

**Public hearing – Sydney**

**2 April 2008**

**Time:** 12 noon – 4pm

**Address:** Crowne Plaza Darling Harbour  
150 Day Street

**Room:** “Druitt Room” – for hearing - Pre-function level

<b>Time (indicative only)</b>	<b>Witness</b>	<b>Submission</b>	<b>Summoned</b>
12 noon	Kimberly-Clark Australia Pty Limited  <b>Mr Stephen George Marsh</b> General Manager, Consumer Sales	N/a	Summoned & compelled to appear by ACCC
2.00pm	Stockland Corporation Limited  <b>Mr John Schroeder</b> Chief Executive Officer, Retail Division	N/a	Summoned & compelled to appear by ACCC

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## TRANSCRIPT OF PROCEEDINGS

### **AUSTRALIAN COMPETITION AND CONSUMER COMMISSION**

**MR JOHN MARTIN, Commissioner**

### **GROCERY PRICE INQUIRY HEARING**

**CONDUCTED AT: CROWNE PLAZA, SYDNEY**

**DATE: 12.00 PM, WEDNESDAY, 2 APRIL, 2008**

COMMISSIONER MARTIN: Good afternoon, everyone, my name is John Martin. I'm a commissioner at the ACCC and one of the presiding members of the public inquiry into the competitiveness of retail prices for standard groceries.

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I welcome you to this hearing and express apologies on behalf of the chairman, Graeme Samuel, and my other colleague, Dr Stephen King, who are the other two commissioners conducting this inquiry. They have been held up in Canberra on other matters, and I'll be conducting the hearings today.

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Yesterday, Graeme Samuel gave a comprehensive rundown on the basis for the grocery inquiry and the hearings that we are conducting, so I won't go over that ground in relation to today's hearings, except to say that the document that Graeme referred to in terms of the information that is available has been provided publicly, has been provided to all stakeholders, the media and interested parties, and is available. Certainly our staff are here and can provide any background information.

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As Graeme Samuel said yesterday, we are organising the hearings throughout Australia during April and several hearings will occur in May, in Melbourne and other places. Some of the witnesses at these hearings are not attending voluntarily and have been summonsed to appear under section 95S of the Trade Practices Act. In particular, I note that in general the ACCC has summonsed all supplier companies, therefore no conclusion can be drawn regarding a company's willingness or otherwise to participate in the inquiry from the fact that a company is appearing at the hearings.

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In terms of today's hearing, our first hearing is with Kimberly-Clark, and I understand that certainly you have been summonsed to appear here. Perhaps, just for putting on the record, we will probably hold this in private hearing, but just in terms of the record, if the representatives of Kimberly-Clark can state their name and their role in the company?

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MR MARSH: My name is Stephen Marsh, I'm general manager of our consumer sales business.

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MR ANDERSON: And I'm Robert Anderson, representing Mr Marsh. I'm chief counsel for Asia Pacific for Kimberly-Clark.

COMMISSIONER MARTIN: I think you were summonsed to appear?

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MR MARSH: That's correct.

COMMISSIONER MARTIN: Having discussed the preference on both sides that we have this in closed hearings, given that there may be many commercial and other confidential matters - - -

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MR ANDERSON: That's correct.

COMMISSIONER MARTIN: - - - could I ask for those who aren't either involved with Kimberly-Clark or with the ACCC if they could vacate the hearing, because we will conduct it in private.

- 5 For your information, we will be holding the next hearing with Stockland at 2.00 pm. That will at least commence as an open hearing, so in terms of timing that will be the next public hearing that we will be having. Thank you.

10 **CONTINUED IN TRANSCRIPT-IN-CONFIDENCE**

**CONTINUED FROM TRANSCRIPT-IN-CONFIDENCE**

**RESUMED**

**[2.14pm]**

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COMMISSIONER MARTIN: We'll commence. Once again, my name is John Martin, I'm a commissioner with the ACCC and one of the presiding members of the inquiry into the competitiveness of retail prices for standard groceries.

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We have as a witness Stockland, who are a property developer. I might say, the property groups, we are intending to see several, or invite several managers of shopping centres, and it's totally coincidental that Stockland are the first cab off the rank. The shopping centre owners do have a role in dealing with the grocery outlets, and we would be exploring that.

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Welcome, Mr Schroder. Maybe you and your other people attending with you could just give us your title and your details?

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MR SCHRODER: Thank you, Mr Commissioner. We are delighted to be here to assist the ACCC. My name is John Schroder, I'm the chief executive officer of Stockland Retail, which is a wholly owned business unit of Stockland, the Stockland group.

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COMMISSIONER MARTIN: You have other representatives?

MR GUIRGUIS: Ayman Guirguis from Blake Dawson.

MS TROTTER: Melissa Trotter from Blake Dawson.

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DR PALLAVICINI: Stephen Pallavicini from Stockland.

MR SCHRODER: And Johanna Keating, who is the head of government affairs for Stockland as well.

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COMMISSIONER MARTIN: I just wanted for the record to remind you that it is an offence under the Criminal Code to give evidence at this inquiry that a witness knows is false or misleading or omits any matter or thing without which the evidence is misleading. You understand that?

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MR SCHRODER: Yes, Mr Commissioner.

MR O'DONOVAN: Thank you. Just before I pass over to Damien O'Donovan to conduct the hearing, you were summonsed to come here today?

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MR SCHRODER: Yes.

COMMISSIONER MARTIN: Thank you.

MR O'DONOVAN: Just briefly, could you outline, firstly, the activities of the Stockland company, or at least the section of Stockland which you are CEO of?

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MR SCHRODER: Yes, I would be happy to do that. Stockland Retail, with the exception of being a general contractor, is an all-service retail property developer and asset manager across pretty much every retail asset class that we would consider to be retail in Australia, from boutique, small things, all the way to large things and mixed use.

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MR O'DONOVAN: In terms of the part you are responsible for, is it true to say that you build the assets or manage the building of the assets, as well as managing them once they are built?

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MR SCHRODER: Yes.

MR O'DONOVAN: So you would take a project from vacant land through to an operating retail centre and manage that centre through the life of the centre, or as long as Stockland sees a business case for running that asset?

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MR SCHRODER: Yes.

MR O'DONOVAN: Is that fair to say?

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MR SCHRODER: Yes.

MR O'DONOVAN: In terms of your role within the organisation, firstly, what are the key activities which you are responsible for?

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MR SCHRODER: Our existing portfolio of assets is circa \$4.5 billion, and myself and my team of seven general managers are responsible for asset managing the existing portfolio and developing, or redeveloping as the case may be, those assets, to maximise the overall total return for the Stockland shareholders.

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MR O'DONOVAN: In terms of the work that you do, do you have direct dealings with tenants of the Stockland group?

MR SCHRODER: Not all of them but some of them.

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MR O'DONOVAN: Could you name which tenants you do have direct contact with and why it is necessary for you to become involved in those particular relationships?

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MR SCHRODER: Principally, the larger customers, the department store owners - Myer, for instance, Texas Pacific Group, the Woolworths group, JB Hi-Fi, the Just

group - so principally the larger customers. I do from time to time deal with our smaller customers as and when required.

5 Generally, from a broader perspective, my role is in terms of setting the agenda between our customer and Stockland as to where we're both going and where we can come together to create positive business outcomes for both of us. I do not get into the deal making. That is left to my individual general managers.

10 MR O'DONOVAN: Would a customer like Aldi be at a sufficient size for you to have found it necessary to deal with them?

MR SCHRODER: Yes.

15 MR O'DONOVAN: And Franklins?

MR SCHRODER: I have not met Franklins since I returned to Australia. I returned to Australia in October 2006 and I have not at this point had a need to meet with Franklins. I think - I'll stand corrected - but I think some of my staff have, but I have not. But Aldi, yes.

20 MR O'DONOVAN: In terms of the development process, where there is, I suppose, an opportunity for a retail centre to be established, what I'd like to understand is Stockland's role in initiating that process. Are there steps that Stockland takes to initiate a development or is it reacting to actions taken by, for example, a council, when deciding to set up a retail development?

MR SCHRODER: I assume your question is referring to a vacant piece of land and not an existing asset?

30 MR O'DONOVAN: Yes, if you start with a vacant piece of land.

MR SCHRODER: We would characterise that as a greenfield opportunity. Depending on the long-dated nature, or the short-dated nature as the case may be, of that greenfield opportunity, it could well be that the council has invited us in, because they are far enough along in their process of zoning, density and development control and local environmental planning that we step in and then execute. That's on one side of it.

40 The other side of it is the longer dated ones, where we simply look at the way the population corridors are developing around Australia and form a view on where over the next 5, 10, 15, 20 years, as the case may be, the population and infrastructure development will move a certain way, and therefore it's economically sensible to get involved in land today that is largely unzoned and has no infrastructure. That we would call a more longer dated greenfield.

45 MR O'DONOVAN: Just dealing with the first class, at the point at which a council would contact you, they would have already identified the need for additional retail

in their council area; is that fair to say? Is that your understanding of why they've called you?

5 MR SCHRODER: Not necessarily. Sometimes, I think in some instances the local government may sense that there is a need, and they may contact us or we may contact them, or our people are out there scouting around, our new business people, and they form a view that a particular area of Australia is under-serviced in retail. Before we do anything, the first thing we try to establish is what is the consumer demand profile in the short term, medium term and long term, because that is the thing that underpins everything we do. It's all consumer demand driven. That's the first step in the whole process.

15 MR O'DONOVAN: You referred earlier to sometimes the council will approach you, or will approach Stockland?

MR SCHRODER: There have been occasions, yes.

20 MR O'DONOVAN: That's presumably in reaction to council assessing that there's a need for some development within the area?

MR SCHRODER: Some of the more sophisticated ones do, for sure. But I think most of what Stockland does is to assets that it already owns or controls, which we refer to as a redevelopment.

25 MR O'DONOVAN: Then let's look at where you've acquired some land which you think will need retail developing at some point, and then you decide that there have been changes around that piece of land which now make it appropriate for development, but it's not yet zoned retail.

30 MR SCHRODER: Yes.

MR O'DONOVAN: Would you then approach the council about getting it rezoned for retail?

35 MR SCHRODER: Yes, we would. In fact, generally, prior to becoming the owner of that freehold interest, we probably would have already engaged the council, to get a sense from them on whether or not they have a view and whether or not their constituents and local residents have a view as to whether or not that location or trade area, as we call it - a trading area or a catchment area - would sustain a retail development over time. And if the local government says, "Yes, we think so," and we do our research and the consumer-driven research sort of supports that, then we may take the risk and buy the land, and then go through the process.

45 MR O'DONOVAN: At the point at which you're buying the land and initiating that process, will you be as far developed in terms of your development concept that you already have an idea of the specific tenants that you would want and the specific, I suppose, mix of the development that you want to build?



MR SCHRODER: We would certainly talk to probably all the large anchors, to get a feel for their demand.

MR O'DONOVAN: Who would you include as a large anchor?

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MR SCHRODER: I think in those cases it would be the two major department store players, David Jones and Myer. It would be the large supermarket operators, Woolworths, Coles, Aldi.

10 MR O'DONOVAN: Aldi does make that list now?

MR SCHRODER: Yes, it does, yes. Woolworths, Coles, Aldi, in some cases IGA, Metcash IGA. In some cases it may be somebody as small as Harris Farm, here in New South Wales, depending on what we're dealing with. Then we'll get a sense as to what the discount department store line-up could be over time, Target, Big W, Reject Shop, Kmart, that sort of thing.

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MR O'DONOVAN: Is that to get a sense of whether their interest is going to reflect - if they are interested enough in a project, then it's looking more likely that you should be progressing that project?

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MR SCHRODER: I think the simple answer to that is yes. If it's longer dated, we may take the risk. If it's shorter dated, we would want to know that they're committed.

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MR O'DONOVAN: At this point - and we're still at sort of the pre-council approval process stage - what level of commitment are you expecting from an anchor tenant?

MR SCHRODER: We would expect offer and acceptance.

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MR O'DONOVAN: That's an agreement to lease when it's finished?

MR SCHRODER: Not a binding, what we would call in our industry agreement for lease that's binding, because agreement for lease is the last action before the lease. It is before that. It's an exchange of concept about size, footage, basic economic terms. But it's not binding on either party. It gives us enough sense to form the view that it is economically sensible for the Stockland shareholders to keep going.

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MR O'DONOVAN: In terms of who you need signed up, do you just need one?

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MR SCHRODER: That depends on the scale of the project. If it's a little neighbourhood centre which would sit in between a large residential subdivision that Stockland would do - and Stockland does a lot of those across Australia; we are the largest residential developer in Australia - I would say one would be enough. If it's a 5,000 square metre neighbourhood facility that we all know about, an Aldi-anchored one or a Woolworths-anchored one or a Coles-anchored one, as the case may be, that sort of thing. But for a very large major retail shopping centre, it's a completely

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different line-up. Before we would go and invest substantive amounts of our capital in some of the very large ones we're doing, we would want signed binding agreements for lease.

5 MR O'DONOVAN: In terms of the economics of it, is it better to have certain kinds of anchor tenants? Does it make it easier for you in terms of talking to your bankers and getting finance for that project? This may be confidential, and I'm happy to pursue it later if you think that it is, but are there better kinds of tenants, in terms of making your job of getting it off the ground easier?

10 MR SCHRODER: I think I can answer that generally. Generally, Stockland does not have individual debt against any one asset, and the market is well aware of that. To comment on those specifics, we would have to do that offline. But in a general sense, again, depending on the scale of the project, we may be comfortable in proceeding with one lease with a supermarket, or in the case of one project we're doing right now, it's one lease with Harris Farm, and we're getting on with that; versus the very large ones, where we're putting substantial amounts of capital. Marylands here in Sydney, for example, is under construction, it's a very large project, it's a tear down and rebuild, in effect, of a, I would say, somewhat obsolete product. The investment we're putting into that is substantive, therefore I would insist of my general managers that binding agreements for leases are in place, subject to Stockland final board approval. And we would not approach our board until that is finished.

25 MR O'DONOVAN: But focusing on the financing issue, I suppose, the structure of your business doesn't mean that a banker is going to run their eye down the anchor tenant list and say, "Look, I've never heard of those guys"?

MR SCHRODER: That's correct.

30 MR O'DONOVAN: So you have that freedom?

MR SCHRODER: That's correct.

35 MR O'DONOVAN: So someone else isn't going to force you to differentiate between an Aldi and a Woolworths?

MR SCHRODER: We do not have to explain ourselves in terms of our development process to any financial institution, that is correct.

40 MR O'DONOVAN: At the point where you've decided to go ahead with the development and you've got an idea about the tenant mix, to the point where you've actually signed on anchor tenants, you then go to put that concept through council. Have I got the sequence right?

45 MR SCHRODER: That's correct. We would have had preliminary dialogue with the council officers. We would generally have had dialogue with probably all the

5 councillors and the mayor. We would probably have done sufficient canvassing of the community to establish what the community wants - local community groups, Lions Club, those sorts of things, to get a feel for what they're looking for. More importantly, we would have done considerable primary consumer research of that trade area, to establish what that trade area can support in retail, both now, 5, 10, 15 years from now. By and large, that's our bible to how we develop.

10 MR O'DONOVAN: If - correct me if the assumption in this question isn't right - your research showed that 4,000 square metres of grocery shopping was sustainable in a supermarket area, would you then make a decision to allocate that to two supermarkets or one giant format supermarket?

MR SCHRODER: If it's just 4,000m, one supermarket.

15 MR O'DONOVAN: Let's pick another number. If we went up to 6,000, which could, I suppose, conceivably sustain one giant supermarket or a large format supermarket and perhaps an Aldi - - -?

20 MR SCHRODER: Yes, indeed.

MR O'DONOVAN: - - - from your point of view, what are the economic drivers that would make you choose a different tenant mix?

25 MR SCHRODER: In the case of 6,000 or 7,000 square metres, we generally would need, to make it commercially work, around about 2,500 square metres of small shops, otherwise it just doesn't commercially work.

30 So if you accept that in that hypothetical, let's say a 3,000 square metre regular Woolworths box or regular Coles box - generally they like to be bigger than that, but for the purposes of this hypothetical - with a 1,500 square metre Aldi next to it, so you're at 4,500m, you probably then need 2,500m of supporting specialty shops, otherwise the economics don't work. Depending on what you've paid for the land, of course.

35 MR O'DONOVAN: And that's because, generally speaking, per square metre you're getting a better return out of the small specialty shops?

MR SCHRODER: Per square metre, yes.

40 MR O'DONOVAN: When you're discussing these developments with the tenants in terms of sorting out the tenant mix, presumably someone like a Woolworths would prefer not to have an Aldi next door?

45 Again, if you think this is getting too specific, let me know, if you are concerned you are revealing confidential information.

But it would seem obvious perhaps to an outsider like myself that a supermarket would prefer to have a supermarket monopoly, rather than having two supermarkets within the one centre. Has that been your experience, that, generally speaking, supermarkets do prefer to be the exclusive supermarket tenant?

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MR SCHRODER: I can comment to you since October 2006, and I have not since October 2006 experienced that. Practically every development we're doing has got Aldi in it. The only case where Aldi isn't in it is where Aldi isn't geographically in that part of Australia today. For example, they are not in Western Australia or South Australia, they are not north of Bundaberg. I would love to have them in Stockland Townsville, in the big project we're doing there, and we have offered it to them. The answer is, "We don't have a distribution centre there yet. Talk to us in two years." Okay, no drama.

15 But in everything else we are doing, they are either in the project, earmarked for the project, in negotiation or already there. In a few cases they are right next door. For example, at Stockland Shellharbour we are doing a very large project there, and Aldi is literally on a pad adjacent to our shopping centre, so from our perspective they are already there.

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MR O'DONOVAN: In terms of your negotiations with the other bigger players in the market, the Coles and the Woolworths, do they ever say, "Look, if there's an Aldi there we'll pay you this much; if there's no Aldi there we'll pay you this much plus"?

25 MR SCHRODER: Not to my knowledge. There's a couple of exceptions, which I'm happy to talk about offline, of some leases where there may be a reason for not having another supermarket, but it's the exception, not the rule.

30 MR O'DONOVAN: In terms of at least Stockland's approach to establishing supermarkets, having supermarkets within its development, it doesn't appear that there are major disincentives to you offering more than one supermarket site?

35 MR SCHRODER: No, absolutely not, quite the reverse. There's a thing in retailing called critical mass. I think the Americans would say, "The more the merrier." If you look at what Stockland has delivered recently - and it's always good to use an example; I assume some of you have been to Baulkham Hills; if you haven't, go and have a look, it's quite awesome. What have we got in there? We've got a brand new reconstituted Woolworths store, upgraded and expanded; we've got an existing Aldi, it's a large format one; we've got a brand new Coles supermarket; and we've got one of the largest Harris Farm shops, which is not just fruit and vegetables, Harris Farm is now into fruit and veg, deli, red meat, white meat, bread, bakery, dry grocery to some extent - boutique dry grocery, not the full range. So we say at Baulkham Hills we've got four supermarkets.

45 In Marylands, which is under construction and, to be very appropriate about it, not all the negotiations are complete, however, all things being equal, there will be four in there - Coles, Woolworths, Franklins and Aldi.

MR O'DONOVAN: In terms of getting that fourth or even the third supermarket tenant, is that a hard sell or does it reach a point in the market where they have to be there?

5 MR SCHRODER: That is a trade area specific question. Marylands - density, tons of people. Densities are increasing because houses are being replaced with apartments. I mean, we all know what's going on in Sydney. It's a different issue if you're talking about a brand new growth corridor in the absolute southern part of Perth, where nobody lives there yet.

10 In cases like that, if we form the view that we need a retail facility a little bit ahead of its time, then we'll form that view, make the deal and prepare ourselves to be able to add to it as the population catches up. That's why you often see - and you scratch your head sometimes, you'll see a very small development on a very large piece of  
15 land. That's the reason why, because it's been master planned for five years from now, eight years from now, 12 years from now, 15 years from now.

MR O'DONOVAN: But if the population density is there, then the supermarkets are - would happy be the right word - - -

20 MR SCHRODER: Yes.

MR O'DONOVAN: - - - to enter a centre where there will be three other competing supermarkets?

25 MR SCHRODER: Absolutely. They're quite relaxed with it, provided the trade area available retail expenditure for the commodity groups that we're talking about is available, because in the - - -

30 MR O'DONOVAN: In terms of what the population nearby can stand?

MR SCHRODER: The population and the trade area will translate into available retail expenditure. Available - I suppose I'm not saying it the right way - disposable household income is probably the right way to characterise it, after paying mortgage  
35 or rent. If the available retail expenditure is sufficient enough and, depending on existing competition in the delineated trade area, that a view is formed that a greater share of that can be captured because you've got a better facility, then you'll do it, and you'll end up with three supermarkets, four supermarkets, as the case may be.

40 MR O'DONOVAN: In terms of when you approach council with your plans, with your tenant mix in place, will a council even look at your tenant mix?

MR SCHRODER: Not to my knowledge. They look at the three things that concern them the most - and I think we all know this as residents ourselves - they look at  
45 density, traffic and scale.

MR O'DONOVAN: So the competitive environment within which the tenants will operate is not a matter of concern to council; is that fair to say?

5 MR SCHRODER: Generally, yes. There are some exceptions. But generally, yes. I mean, you might get a mayor who would say, "Look, my constituents have told me they would like Big W here, my constituents have told me they would like Myer here." You will hear that. But they don't dictate it in the development consent process.

10 MR O'DONOVAN: Could they if they, I suppose, took more interest in the competitive aspects? That may not be a question you've considered.

15 MR SCHRODER: I am not a land use attorney, but I couldn't imagine that under - I couldn't imagine under the LEP/DCP process that they could, or under the district centres overlay in Western Australia, I couldn't imagine that they could. I mean, sure they can cap the gross liveable area, but I'm not sure that they could do that.

20 MR O'DONOVAN: Regardless of the question of legal power, in terms of what they actually do, as a practical matter they don't concern themselves with that question?

MR SCHRODER: That's correct. Other than "We'd like to have Myer here" or "We'd like to have Woolworths here", which is the exception not the rule.

25 MR O'DONOVAN: Again, that sort of preference might be expressed to you during the conceptual design process rather than the formal approval process?

30 MR SCHRODER: Truthfully, it comes out of the community consultation. When you're interviewing a thousand people that live in a trade area, who say, "We want Myer here" or "We'd like a theatre here" or "We'd like another supermarket", that's when it comes out. And you usually verify that process with your research and see if the two match or get close, and if they're close and economically it makes sense, you keep going.

35 MR O'DONOVAN: In terms of your tenancy mix design, it sounds like a lot of it is up to you, based on the research for the economics of the centre; the economics of the centre dictate?

MR SCHRODER: Yes.

40 MR O'DONOVAN: In terms of the centre that you want to build, is there ever a point where you have to make a decision between establishing a second supermarket and a discount department store, where the data is mixed about what people want, and the other economic information makes you think, well, you probably could sustain two supermarkets, but Woolies have offered us a Woolies and a Big W or  
45 Coles have offered us a Coles and a Target?

MR SCHRODER: Yes.

MR O'DONOVAN: If that kind of situation arose, do you have any rules of thumb about how you would approach that question?

5 MR SCHRODER: We will stick to what our research tells us, overlaid with our own gut instinct, because we've been doing it a long time, and the folk working in Stockland Retail have been in the business many, many years, not just with Stockland, but many other very good companies in Australia. I think we stick with what the research tells us, what the consumers tell us, because we're a consumer-led company, and our own gut. If that is - in the case of one development we're doing  
10 down south, it's a Woolworths and an Aldi first and the Big W comes five years from now, even though Woolworths may want Big W now, we will do the Woolworths and the Aldi and we'll inform Big W and we'll inform Woolworths, and they'll be fine with that, so long as they know at some point they'll get their Big W.

15 MR O'DONOVAN: In terms of how the rent negotiations happen - and I'm sure it varies widely depending upon the attractiveness of the development - but if you've got an attractive development in an area where you know you want two supermarkets and a department store, in your assessment do the anchor tenants hold a lot of power over you or are there enough anchor tenants available from enough sources for you  
20 to be in a reasonably strong negotiating position at that point? Again, you can answer that in confidence.

MR SCHRODER: No, I could answer that generally. Specifics I could give you in confidence, which I would be happy to do. But generally, in the middle of dense  
25 urban Sydney, where there is an under-supply of supermarkets, we'll drive up the rent. In fact, in some cases, depending on what the research tells us, we'll almost bid the space out.

MR O'DONOVAN: Just stopping you there, so it becomes a competitive process  
30 between anyone who wants to establish a supermarket?

MR SCHRODER: Absolutely. And I can, again offline, give you specific examples to support that premise.

35 MR O'DONOVAN: Is there any general trend emerging in terms of that bidding process about which company is likely to win, and would you be prepared to answer that question publicly?

MR SCHRODER: Offline.

40 MR O'DONOVAN: Yes.

MR SCHRODER: In areas of no population today, but it is logical to have the retail facility there today, to support the residential subdivision process - I mean, it's sort of  
45 like, who wants to buy a block of land if the school isn't there or who wants to buy a block of land if the supermarket is not there? The consumer today expects the facilities in community development. So we may actually accelerate bringing that on

early on, and therefore we may actually economically not produce the results we want in the short term, but know we'll get it in the medium to long term.

5 So it's possible in a situation like that, in a general sense, that the rent return you get on day one is abnormally low, but by day 5-plus years you are back to where the market would expect you to be for gross rent for that type of facility. So it is very much trade area specific and one shoe does not fit all.

10 MR O'DONOVAN: In terms of that less attractive site, does it almost work like a reverse option, in the sense that you are trying to attract somebody?

MR SCHRODER: Yes. It's the reverse of the first example I gave you. That is 100 per cent right.

15 MR O'DONOVAN: Are there enough players in the market that you feel - I suppose eventually you get to a price point where you can attract someone to one of those developments?

20 MR SCHRODER: Generally, yes. I'm not aware, certainly since I joined Stockland, I'm not aware of any of our redevelopment activity, which is quite sizeable, or our greenfield activity or brownfield activity, as the case may be, where there is no demand from supermarkets. Each and every one of them have demand, which is good. Maybe we're lucky.

25 MR O'DONOVAN: That, I think, covers all of the broader questions that I wanted to ask, at least at a conceptual level.

30 Is there anything about the role of councils that I haven't explored that might impact on either your tenancy mix or accessing sites or, I suppose, even delays, in terms of getting your developments up - quickly?

35 MR SCHRODER: I'm sure you know, we could spend hours on that topic. Again, it very much differs from place to place around the nation. I think I'll deal with that by simply using two simple examples.

40 In Western Australia, because the Western Australian Government a long time ago put in place a logical - I'm not quite sure what they call it, but I think it's a district centres scheme or district centres overlay, in WA - not WA, but in greater Perth - which pretty much characterises the amount of gross liveable area and retail that can be in any one place in Perth, so it might cap it at 20,000 metres for a large community centre or it might cap it at 50,000 metres for a regional centre or 100,000 for a super-region or something like that. I'm not sure of the exact data. If the ACCC would like that, we can certainly help you with that. In Western Australia, a developer going into a project knows what they are dealing with because there is a clear overlay from the government.

45



In other parts of Australia it's less clear. It could be that in other parts of Australia the local authorities want to limit the amount of development, for good reason, because maybe local trains, roads, infrastructure, whatever the case may be, can't support, in their view, a given amount of density. But it could be that the state  
5 government of that particular part of Australia has a different opinion. So we're often balancing each stakeholder to try and get the position that's the best outcome for the local consumers. And, frankly, on occasions that's difficult. On other occasions it's not. Again, one size doesn't fit all.

10 MR O'DONOVAN: In terms of where you have identified a site that's not presently zoned for retail, but you can acquire and think it ought to be, that the economics justify the redoing of that site - I'm assuming such examples exist?

MR SCHRODER: Yes, they do.

15 MR O'DONOVAN: But there's an existing centre nearby, in circumstances where you are hoping to get an area rezoned to retail space, is it common and expected that the existing landlord will object to the establishment of the new retail centre, or are they often, I suppose, keen to get the additional traffic driven by a new centre?

20 MR SCHRODER: I think it depends on the owner of that centre. I mean, if it's a very, very old long dated, historically long dated obsolete facility with obsolete anchor tenants in it, the investor in that asset might choose to object, but probably would find it difficult to go much beyond that, because if the local council logically  
25 forms a view that the whole market has shifted and new facilities are needed to service increasing demand from their constituents and the state government supports that view, it's pretty hard for the investor of that obsolete facility to make an issue of it, because the facility they have got is obsolete. What that simply means is that you need to continue to reinvest in the facility that you own, to make sure it doesn't  
30 become obsolete.

There is no question that we as Stockland do and will always attempt to protect our own investments for the benefit of our shareholders, in the context of ensuring that we are creating the best investment that can be held for the long term for our  
35 investors, which by and large are superannuation contributors. So we've got to make sure that our investments will stand the test of time. If that means from time to time we have to object, we will.

MR O'DONOVAN: I've had a look at some of your leases, leases entered into  
40 between Stockland and various supermarkets, and my understanding is they are public documents. I will just confirm that.

MR GUIRGUIS: Most of them are public, in that most of the ones that you have referred us to have been registered. There are some that are not public. So,  
45 depending on the question, we can tell you which ones are public or not. We have identified it in that response.

MR O'DONOVAN: Sure. This is a lease between Stockland and Woolworths at Batemans Bay.

MR SCHRODER: Bridge Plaza, yes.

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MR GUIRGUIS: Bridge Plaza, that is public.

MR O'DONOVAN: It is publicly available, all right. It as a condition requires that the landlord make a submission or object, as appropriate, to applications by others for approval for development which would compete with the centre on land within the primary trade area. As I read it, that imposes an obligation that the lessee, Woolworths, is effectively requiring Stockland to object if there's another centre being built. Is that something that is routinely required by, firstly, Woolworths in particular, and any of the other major supermarkets?

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MR SCHRODER: To answer your question - both of your questions, because there's two questions there - with Woolworths in particular it's abnormal. There are specific trade area abnormalities in Batemans Bay that underpin that lease language, which I would be happy to walk the ACCC through offline.

20

MR O'DONOVAN: Sure.

MR SCHRODER: As a general rule, they don't exist. Practically every one of our leases and agreements for leases do not have those sort of restrictions. There are a couple there, for good sound specific abnormal type reasons.

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MR O'DONOVAN: So it's not part of the standard negotiating approach of the companies you deal with?

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MR SCHRODER: That's correct.

MR GUIRGUIS: Mr Commissioner, may I just seek some clarification of Mr Schroder? We have already advised this to the ACCC and the AGS: there is an adjacent centre next to the Bridge Plaza centre that is owned and operated by Stockland, is there not?

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MR SCHRODER: There is, correct. It's literally - there's a laneway or a very tiny road in between the Bridge Plaza with the Woolworths in it, and we own the one right adjacent to it, which we have recently redeveloped, that has a brand new Aldi in it, an upgraded and expanded Coles supermarket and a Kmart, plus a bunch of fresh food operators.

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MR GUIRGUIS: Just one more clarification question.

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MR O'DONOVAN: Yes, sure.

MR GUIRGUIS: My recollection is - and correct me if I'm wrong - is that that was not a lease that you, Stockland, negotiated with Woolworths?

5 MR SCHRODER: To my knowledge, pre me joining Stockland, Stockland acquired the Bridge Plaza. Stockland acquired the Bridge Plaza from another investor, and the Woolworths supermarket there has only get very short tenure on it. The simple reason for that is Woolworths own another site themselves approximately 300m away. So it was a - I'm reasonably surmising that the deal maker on that one wanted to make sure that Woolworths stayed at Bridge Plaza, which economically would  
10 make sense.

MR GUIRGUIS: I'll just clarify, it was a Stockland lease, but there is in fact - yes, another Woolworths 300m away.

15 MR SCHRODER: I think it is cause and effect of Woolworths owning freehold title to another quite large site, albeit difficult to develop, approximately 300m away.

MR O'DONOVAN: I think they are the only questions that I think are appropriate to ask publicly. John?  
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COMMISSIONER MARTIN: We are going to move now into a private hearing, covering things that are commercially or otherwise confidential - commercially sensitive or confidential, and need to be treated that way. Could I ask those who aren't connected with Stockland or the ACCC to leave the hearing. We won't be coming back into public hearing today. Thank you.  
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**CONTINUED IN TRANSCRIPT-IN-CONFIDENCE**