

Vacancy Rates in Macarthur CBDs and Airds Road in Campbelltown

1. Introduction

At its November meeting the Board requested a briefing paper on the apparently high incidence of vacant commercial and industrial properties, particularly in Campbelltown. This paper, which is in six sections, addresses the issue raised by the Board. Following Introduction in Section 1, the Executive Summary documents the major findings of the research in Section 2. The Scope and Methodology employed are discussed in section 3, followed by the analysis of trends in Industrial Property and Commercial Property in Sections 4 and 5. The Conclusion is in Section 6.

2. Executive Summary

Vacant floor space is a market phenomenon, which results from the available supply exceeding demand. Ultimately the price (rent) adjusts downwards to eliminate this imbalance. However, this adjustment process is not instantaneous, so there will always be vacancies from time to time.

Vacant commercial-retail and industrial properties in Macarthur reflect subdued demand conditions for floor space, caused by recent economic slowdown, outsourcing of production and services offshore to cheap-labour economies and competition from other locations within and outside the region. Industrial land is competitively priced in Macarthur region and the volume of industrial property transactions was reasonably high in Ingleburn compared to other employment precincts. There are pull and push factors that will in future attract industries to locate to outer Sydney areas such as Airds and Smeaton Grange: abundance of blue collar workers, large lot sizes that provide scope for agglomeration, competitively priced land.

The Campbelltown CBD Hub, like Camden Town Centre, is going through a 'retail stress' as evidenced by vacant floor space in these precincts. Some of the causal factors identified were: competition from shopping malls and other town centres, high rents, parking, inconvenient trading hours, government taxes, time delays and perceived complexity of Council regulatory process.

Whatever the causes, there is an emerging understanding among all the key stakeholders, that these town centres have to reinvent themselves and regain their economic and social vitality. Councils can contribute to this transformation by implementing town centre revitalisation initiatives. But it must be noted that Councils may not have all the levers to do this on their own; the involvement of tenants, landlords, traders and their peak bodies is vitally important.

Picton does not have vacancy issues like Camden and Campbelltown, but there may be an economic cost to the extent that the limited floor space drives retail spending outside the Shire.

3. Scope and Methodology

Although the discussion at the Board Meeting centred on Campbelltown, Camden and Wollondilly have also been included in the research because the main streets of these three local government areas are interconnected; they compete against each other for the retail spend in the same regional catchment. Similarly, they also compete against each other for industrial development within the constraints of the supply of employment lands in their jurisdictions.

Anecdotally, vacancies in industrial and commercial property in Wollondilly, especially in Picton, are low and for this reason it is not a central focus of the analysis presented here. (See Exhibit A) Rather, Campbelltown and Camden industrial and commercial areas are the foci of this research. For analytical convenience industrial and retail-commercial properties are analysed separately.

As regards industrial property, data was obtained on recent sales of industrial land and buildings and lease transactions over the past six years. Key industrial precincts chosen in the Macarthur region were Ingleburn, Minto and Smeaton Grange. For purposes of comparison a number of

other competing industrial precincts from outside the region were included: Prestons, Chipping Norton, Moorebank, Milperra and Padstow. Data on the volume of vacant floor space in Airds Road was obtained from the signage on properties on the market.

Colliers Jardine's Liverpool Office is the source of data for property transactions, which admittedly are skewed towards large transactions; properties with floor area less than 1,000 M² are excluded. However this statistical shortcoming does not pose a serious problem and we are confident that the results satisfactorily approximate the general trends for industrial property.

As regards commercial property, Campbelltown and Camden CBDs were selected for analysis, in particular Queen Street and Argyle Street respectively. There are no vacancies in Picton, implying that all available commercial floor space is occupied. This is seemingly a desirable outcome, but there is the risk that limited retailing space may be constraining economic development in the LGA through a leakage of retail spending.

A walk through the main streets of Picton, Camden and Campbelltown was the method of data collection on vacant floor space. Details on rents and the quantum of floor space on the market were obtained from the following agents: Rain & Horne Commercial (Campbelltown), Knapp and Associates (Campbelltown) and Elders Real Estate (Camden). Where data on floor space and rents were not available, approximations were made based on similar properties in close proximity to the vacant property under reference. Interviews were also held to obtain insights into factors affecting retail properties with the following people: Rain & Horne Commercial (Campbelltown), LJ Hooker Commercial (Campbelltown), Main Street Coordinator (Campbelltown), a member of Chamber of Commerce (Camden) and several shop owners from Camden and Campbelltown.

The method of data collection, based on observable signage, may possibly have excluded vacant premises without a signage or those marketed exclusively on the Internet. Also, if the signage was not directly seen from the front of the premises as would have been likely in the case of multi storey buildings, the vacant office space in these buildings may also have been missed. The actual level of vacancies may therefore be understated by up to 5% of the figure presented in this report. This omission diminishes the accuracy of the research somewhat, but not its overall conclusions.

4. Industrial Property

The industrial property market in Australia, including Southwest Sydney, has been adjusting over the past three decades to a weak demand as a result of the shift of manufacturing activities to cheap labour countries in Asia. Although the resultant 'excess supply' situation has largely diminished further migration of manufacturing activities offshore remains a possibility and this continues to be a negative influence in the industrial property market. The slack in the industrial property market arising from the demise of manufacturing has been filled to some extent by warehousing and logistics business. Also, some vacant buildings have been converted to alternative uses, often with smaller footprints and with strata titles. These are typically small-scale manufacturing serving essentially the domestic market, or services catering to local needs.

The preceding narrative provides a useful backdrop to unoccupied premises in Airds Road, but there are other factors at play such as price of industrial property, competition and site access to name a few. To get some insights into these, recent sales and leasing data in the Southwest Sydney region, including Bankstown and Liverpool, are analysed below.

4.a Volume of Property Transactions

The volume of land and industrial building sales are shown for the four employment precincts in Macarthur and compared to 5 competitor precincts in the Southwest Sydney region (see Table 1). Ingleburn tops the list, with 10 transactions realising \$162 million. Moorebank and Chipping

Norton had the same number of transactions, which collectively realised \$140m. Preston recorded 8 transactions, which generated \$102m in sales revenue.

Table 1: Property Transactions, 2005 - 2008

	Ingleburn	Minto/ Campbell town	Smeaton Grange	Picton/ Malden	Preston	Moorebank /Chiping Norton	Milperra/ Revesby	Condell Park	Padstow
\$/M ²	270	130	205	140	304.9	374	398	356	497
Land, \$m	75	19	68	1	86	16	4	22	11
Land & Building, \$m	87	48	10	0	16	124	69	0	45
Total, \$m	162	67	77	1	102	140	74	22	55
Total transactions, #	10	6	7	1	8	10	9	3	5
Total transaction - Land, \$m	4	2	6	1	7	2	1	3	1

Source: Colliers Jardine

The data shows an active industrial property market in Ingleburn with a relatively higher number of transactions. In contrast, the Minto-Campbelltown area was more subdued with 6 transactions amounting to \$66.8 million in value.

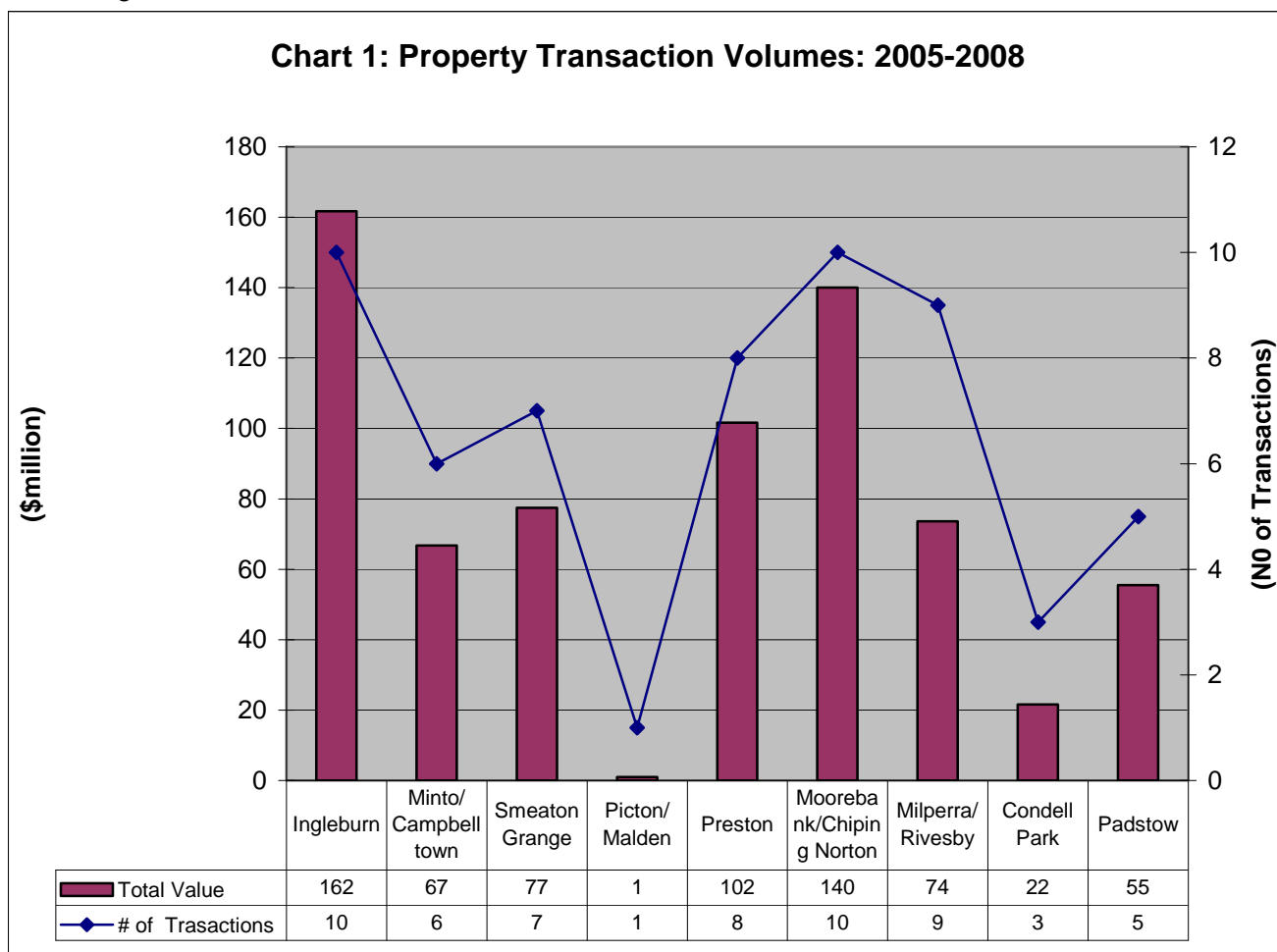
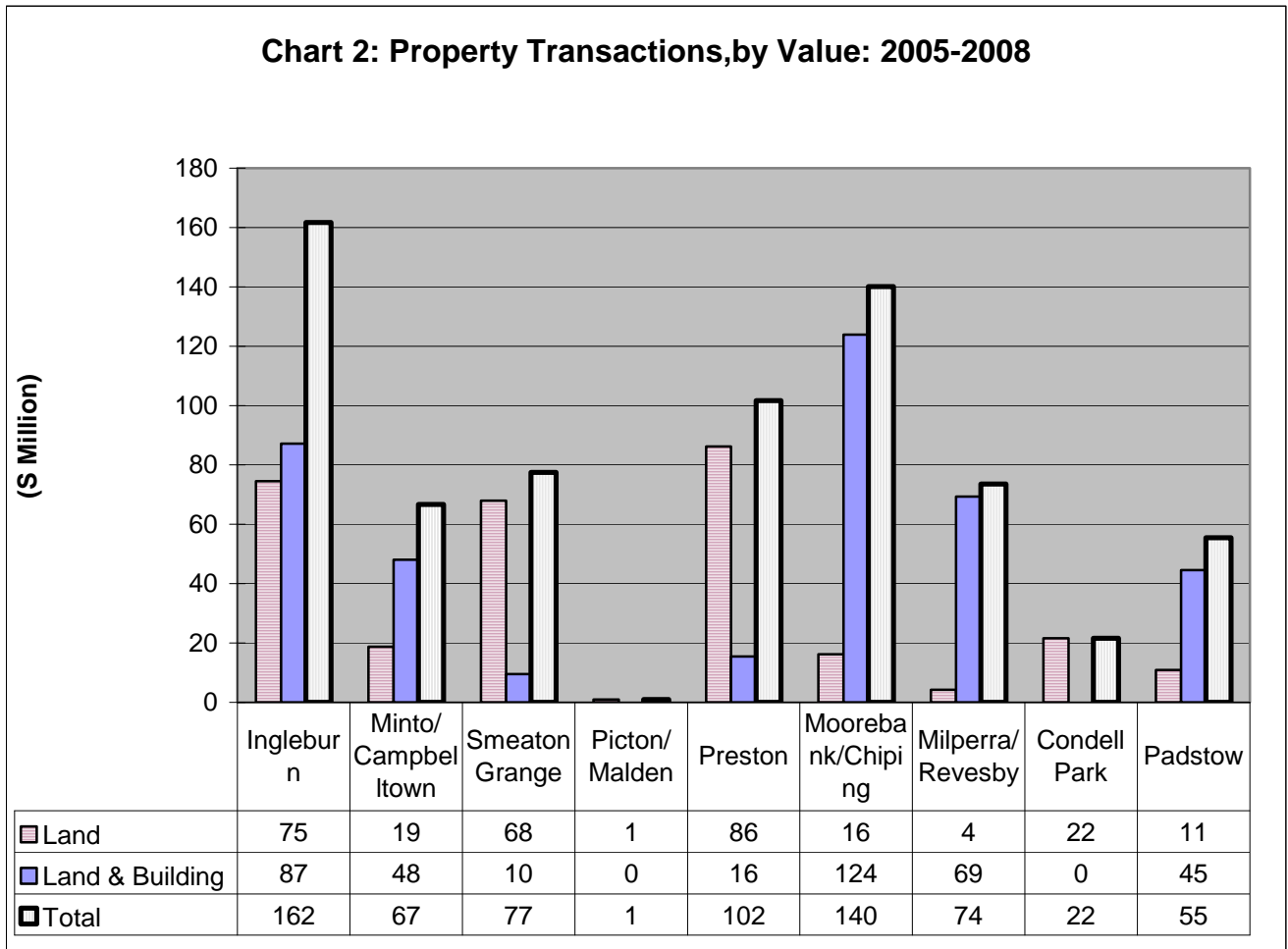


Chart 1 shows the value and number of property transactions in selected employment precincts. Ingleburn was the top selling area, judged by the number of transactions.

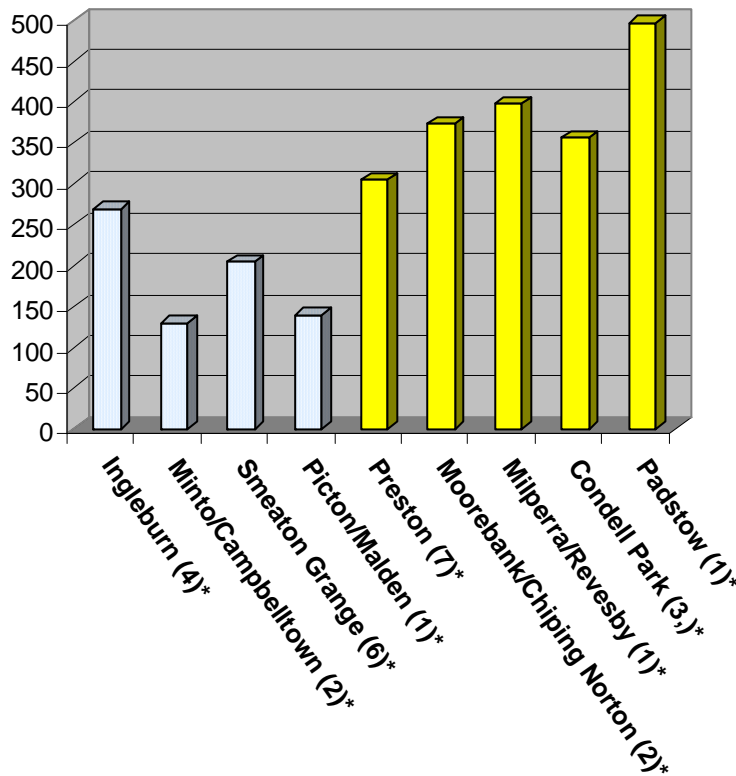
Chart 2 below shows the value of transactions, including sale of land only and land and buildings sales in selected employment precincts. In terms of sales volume, Ingleburn stands out ahead of its competitors, both within and outside the Macarthur region. In Smeaton Grange and Prestons new industrial lands were released which explains relatively higher proportion of land sales transactions relative to sale of land and buildings. The converse is true for older industrial areas like Ingleburn and Moorebank-Chipping Norton.



4.b. Land sales

Chart 3 shows the realised value of sales per square metre in the different employment precincts with the number of transactions stated in parenthesis. The lowest price per square metre was \$130 in Minto-Campbelltown. In fact, prices were lower across all the employment precincts in Macarthur region when compared to competitor employment centres outside the region. Interestingly, Preston commands a premium when compared to Ingleburn and Smeaton Grange, two of Macarthur's upmarket areas. The reason for this could be its close proximity to M7 motorway.

**Chart 3: Land Sale Prices and number in (): 2005-2008
(\$/M2)**



4.c Industrial Leasing

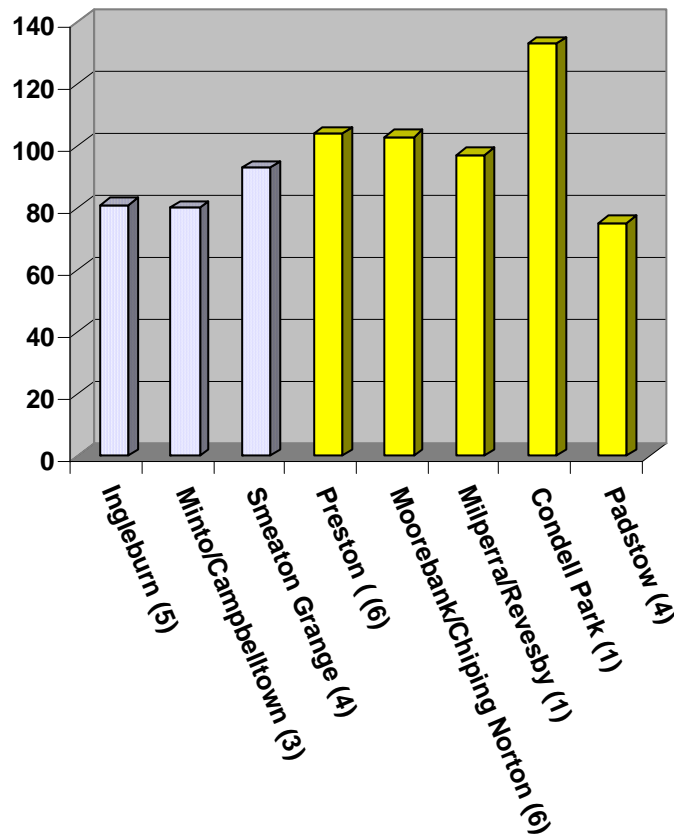
Chart 4 shows that within the Macarthur region, Smeaton Grange attracted the highest rent. Rents in other employment precincts in the Southwest were generally higher, except for Padstow where 4 large lease transactions showed consistently low rentals, implying that landlords were heavily discounting their rents on typically dated buildings to retain occupancy.

4.d Conclusions on Industrial Property

In Campbelltown, Airs Road has a concentration of vacant industrial property, estimated to be approximately 144,000 M² in site area and 58,688 M² of floor space. Two most significant vacant properties are situated at 40 and 50 Airs Road containing 56,000 M² and 54,000 M² of land respectively. (See Exhibit B).

Some of the factors affecting industrial property in Airs Road are: competition from newer development areas within Macarthur and outside the region, slowdown of manufacturing and relative inaccessibility to M7. The precinct appears to suffer from obsolescence with the presence of older style buildings that may entail significant 'do up' costs to meet the requirements of contemporary businesses. By contrast, the Ironbark Estate in Smeaton Grange is well laid out, attractively landscaped and provides suitable amenities in response to the demand for quality industrial premises.

**Chart 4: Industrial Leases: 2005-2008
(\$/M2 p.a)**



Airds Road lends itself to a mix of industrial uses. For warehouse and distribution light manufacturing and engineering (national tenant) the typical requirement is 10,000 M² and above with a minimum lot size of 4,000 M² - 1 hectare. For service and light industrial usage, the typical requirement is between 2,000- 4,000 M² with minimum lot size of 2,000 M².

Looking ahead, there are a number of factors that will affect the future growth of outer western Sydney, including Airds industrial area. First, there are the pull factors that will drive location of businesses from the inner city to outer fringes. These are:

- ❑ Campbelltown and Macarthur region have an abundance of blue collar workers
- ❑ New growth in the Southwest region will create new demand for services, including small scale manufacturing
- ❑ Lower land values in Airds Road
- ❑ Larger size of some vacant properties, providing opportunities for further expansion
- ❑ Positive Council attitude towards economic development

Second, there are a number of push factors from inner City that are likely to positively impact on development in outer industrial fringes, including Airds Road:

- ❑ High and increasing land values in Sydney
- ❑ Land taxes
- ❑ Transport infrastructure constraint

In conclusion Airds Road vacancies reflect the continued weakness in manufacturing and competition from other areas such as Smeaton Grange and Prestons, to name a few. The industrial property market is responding to the soft demand conditions, with landlords discounting rents by 10% to retain existing tenants and entice new ones.¹

Vacant industrial properties are market-driven and the market ultimately eliminates all the vacancies, except for those that are frictional or transient. Since the returns from property are private in nature, the private sector has the incentive to optimise its property income. In line with this logic, the conventional wisdom dictates that Council's take a benign approach to vacant properties in their jurisdictions.

However, if the incidence of vacant properties is perpetually high, a good case could be made for Councils to intervene to ensure that resources are fully utilised, leading to positive employment outcomes. For example, the present vacancy level implies that approximately 880 jobs can be brought into the Airds Road precinct on existing building plates without any infrastructure costs. Assuming that the vacant floor space will be utilised equally by a mix of light manufacturing/services and warehousing, the employment yield is estimated at 587 jobs for the former and 293 jobs for the latter.²

Local government can influence occupancy by zoning regulations, providing infrastructure, speedy DA processes, marketing the area and other economic development initiatives designed to support and retain existing businesses.

MACROC can likewise influence occupancy through its regional marketing, including investment seminars, which has achieved a strong traction in the investor and developer community. Through the review of MACROC Economic Development Plan in the near future, employment strategies for the region will be considered, including those related to the Airds Road precinct.

5. Commercial Property

A. Campbelltown

It is useful to view the plight of Campbelltown and Camden CBDs in the broader context of retailing trends. First, large enclosed shopping centres have emerged as a dominant retail format. They provide consumers with a large range of choices in one location, supplemented by other services - cinemas, gyms and food courts – all under one roof. It is therefore not surprising that the Campbelltown Mall and the Macarthur Square are negatively impacting on Queen Street retailers. This is further compounded by outward migration of some professional services from Queen Street to the new business park in the southern end of the CBD – Park Central. Similarly, the Narellan Town Centre is pulling trade away from Argyle Street traders in Camden.

Second, bulky goods retailing is pulling shoppers away from the CBDs. Domayne, Harvey Norman and Bunnings are examples of such stores in Campbelltown.

Third, Internet shopping has come into vogue and although this format represents less than 1% of retail sales in Australia, it is increasingly becoming popular for such items as books, CDs, toys and computer software.

Fourth, some businesses (e.g. supermarkets) are 24/7 operations designed to offer shopping convenience in the face of changes to lifestyles and household structures.

¹ Jardine Colliers representative indicated that 10% incentives are common. That is a 3X3 year lease would typically include a 3-month rent-free period.

² Based on Hill PDA Report: Employment Prospects for Southwest Sydney. 100 M² floor space per employee for warehousing & logistics and 50 for manufacturing.

Fifth, retailing is extremely competitive but product differentiation by successful branding can attract higher margins. For most other retailers, competition is largely on price and margins are typically low, implying a high sales volume to breakeven.

Finally, the costs of entry and exit to the industry are comparatively low, which means that retailing is highly footloose. The dynamics of the retail industry imply relatively higher turnover in occupancy.

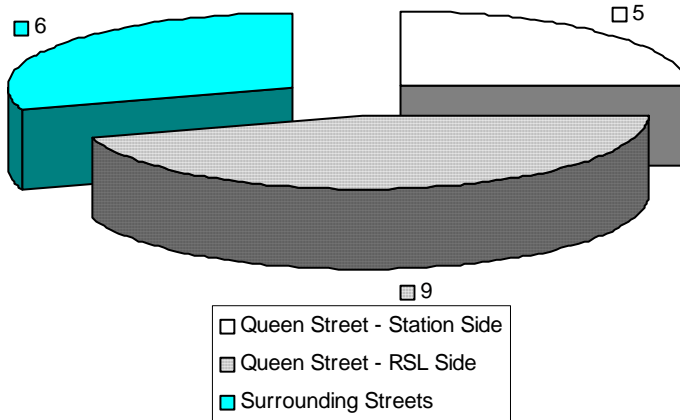
This research focuses on a smaller part of the Campbelltown CBD, covering an area bounded by Moore-Oxley Street to the east, Campbelltown Road to the north, railway tracks to the west and extending south to include the Campbelltown Mall. It is estimated to contain 239,623 square metres of total available floor space. For the purposes of this study it is the Campbelltown CBD Hub.

A 2006 Campbelltown City Council study estimated that the supply of commercial floor space in the Campbelltown CBD in and around Queen Street extending south to Macarthur Square was 304,902 square metres. This figure included 65,359 square metres of floor space covering the Catholic Club and precincts in and around the Macarthur Square.

The major highlights of vacancies in Campbelltown CBD Hub are:

- Approximately 23 shops were unoccupied
- Of these two were under contract at the time of writing this report, one was vacant but not on the market and 20 were on the market.
- Some 14 or 88% of vacant shops were in and around Queen Street while the remaining were in Dumaresq, Chamberlain and Hurley streets.
- Of the 14 Queen Street shops vacant, 5 were on the railway side whereas 9 were on the RSL side (See Chart 5.)
- Approximately 3,354 square metres of floor space were vacant
- The vacant floor space ranged from 60 M² to 1056 M².
- Approximately 2581 M² or 77% of vacant floor space was concentrated in Queen Street, with the railway station side making up 633 M² (25% of total) and RSL side comprising 1,948 M² (75%). (See Chart 6)
- The vacancy rate (measured by the ratio of vacant floor space to total available floor space) for the CBD Hub was 1.4% and 1.1% for the more widely defined Campbelltown CBD (see Table 2).
- The average 'asking' rents on the railway side was higher at \$428/ M² plus GST per annum, compared to \$270/ M² plus GST per annum on the RSL side. This rental differential reflects the volume of daily foot traffic.
- The study found a higher rental yield in areas outside the Queen Street, which is somewhat counter intuitive. One explanation could be that the substantial discount being offered on the large ex Paul Warehouse building has pulled down the average rent on RSL side of Queen Street.

**Chart 5: Distribution of Vacant Shops: Campbelltown
(20 shops)**



**Chart 6: Volume and Composition of Vacant Floor Space:
Campbelltown
(Total = 3,354 SQM)**

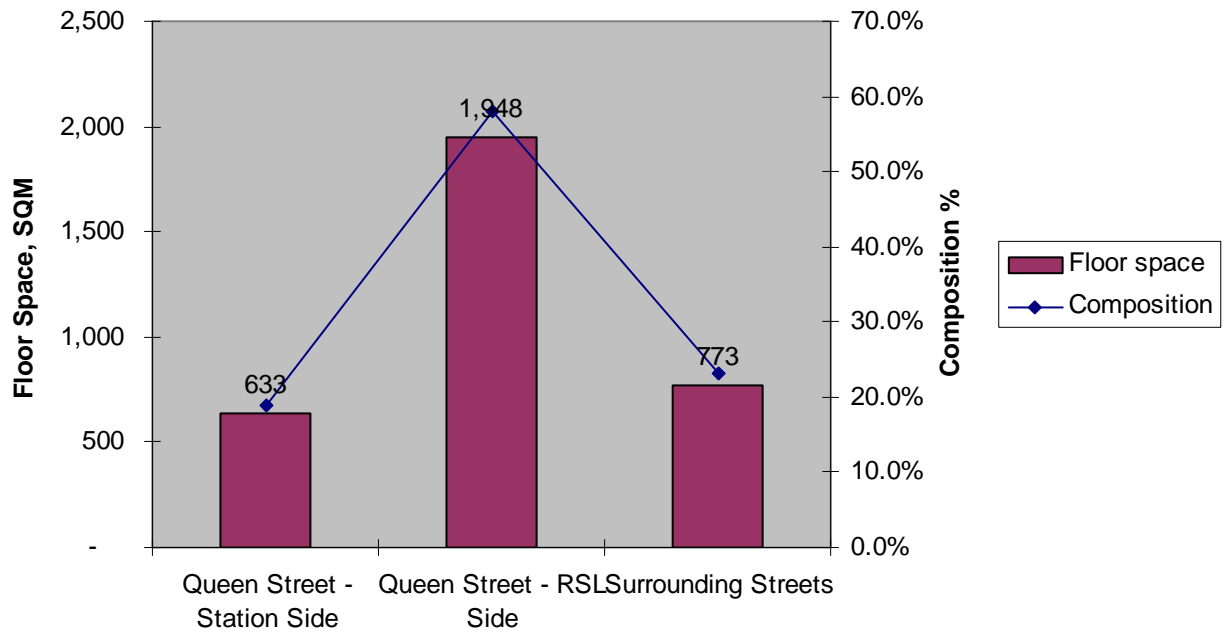


Table 2: Vacant Floorspace and Shops in Campbelltown

	CBD Hub Queen Street (Station Side)	CBD Hub (Queen Street (RSL Side))	CBD Outer streets	Total	Vacancy rates %	
					CBD Hub	Campbelltown CBD
Vacant Floor Space, SM ²	633	1948	773	3,354	1.4%	1.1%
No of vacant shops/offices	5	9	6	20		

The vacancy rate is likely to increase with 26,110 M² of additional floor space under construction: Marsdens (1,055 M²), Factory Outlet (18,000 M²) and RSL (7,055M²). This will likely exert a downward pressure on rentals, forcing up capitalisation rate for commercial property³. In other words, property values will be adjusted downwards to reflect over supply.

During limited consultation with key players, involving real estate agents and shop owners, a number of reasons were advanced to explain the high incidence of vacant shops in Queens street e.g:

- ❑ Competition from the Campbelltown Mall and Macarthur Square
- ❑ Lack of destination shops, some of which have moved into or near the main shopping malls
- ❑ Limited parking
- ❑ Council's regulatory processes are slow and perceived to be difficult by prospective tenants
- ❑ Perceived insecurity caused by misdemeanours and intimidating behaviours
- ❑ Unrealistic expectations of landlords
- ❑ A very large footprint of one of the vacant shops ex Paul's Warehouse (1,055 M²) is not conducive for boutique retailing.

It is not the intention of this report to recommend solutions to the complex problems identified above except for three observations. First, we understand that the newly appointed Main Street Co-ordinator plans to develop a comprehensive response to the issue of vacant retail premises, including a business kit to help prospective tenants meet Council's regulatory requirements. This should ease the perceived difficulty of Council's regulatory process.

Second, high vacancy rates in a precinct create a negative perception of its economic vitality and when the vacant premises are accompanied by vandalism and graffiti, as some are in Campbelltown, the retail precincts become even less attractive for business and as places for social interaction. (See Exhibit C)

Third, in response to the claim that rents demanded by landlords were 'excessive' a quick desktop research was conducted comparing advertised rents in CBDs of Campbelltown, Liverpool and Bankstown. The results in Table 3 below are inconclusive. When just the railway side of Queen Street is used, the rents appear to be higher but when asking rents from both sides of the Street are averaged, they appear to be lower than those in other centres.

Because retail rents are highly sensitive to location, floor plate size, foot traffic, building features, and the availability of parking, the results have to be viewed with caution. In any case,

³ This is a market-determined rate applied to the property's net income to determine its value at a specific date.

consultation with real estate agents revealed that rents were highly negotiable and that the landlords were willing to “meet the market”.

Table 3: Advertised Rents in selected CBDs

CBD	Location	Size	Rent \$/M² p.a (GST exclusive)	Average Rent \$/M² p.a (GST exclusive)
Bankstown	Featherstone Street	81.8	\$456	\$379
	Cnr Ricard Road & Kitchener Parade	98 M ²	\$302	
Liverpool	Memorial Avenue	85 M ²	\$450	\$376
	George Street	83 M ²	\$173	
Campbelltown	Queen Street (Railway side)		\$428	\$349
	Queen Street (RSL side)		\$270	

In conclusion it is estimated that vacancies in Campbelltown CBD can potentially provide 168⁴ additional jobs if the existing unoccupied floor space was fully utilised.

Although, the MACROC-Commissioned Hill PDA Report⁵ did not specifically consider the narrowly defined CBD as does this report, their recommendations for future growth of Campbelltown – Macarthur Major Centre provide a regional context to the issue of retailing in the Hub. In particular:

- Support the preparation of a Master Plan that will enhance the Campbelltown - Macarthur Major Centre’s status and objective to become a Regional City.
- The Master Plan should seek to protect the viability of retailing uses within Campbelltown Centre with appropriate zoning (via Zone B3 Commercial Core in accordance with the LEP Standard Template).
- The B3 Zone could also minimise potential adverse conflicts between retailing uses (i.e. bars, restaurants and night time venues), and with more sensitive residential uses. The potential for bonus FSR’s for desirable commercial uses should also be investigated. This could support the economic rationale for a commercial use to locate within the Centre.
- It will be important for the Centre to capitalise on lifestyle and tourist retailing by promoting a cosmopolitan and efficient use of land in the Campbelltown Town Centre.
- The land surrounding both sides (western and eastern) of Campbelltown Station has development potential for greater commercial and / or mixed use zones. The area also has the potential for higher density residential development as identified by Campbelltown City Council’s Draft Structure Plan for the Centre.

Master planning has already started with the release in 2007 of the framework document, the Structure Plan. The recommendations of the Hill PDA Report will inform the planning process.

⁴ 20 M² per employee for retailing and office was quoted in the Hill PDA Report, p118

⁵ Employment Prospects for Southwest Sydney Hill PDA (2008) p116.

Inevitably though, the future of the Campbelltown CBD Hub will involve significant changes to become a vibrant, flourishing and integral part of the bigger Campbelltown CBD as foreshadowed in the Structure Plan.

B. Camden

Argyle Street is the CBD precinct for Camden. The gross floor space in Camden measured in terms of Gross Lettable Area (GLAR) was estimated at 50,000M². Another 28,358 M² of GLAR exists in Narellan Town Centre, which competes with businesses in Argyle Street.

There were 9 empty shops vacant in Camden with an estimated 830 M² of floor space. This constituted 0.2% of the estimated gross floor space⁶. 4 empty shops are concentrated in the Capital Arcade on the Council side of Argyle Street (see Exhibit D). Collectively they are estimated to contain 240 M² of floorspace. We understand that 2 more shops were on the verge of leaving the Arcade but at the time of writing this report they were not on the market. The remaining 590 M² were on the St Johns Church side of Argyle Street.

Among the reasons for difficult trading conditions in Camden CBD identified by the respondents are:

- ❑ “Hobby” retailers not opening shops on Sundays
- ❑ Closure of few destination outlets e.g. RTA
- ❑ High rents
- ❑ Landlords’ financial capacity to leave their premises unoccupied.
- ❑ Competition from Narellan and Campbelltown
- ❑ Not enough car parks
- ❑ Government taxes and charges are driving up rents

Retailing in Camden, as in Campbelltown, is going through a stressful time, exacerbated recently by the abrupt economic slowdown. The precinct needs to reinvent itself and find a new niche that focuses on its natural advantage e.g. heritage, and natural amenities. It has established a reasonably strong presence in the domestic tourism market, which could be further strengthened to support retail trade.

Quite apart from the revenue forgone by the landlords, vacant retail floor space provide the opportunity to increase employment yields without building additional infrastructure to support job growth. At 20 employees per square metre the employment yield is estimated at 42 fulltime equivalent jobs.

Commercial drivers, namely the population size and its buying capacity determine to a large extent the demand for retail space. Convenience and access are also vitally important. Generally the market determines the number of retailers in any particular trading area but Councils can influence the growth of retailing through developing local area revitalisation plans, FSR requirements, facilitation services to co-ordinate issues between the landlords, tenants and the Council. Any revitalisation strategies in Camden need to aligned to hierarchy of retailing for the entire LGA and in this context the following recommendations⁷ of the MACROC- commissioned Hill PDA Report, 2008) may be helpful.

⁶ The MacroPlan Australia estimated Camden Shopping area in Gross Land Area terms (GLAR) to be 50,000 M².

⁷ The Hill PDA Report on the Employment Prospects for South West Sydney, August 2008, p115

- ❑ **Camden Town Centre:** support the future development of Camden Town Centre as one of the LGA's primary civic, cultural, retail and commercial centres. The Centre should embrace new tenants and development whilst protecting its heritage and main street character. Camden Town Centre's historic distinctiveness should be further supported by local development controls that protect the town's street layout, heritage items, public and open spaces, as well as community and health related business uses.
- ❑ **Narellan Town Centre:** support the growth of Narellan as a complementary Town Centre to Camden with civic, community and expanded retail and commercial functions. There are also opportunities to consider expanding existing supermarket floorspace, department stores, and new speciality retail shops.
- ❑ **Villages:** support emerging villages (for example, Spring Farm and Mt Annan South) in the LGA by strategically planning the location of small neighbourhood and convenience retail centres that minimise the need to travel.
- ❑ **New Centres:** support the development of new centres that address the growth in demand resulting from land releases. In particular, support the Oran Park Local Centre and the planned Major Centre at Leppington.

It will be noted that Camden Council has already formulated a town centre revitalisation strategy, some aspects of which are being implemented.

6. Conclusion

Property vacancies arise from the interplay of market forces. They tend to be self-correcting, with prices (rents) adjusting to equilibrate the demand and supply. However, the adjustment period may sometimes be long, resulting in a loss of employment opportunities and incomes. When the incidence of vacancies is high in the town centre, the hub for community interaction, there are deleterious social impacts: a loss of a sense of belonging to the place and a loss of community pride. These reasons provide a compelling case for local government to formulate and implement plans to develop and reinvigorate their employment precincts.

Both Camden Town Centre and Campbelltown CBD Hub are experiencing retail 'stress' as evident from vacant shops. The causes are numerous and diverse and some of the data and observations provided will hopefully complement Council's ongoing policies and programs to support their local town centres.

Imam Ali
 MACROC Economic Development Officer
 30 December 2008

Exhibit A: Picton Town Centre - Nil Vacancy



Exhibit B: One of two large properties on the market at 40 Airs Road



Exhibit C: Vacant Shop in Campbelltown graffitied



Exhibit D: Capital Arcade - Four Shops Empty in Camden

