

Memo

To:	Sarah Ancell
From:	Justin Ganly
CC:	
Date:	27 October 2020
Subject:	Preston Market PSP – final review of economics advice

Dear Sarah,

Background

As requested, this memorandum sets out my final review of the various items of economics advice which have been prepared to assist in the development of the Preston Market Precinct Structure Plan (“PSP”).

The advice considered is as follows:

- *Preston Development Opportunities Assessment*, Blair Warman Economics for the City of Darebin, June 2018 (“Warman Report”).
- *Preston Market, Development Potential and Economic Impact Assessment*, MacroPlanDimasi for Salta Properties, April 2019 “MacroPlan Report”).
- *Draft Peer Review of Preston Market, Development Potential and Economic Impact Assessment*, SGS Economics & Planning for the City of Darebin, September 2019 (“SGS Review”).
- Peer review of MacroPlan report and SGS Review, Justin Malkiewicz email to Pamela Neivandt, 12 February 2020 (“VPA Review”).
- Review of Preston Market Precinct Redevelopment documentation, Marcus Lane Group for the VPA, 19 August 2020 (“MLG Advice”).

I have also been provided with a draft version of the Preston Market PSP of August 2020 (“Draft PSP”) as well as an undated draft of Schedule 1 to Clause 37.08 for the ACZ for the City of Darebin (“Draft ACZ Controls”).

Reviews

As requested, my reviews of the specified advice have been directed to key issues, noting that the SGS Review already comprised a full review of the MacroPlan Report.

Warman Report

The Warman Report focussed on the 20-year need for non-retail uses within the Preston Market PSP area. These uses comprised office, health and childcare.

- **Office.** A key point made at the bottom of page 19 was "... there is no scientific means of predicting market demand for office floorspace ..." and I agree with this. The Warman Report then goes on to suggest that 10-15,000 sqm of office floorspace could be developed at the subject site which I would regard as being towards the aspirational limit of what could be achieved (in the absence of a major commitment from a single use tenant). I do not agree with the suggested adoption of the Commercial 2 Zone to enforce office uses and note that residential uses will not always 'crowd out' office-based uses, particularly in a setting which has very good public transport access such as Preston Market.
- **Health/medical.** I agree that there will be demand for health and medical facilities within the Preston Market PSP area. Again, however, quantifying the demand for such uses is a difficult exercise and the guidance provided of 3-5,000 sqm is, perhaps, at the top end of what could be supported (noting that some uses such as consulting suites could actually be regarded as office floorspace and would be generally treated as such within the Planning Scheme).
- **Childcare.** The Warman Report's assessment of childcare floorspace requirements at the subject site was based on a relatively crude assumption that 10% of the City's forecast increase in population aged 0-4 years could be accommodated within a facility at the Preston Market. This equates to 359 children and this would be an extremely large facility. There will clearly be demand for such a childcare centre but I would expect the maximum size to be of the order of 200 places (i.e. approximately 800 sqm of indoor space).

In summary, the Warman Report provided useful context and analysis for a range of possible non-retail uses within the Preston Market PSP area. However:

- The suggested floorspace allocations for the uses considered were at the top end of what may be supportable;
- There was a range of uses which were not canvassed (including entertainment and fitness); and
- I do not agree with the suggested use of the Commercial 2 Zone and/or clustering of office floorspace along Murray Road to support such development.

MacroPlan Report

The MacroPlan Report was completed in a manner which would be considered typical for a demand/need and economic impact assessment. The Report covered a large amount of uses and generally did so in enough detail to justify the conclusions, particularly those associated with key floorspace assessments.

The only areas where I have concerns, or consider that the report could have been enhanced, are as follows:

1. I cannot find anywhere where the report explicitly states a timeframe for redevelopment of the Preston Market. Clues are provided on page 55 – where it is stated that 2,500 dwellings are assumed “... at the subject site over the medium term” – and on page 56 where 2020/21 is used as the first year of operation for retail facilities at the subject site. In my opinion, the development of apartments at the Preston Market is unlikely to take place at a rate averaging more than 100 per year – making development of such a ‘long-term’ prospect – while 2020/21 is clearly unrealistic for the proposed retail components of the redevelopment (with 2023/24 more likely as the earliest possible first year of trading).
2. The competition details provided within Table 3.3 on page 32 should be on an activity centre basis. Floorspace figures have not been verified but I note that the Northland Homemaker Centre only contains 28,819 sqm of retail GLA (rather than the 45,000 sqm provided within Table 3.3). It may be that the nearby Bunnings was included with the homemaker centre but it was listed as being a major trader within the Bell Street Homemaker precinct instead.
3. The supermarket demand analysis which starts on page 48 should have been a subset of the retail floorspace demand (Section 4, pages 35-39). Further, I do not agree with adoption of 0.40 sqm per person for supermarket floorspace provision – a figure in the range of 0.30-0.35 sqm person would have been more appropriate – and note that the proposed full-line supermarket within the Oakover Precinct was not included within the calculations in Table 6.1 on page 50. The result of these changes would be a situation of close to floorspace balance – rather than significant undersupply – when considering the additional supermarket floorspace at the Preston Market in 2021.
4. Section 8 (Office Market Assessment) and Section 9 (Economic Impacts) adopted different floorspace ratios for office workers, i.e. 20 sqm per worker in the former and 17.5 sqm per worker in the latter. In my opinion, the latter is more appropriate in this setting and its application within Section 8 would reduce the assessed apparent demand for office floorspace within the Preston Market PSP area from 5,213-7,819 sqm to 4,561-6,842 sqm.
5. Section 9.1 (Employment Stimulus) only assessed direct on-site ongoing employment benefits. It did not assess:
 - Construction benefits (positive);
 - Indirect employment benefits (positive); or
 - Reductions in employment in other centres resulting from the proposed redevelopment (mildly negative).

None of these issues result in the MacroPlan Report being ‘fatally flawed’ and, in my opinion, the key floorspace and other metrics set out within the report provided a reasonable basis for planning controls – where required – within the Preston Market PSP.

SGS Review

The SGS Review was supportive of the foundations of the MacroPlan Report but critical of some of the report’s key findings and suggested a significant additional study was required.

I disagree with the commentary or recommendations contained within the SGS Review as set out below.

1. I do not agree with the observation on page 2 that the MacroPlan Report was “presented from a ‘highest and best use’ perspective”. Rather, the report provided details of a potential development concept and assessed that. It is important to note that the land contemplated is privately owned and not controlled by the City of Darebin (“Council”) which commissioned the SGS Review.
2. I also disagree with the statement on page 2 that identifying the scale of potential residential development (i.e. 2,500 dwellings) “... may be premature”. As I observe later, the scale of residential development did not impact upon the net community benefit assessment carried out in the MacroPlan Report, although I do agree with the commentary on page 5 that provision of more visibility regarding development assumptions for the dwellings would have been useful.
3. As I stated in my review of the MacroPlan Report, it appears that the assessed first year of trading for the redeveloped Preston Market was 2020/21. This is before any new dwellings would be completed on site and, hence, the inclusion or exclusion of such dwellings from the “base case” scenario called for by SGS on page 12 is redundant.
4. I disagree that the MacroPlan Report’s employment estimates were based on “input-output modelling” as stated at page 17 of the SGS Review. Rather, they were based on simple employment to floorspace ratios and I have no reason to doubt the gross employment estimate of 1,050 gross new direct jobs.
5. The list of suggested “detrimental impacts” provided within the table on page 18 of the SGS Review and not considered by MacroPlan were largely social impact issues which were both somewhat emotive and, most significantly, unquantifiable by an economist. In my opinion, they were mostly irrelevant.

6. There were many comments provided within the table on page 21 of the SGS Review. In relation to the key comments, I note the following:
 - Assumptions and explanations as to how trading impacts were forecast were provided on page 96 of the MacroPlan Report and it should always be acknowledged that such forecasts can never be based upon definitive data.
 - It is simply incorrect to opine that the impact of the Preston Market redevelopment would be larger on the surrounding activity centre if the 2,500 on-site dwellings were delayed and/or reduced in number. First, as stated earlier, the impact was assessed prior to completion of any of these apartments. Second, the trading potential of the Preston Market redevelopment would change if the dwellings were taken into account and resulting impacts on other centres – including the surrounding activity centre – could be higher or lower as a result.
 - It is unreasonable to expect that “design considerations” would be locked down and considered within the MacroPlan Review. However, it is my opinion that an experienced developer such as Salta will be cognisant of the importance of such considerations and will seek to maximise interactions between the redeveloped area of the market, existing market and balance of the surrounding activity centre. One of the roles of the PSP is also to facilitate such interactions.
 - A key task for an economist when assessing the effects of trading impacts is to form a view on whether the viability of other centres will be unreasonably impacted by a new development. I believe that the MacroPlan Report contained enough detail – without requiring breakdowns of trading impacts by commodity type – to make such assessments.
 - Whilst not apparent, the impact of the redevelopment on the existing Preston Market traders should have been considered as part of the impact on the Preston Activity Centre as a whole, i.e. the modest level of -2.8% as per Table 9.2 of the MacroPlan Review. The case study analysis carried out in Section 5 of the MacroPlan Report also demonstrated that markets and traditional shopping facilities can co-exist successfully in other locations around Melbourne.
7. The Next Steps section of the SGS Review recommends, in essence, that a significant new assessment of a wide range of development options and resulting net community benefits be carried out by an independent economist. I disagree, noting:
 - The MacroPlan Report accomplished the task required;
 - The site is owned by Salta, not by Council; and
 - The prescribed “triple bottom line Cost Benefit Analysis” framework is unnecessary, with applicability suited to state-based interventions – such as a new licensing regime – rather than to a project such as the Preston Market redevelopment. Proportionality is a vital principle when specifying inquiries to be made and, here, it is clear that SGS overstepped the mark.

VPA Review

The commentary and recommendations contained within the VPA Review aligned very closely with my opinions regarding the SGS Review. Central to these was that a number of SGS issues related to non-economics issues which often had been, or would be, addressed in other forums.

Most importantly, however, the VPA Review concurred with my opinion that it was not necessary to carry out the Cost Benefit Analysis prescribed within the SGS Review.

MLG Advice

I have been directed specifically to paragraphs 148-160 and 176-185 of the MLG Advice and comments within these paragraphs relating to the SGS Review and, also, the manner by which the world may change post-pandemic.

I have already stated that I do not believe that the additional work called for within the SGS Review is necessary. Indeed, the development scheme assessed within the MacroPlan Report is, in my opinion, a balanced and appropriate outcome for a setting such as the Preston Market PSP area. I note, for instance, that the scale of non-residential and non-retail uses proposed is generally consistent with that suggested within the Council-commissioned Warman Report.

The MLG Advice's assertion regarding "... the need to ensure the accuracy of projected retail and office space" at paragraph 186 should also be regarded with the knowledge that projecting such metrics is an inexact science. Indeed, what was called for in the SGS Review was not a "projection" of such demand but, rather, a theoretical optimisation of demand and supply to achieve the best cost-benefit outcome for Council. Unfortunately, Council does not own the land.

In relation to the COVID-19 pandemic, the MLG Advice states at paragraph 154 that "In a post-pandemic economic environment, it is possible that demand for office floorspace may reduce, so too retail floorspace." I agree with respect to retail floorspace but disagree regarding office floorspace, with the distinct possibility that suburban office markets will benefit at the expense of the CBD. However, there is no certainty as to how this will play out for either retail or offices and certainly no certainty as to when we will know how demand will change as a result of the pandemic.

Specific guidance

As you are aware, I have been asked to provide specific guidance on three matters associated with the reviews I have completed and the drafting of certain components of the Draft PSP and Draft ACZ Controls. These reviews follow.

Scale of residential development

The MacroPlan Report was prepared on the basis that 2,500 dwellings would be developed within the PSP area “over the medium term”. As I have already discussed, neither the number of dwellings nor the timing of development of the dwellings influenced the assessed retail trading potential of the redeveloped Preston Market and the subsequent impact on other activity centres. This was because the new retail elements at the Preston Market would be operating before any of the new dwellings would be completed.

I am therefore comfortable with the Draft PSP and Draft ACZ Controls referencing a figure of 2,200 dwellings rather than 2,500 dwellings as assumed in the MacroPlan Report and do not consider that floorspace controls/guidance need to be changed.

Of course, I have not been provided with plans or other research which demonstrates how 2,200 or 2,500 dwellings could be delivered within the PSP Area. My comments are purely directed at whether adoption of 2,200 or 2,500 dwellings within the Draft PSP and Draft ACZ Controls is consistent with non-residential floorspace figures used in these documents.

Non-residential floorspace

Key elements of the MacroPlan Report were based upon assessment of a development scheme which included 27,450 sqm of retail, non-retail and entertainment floorspace as per Table 7.6 on page 75. As I have stated earlier, I am satisfied that the contemplated range and scale of these facilities is appropriate.

Regarding the Draft PSP and Draft ACZ Controls, it is important that the references to the 27,450 sqm floorspace figure – rounded to 27,500 sqm – are made in the appropriate and consistent manner. For example, I note that the Draft PSP states “Provide approximately 27,500 square metres of retail and entertainment floorspace in the redeveloped precinct.” at L5 of 6.2.1 whereas the Draft ACZ Controls state “To provide a diversity of employment opportunities and an integration of mixed uses and activities including approximately 27,500sqm of retail floor space ...”.

It is clear that the MacroPlan Report was based upon significantly less than 27,500 sqm of retail floorspace and this may need to be incorporated within the Draft PSP and Draft ACZ Controls.

The MacroPlan Report ultimately assesses employment outcomes based upon 5,000 sqm of office floorspace. Again, I am comfortable with this volume of floorspace. I am also satisfied with how the Draft PSP and Draft ACZ Controls seek to encourage the development of this floorspace.

Impact of COVID-19 pandemic

As I stated earlier, it is unclear as to what the impact of the COVID-19 pandemic will be on the demand for and operation of the components that could comprise the Preston Market redevelopment. What is clear, however, is that suburban centres with good access to public transport and surrounding residential population bases will, in many ways, be better positioned for the future than the CBD. The Preston Market is well positioned in this regard.

I therefore do not consider it necessary to reassess key floorspace levels used in the MacroPlan Report and incorporated at appropriate locations within the Draft PSP and Draft ACZ Controls. However, I do suggest that the 'language' used in these documents when describing floorspace levels should not be overly prescriptive but, rather, encouraging of the innovation necessary for the Preston Market redevelopment to occur successfully in a post- or with-COVID 19 environment.

Conclusion

After a review of the various economics reports and advice provided in relation to the Preston Market PSP, I am of the opinion that the MacroPlan Report provides a reasonable basis as a key input for the PSP development process. The further work prescribed within the SGS Review is unnecessary.

Flexibility will be important if the Preston PSP area is to be developed successfully. The lasting impacts of the COVID-19 pandemic – which are impossible to predict at this time – will heighten this need for flexibility which, if encouraged successfully by the PSP, will allow development of the area to adapt to capitalise on the advantages offered by its location within inner suburban Melbourne.

I trust this review is of assistance but please contact me on 0411 231 193 to discuss if required.

Kind regards,

A handwritten signature in black ink that reads 'Justin Ganly'.

Justin Ganly
Managing Director