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Submission to ACCC - Supermarkets Inquiry Issues Paper

Background

Fawkner Property ('Fawkner') is a long-standing Fund Manager, headquartered in Melbourne, Victoria. Fawkner, as a fund manager invests in commercial property investments on behalf of broad investor groups, which range from 'mum and dad's' personal retirement savings to institutional joint venture partners.

Fawkner Property presently has \$3B of assets under management, and as trustees on behalf of these investor groups similarly manage the real estate day-to-day performance and management of these investments. It is through this relationship that Fawkner has daily interaction with Coles and Woolworths via a tenant-landlord relationship. At present, Fawkner is landlord to Eight Coles and Nine Woolworths, whilst landlord to 64 Coles Express Service stations (formerly under COLES ASX ownership).

One would imagine these relationships to be somewhat challenging, adverse, or combative given the competing needs at large between a landlord and tenant. However, the basis of this submission seeks to present the contrary, that the two leading supermarket operators are fair, reasonable, and entirely valued and necessary contributors to the Australian retail landscape. Let it be said, that without Coles or Woolworths there would be no Australian retail landscape, meaning no new shopping centers built, and no place beyond a typical 'High St' retail strip for retail tenancies.

Our dealings are at odds with public and political representations of the matter.

The Model Australian Tenant

Fawkner as a retail landlord enjoys deep rooted relationships within the executive team of both supermarket groups. The dealings are transparent, fair, and based on the simple philosophy of 'win-wins'. The day-to-day interactions across the combined annual rental income in excess of \$28,000,000 are conducted in an exemplary fashion by Property Directors of Coles and Woolworths, Fiona McKenzie and Jon Savell respectively, alongside their broader teams.

As a landlord, one relies upon the rental income to service its ongoing financial commitments to its financiers and investor groups to ensure these remain going concerns.

Without fail, the two tenants pay their rent on time and on budget. A continued theme of on budget and on time is present throughout the dealings with said parties.

It is important to note that the anchor tenants, Coles, and Woolworths are of the utmost importance to the retail landscape, directly employing 320,000 + people through their own employ. However, the presence of these tenants in retail shopping centres given the footfall produced from their very presence enables the further employment of other retailers to be in the many millions. Retailers rush to be positioned next to the two supermarkets such is their draw card. This cannot be underscored by their significance in presence alongside their own employment opportunities offered.

Further, given the recent cost of construction and development, the only new retail developments that are feasible are with the very presence of these anchor tenants, without them, shopping centre developments are not feasible.

Development Risk – Low to No Return.

With the lack of feasible development success (**at no to low margin**) in developing said shopping centres, the only willing participant to provide development to these centres and take on considerable development risk is, and has been, Woolworths & Coles through their integrated development subsidiaries. Beyond themselves operating at a retail margin of circa 5%, they contribute significant capital to their own projects at often a significantly worse margin. Normal developments would seek a development return NET of 20%.

The developments without these anchor tenants, paying the rents they do, render the projects grossly uneconomic and unfeasible.

In developing these retail centres, Coles and Woolworths are operating in a high-risk, low-margin environment. We are not, for one second critical of this, rather appreciative of the service they provide and continue to provide to the Australian public. Without these developments, metropolitan and regional markets would not have the range, quality of offering or competition that is evident today. These developments and projects simply would not exist.

We reject the notion they are highly profitable, greedy corporations benefiting off the public for their own gain.

As a business, we ourselves, on a risk-adjusted basis, would not engage in the work Coles and Woolworths do. They take on considerable risk, for a low return, further compounded by enormous public scrutiny for the work they engage in. Whilst not only being a leading payer of tax in Australia (contributing to social, economic and welfare needs), both Coles and Woolworths lead significant social changes throughout their organisations, of which Fawkner has direct alignment.

Corporate Citizens

Environmental and Social Governance

Throughout many of Fawkner's managed assets, both Coles and Woolworths have sought consent to install and manage solar networks throughout their tenancy and demised areas.

We naturally consented and have partnered and supplied Coles & Woolworths with our own solar upon their requests at centres where it is the landlord's responsibility. Whilst the economic benefit of solar energy is well documented, the initial investment is not trivial for large-scale solar infrastructure. Both tenants have happily installed and managed solar initiatives at their own cost, reducing their carbon footprint, whilst driving down their own costs. Again, a win-win. A sustainable and fair occupancy cost is desired for both landlord and tenant, whereby this symbiotic relationship can long continue.

Waste management, compliance, and safety amongst a vast number of sustainability measures are always at the forefront of the tenants' needs, with support from Fawkner to have best practices in all centres. The ultimate beneficiaries of these best practices are consumers, staff, and customers, having provided for them safe and secure places to shop.

Charitable Endeavours

Woolworths and Coles are always supportive and engaging in local charitable endeavours of which their tenancy is found. Fawkner has significant regional exposure through its ownership and management of regionally located shopping centres. Community engagement and buy-in is central to the functioning of the local community. Both tenants are only so happy to sponsor local events, host BBQs and donate food and beverages for fundraisers. They seek not public recognition, nor thanks but do so knowing the critical continued role they both play in engaging and supporting local communities.

In areas where there is a greater percentage of Aboriginal and Torres Strait Islander residents, we have witnessed firsthand both Coles and Woolworths direct community engagement through the support of local programs, initiatives and employment. Fawkner's asset in Cairns is a testament of the support of Woolworths and associated groups. BIG W have partnered with Fawkner and a local community bike repair program to provide transportation by way of refurbished and new bikes to local community members. This is not of public knowledge or advertised at scale but done so for local beneficiaries. The generous donations and support of Big W and Woolworths allow such community initiatives to thrive.

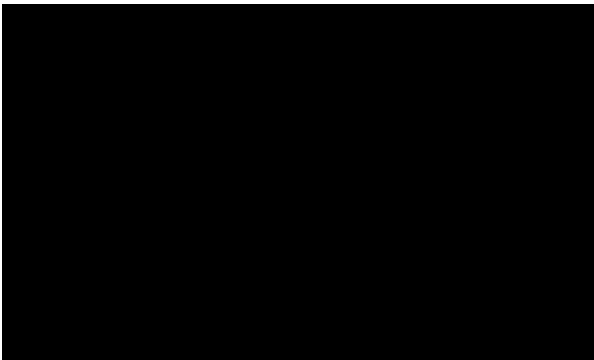
Presently, Woolworths are actively working with Fawkner in the establishment of a local health and wellbeing pilot program in partnership with a newly established gym (in Cairns) to further prioritise the health and wellbeing of the local community. Another example of strong community engagement completed without media attention or recognition. Again, without the support of Woolworths, this program simply would not get off the ground. We have had countless examples of this throughout our 14 years of relations as tenant and landlord with both parties.

Conclusion:

In summary, Fawkner's lived experiences are at odds with the recent narrative presently peddled by both political parties. Coles and Woolworths, their staff, contractors, and representatives have conducted themselves from all exposure in a matter becoming of all leading corporate citizens. We wish to express our support to both groups and commend them on their efforts, dealings, and continued endeavours in providing convenient offers,

creation of jobs en masse and a competitive marketplace of which broader Australia is the beneficiary.

Signed



**Chris Garnaut
Chief Investment Officer
Fawkner Property Ltd**

Signed



**Samuel Ellis
Director
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