relieve congestion in other areas (for example, South Melbourne Markets, Chapel St and the CBD). So this is principally a transfer effect rather than a net cost to the community.* (SGS, p51) This is a highly contentious argument to make. In my view, the proposed development will cause additional traffic congestion by encouraging local residents to make more car-based trips to convenience shopping facilities and encouraging regional residents to make more trips into St Kilda. These regional trips may be transferred from smaller, less congested shopping centres or areas with no congestion. A transport analyst would be required to predict this aspect with more certainty.
3. The report suggests that the expenditure of \$20 million in restoring The Palais Theatre is entirely a benefit of the development because of its improvement of local heritage. Leaving aside the fact that some of this spending will be used in constructing commercial facilities, it is not clear why this expenditure is not also a cost since, arguably, the resources spent on The Palais could be spent elsewhere. In any case, the net benefit should be the difference between the amount spent and the heritage benefit received and would be much less than the total \$20 million.

4. SGS contend that the,

Triangle site development may impact on what some people perceive to be St Kilda-ness, because of the size of the development and the increasing the (sic) commercial focus of the area. Estimating the valuing of St Kilda-ness can be approached by imputing a value for people visiting St Kilda. The costs of a visitor travelling to St Kilda to enjoy the uniqueness of the area provide an estimate of the value people place on St Kilda-ness (SGS, p56).

Attempting to value “St Kilda-ness” goes beyond the sensible limit of social benefit cost analysis. If it is part of the assessment at all, it should be described and not assigned a spurious monetary value. In any case, the loss or gain of “St Kilda-ness” is likely to be experienced by residents more than by visitors and may be measured by their propensity to smile, or by the set of their shoulders rather than by dollars and cents.

All in all, this effort to assign a net present value to the community benefits and costs of the Triangle development demonstrates the limitations of social benefit cost analysis when not enough time and resources have been allocated to do the job properly. Too much emphasis is placed on calculating monetary values for factors that are best measured in other terms. The one clear economic benefit of the development – the increase in tourism revenues – would arguably be just as high in a much smaller Triangle development that catered primarily for visitors.

4. Conclusions and Recommendations

The report by SGS on the economic and community impacts of the proposed St Kilda Triangle development purports to show that the development will generate net community benefit and that any adverse impacts on the existing retail activity centres will be small and manageable.

This review argues, on the contrary, that SGS has not effectively demonstrated net community benefit; that many of their assumptions in the benefit-cost analysis are wrong or open to other interpretation. Further, this review finds that the impact on nearby retail activity centres is likely to be significant, with a probable loss of trade of between 10% and 30% in Acland Street and Fitzroy Street. This is likely to result in the closure of individual businesses and a loss of function and community service by these centres.

Council and its preferred developer can ameliorate these adverse impacts by changing the retail mix in the Triangle development. This would involve removing the convenience retail aspects of the development that will compete head on with existing shops in Acland St (that is, the supermarkets and fresh food outlets). A smaller, less intrusive development would still be able to create strong net community benefits through its tourism appeal but without adversely affecting the viability of neighbouring activity centres.

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Tim Nott
economic analysis + strategy

I trust this brief review meets your needs. Please let me know if I can be of further assistance.

Yours sincerely

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

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