



Public Competition Assessment

22 December 2015

Federation Centres and Novion – proposed merger

Purpose

1. This public competition assessment outlines reasons for the Australian Competition and Consumer Commission (**ACCC**) decision on 21 May 2015 to not oppose the proposed merger between Federation Centres and Novion Property Group (**Novion**) (the **proposed merger**) subject to court enforceable divestiture undertakings accepted by the ACCC under section 87B of the *Competition and Consumer Act 2010* (the **Act**) for the parties to divest one of their shopping centres in South East Melbourne (the **Undertakings**).
2. ACCC public competition assessments aim to provide the public with a better understanding of our analysis of various markets and competition issues. We generally issue a public competition assessment for transactions when:
 - an acquisition is opposed
 - an acquisition is subject to enforceable undertakings
 - the parties to the acquisition seek such disclosure, or
 - an acquisition is not opposed but raises important issues that the ACCC considers should be made public.
3. The ACCC considers each public competition assessment on a case-by-case basis. While some transactions may involve the same or related markets, the analysis and decision outlined in one assessment will not necessarily reflect the ACCC's view about other transactions.
4. Public Competition Assessments outline the ACCC's principal reasons for forming views on a proposed acquisition at the time the decision was made. As such, Public Competition Assessments may not definitively identify and explain all issues that the ACCC considers arise from an acquisition.
5. Further, the ACCC's decisions generally involve consideration of confidential information provided by the merger parties and market participants. In order to maintain the confidentiality of particular information, Public Competition Assessments do not contain any confidential information nor identify its sources.

The proposed merger

6. Federation Centres and Novion propose to merge via schemes of arrangement, which would result in the merged entity having \$22 billion of retail assets under management with over \$18.2 billion in annual retail sales.
7. The merged entity would own or co-own 92 shopping centres, making it the largest owner of shopping centres in Australia based on number of shopping centres, and the second largest based on assets under management.

Primary areas of overlap

8. Shopping centres can be classified on the basis of their overall size, presence of anchor tenants and size of operations of those key tenants. The shopping centres in the table below are categorised as follows:
 - i. Super regional centres – top 10 ranked regional centres based on total reported turnover (e.g. Chadstone).
 - ii. Regional centres – major integrated retail centres with at least one department or discount department store with a minimum gross lettable area (**GLA**) of 25,000 sqm (e.g. Chatswood Chase Shopping Centre).
 - iii. Sub-regional centres – smaller to medium sized centres that generally have a GLA less than 25,000 sqm and typically incorporate one discount department store, one major supermarket and a range of speciality stores (e.g. Rockingham Shopping Centre).
9. The table below identifies the primary areas of geographical overlap between the merger parties.

Region	Federation Centres	Novion
Melbourne CBD	Victoria Gardens (iii)	Myer Melbourne (ii) Emporium Melbourne (ii)
East Melbourne	Box Hill Central (North and South) (iii) Brandon Park (iii) The Glen (ii)	Chadstone (i) Forest Hill Chase (ii)
West Melbourne	Sunshine Marketplace (iii)	Brimbank (iii) Altona Gate (iii) Keilor Shopping Centre (iii)
South East Melbourne	Karingal Hub (iii)	Bayside (ii)
Brisbane	Buranda Village (iii) Mt Ommaney (ii) Toombul (iii)	Myer Centre Brisbane (ii) QueensPlaza (ii)
South West Perth	Warnbro Centre (iii)	Rockingham (iii)

The ACCC's decision

10. On 21 May 2015, the ACCC announced its decision not to oppose the proposed merger after accepting court enforceable undertakings from the merger parties to divest one of their shopping centres in South East Melbourne.

11. As the second largest manager of shopping centre assets in Australia behind Scentre (Westfield), the merged entity would manage approximately 15% of shopping centres in Australia by value. Other than Westfield and the merged entity, there would remain a number of large shopping centre managers with portfolios of significant value.
12. For the purposes of this competition assessment, the main overlap between the merger parties is in Frankston, in South East Melbourne. Novion owns and operates Bayside Shopping Centre (**Bayside**) in Frankston's regional business district and Federation Centres has a 50% interest in and manages the Karingal Hub Shopping Centre (**Karingal**), located 4.4km from Bayside.
13. The ACCC considered that the merger parties were each other's closest competitor in the South East Melbourne market. In fact, they are the only shopping centres of any scale within approximately 20 kilometres of the Frankston CBD. Other shopping centres in the region are markedly smaller in size and do not have the equivalent amenities or range of retailers that are valued by customers engaging in multi-purpose shopping. Further information about the ACCC's approach to defining markets is contained in the market definition section below.
14. The ACCC considered that there were unlikely to be competition concerns in the other areas of overlap either due to the presence of other competitors that could constrain the merged entity, or because the parties were not in close competition with each other in these areas.
15. After detailed analysis of the markets, the ACCC concluded that the proposed merger was likely to raise significant competition concerns in the South East Melbourne market.
16. Further details regarding the ACCC's reasoning are provided below.

The parties

Federation Centres

17. Federation Centres is an Australian real estate investment trust that is involved in retail property investment, management and development. Federation Centres has traded on the ASX since 2011 and was previously named Centro Retail Australia. Federation Centres operates across Australia and owns or co-owns 65 Australian properties.

Novion

18. Novion is a real estate investment trust that was first listed on the ASX in 1994. As at 31 December 2014, Novion had 36 retail assets under management. Prior to September 2014, Novion was known as CFS (Colonial First State) Retail Property Trust Group. Novion owns or co-owns 27 shopping centres, including a number of premium shopping centres with high end retail offerings such as Chadstone and Emporium Melbourne. Novion also owns four retail outlet centres that trade under the DFO brand name.

Other industry participants

Scentre Group

19. Scentre Group (**Scentre**) was established following the merger of the Westfield Retail Trust and Westfield Group. Scentre controls all of Westfield's retail property for Australia and New Zealand, including 38 Australian shopping centres containing 12,500 retailers, with assets totalling \$28 billion.

GPT Group

20. GPT Group (**GPT**) is a property group that manages \$15.2 billion of assets, comprising 15 shopping centres throughout Australia (including Highpoint and Melbourne Central). GPT recently completed \$300 million worth of redevelopments at Highpoint and in March 2014 acquired a half stake in Northland Shopping Centre.

Charter Hall Group

21. Charter Hall Group (**Charter Hall**) operates over 90 retail properties in Australia, predominantly comprising supermarket-based shopping centres with a total retail portfolio worth \$3.3 billion.

Lend Lease Corporation

22. Lend Lease Corporation (**Lend Lease**) is responsible for the management of 16 regional and sub-regional shopping centres across Australia on behalf of investment funds and retail investment partners. The company's retail portfolio is valued at \$4.7 billion.

SCA Property Group

23. SCA Property Group (**SCA**) owns a diversified shopping centre portfolio across Australia, with supermarket retailers its main tenants. SCA manages 63 sub-regional and neighbourhood shopping centres valued at \$1.3 billion.

Stockland Corporation Limited

24. Stockland Corporation Limited (**Stockland**) has a portfolio of 40 retail centres valued at over \$3 billion.

Dexus Property Group

25. Dexus Property Group (**Dexus**) manages a diverse \$3.8 billion portfolio of retail properties located across the eastern seaboard of Australia. Dexus manages nine sub-regional shopping centres and investments in seven Westfield shopping centres.

Other

26. Other notable shopping centre owners and/or operators include AMP Capital Investors (**AMP**), which has an ownership interest in 15 Australian shopping

centres, and QIC Limited (**QIC**) which has an ownership interest in 11 Australian shopping centres.

Industry background

Types of shopping centres

27. Shopping centres are retail complexes owned by a single entity, in contrast to shopping areas, such as shopping strips, where retail space is owned by a number of owners.
28. The owner (or a manager, which may be one of the owners) of a shopping centre decides the layout and composition of stores within the centre and leases retail space to a range of tenants that sell products and services. The owner (or manager) makes decisions about the overall retail mix and location of stores at the centre to maximise the total profit that it can derive from the centre. Shopping centre operators also invest in amenities such as car parking, children's play areas, shuttle buses, information kiosks, WiFi and spaces for ATMs.
29. The profit that can be earned (by the owner and by the retailers) will depend on, amongst other things, the strength of competition from other retail service providers, such as shopping centres and shopping strips. Decisions about whether to redevelop or renovate a shopping centre will be determined by whether such an investment will increase the overall profit that can be derived from the centre.

Consumer behaviour

30. Consumers' shopping trips, and the products and services purchased during these trips, can be classified into several types. The ACCC considered that the types most relevant to the proposed merger are convenience shopping, comparison shopping, multi-purpose shopping and single-purpose shopping:
 - **convenience shopping** – the purchase of low priced items with little differentiation between retail outlets, such as basic foodstuffs. Consumers generally do not shop around but instead buy from the closest (most convenient) shop;
 - **comparison shopping** – the purchase of differentiated products such as clothing and footwear where consumers want to compare the offerings of a number of retailers and therefore shop around before completing their purchase. The consumer is likely to find it more convenient, and the costs of searching to be lower, shopping at a centre or retailer that has a variety of offerings;
 - **multi-purpose shopping** – consumers frequently engage in more than one type of shopping on a single trip in order to save time. For example, consumers may purchase a newspaper, groceries and a new pair of shoes in a single shopping trip. Shopping centres provide greater convenience, and lower costs of searching, for multi-purpose shopping; and
 - **single-purpose shopping** – consumers are more likely to undertake single-purpose shopping trips to retailers selling complex, relatively expensive goods—such as large furniture items and electrical goods—that

are purchased by consumers after engaging in significant research. Consumers are frequently willing to travel longer distances to such retailers to purchase a single item because travel costs are a relatively small part of the total cost of the item and the potential savings from finding a better priced product are greater.

Review timeline

31. The following table outlines the timeline of key events in this matter.

Date	Event
4 February 2015	ACCC commenced review under the Merger Review Process Guidelines.
25 February 2015	Closing date for submissions from interested parties.
1 April 2015	Original proposed decision date of 2 April delayed to allow the parties to provide more information to the ACCC.
15 April 2015	Federation Centres and Novion announced that they would engage with the ACCC in relation to the potential divestment of either Karingal Hub (50% owned by Federation Centres) or Bayside (a Novion owned asset), both of which are located in south east Melbourne.
26 May 2015	ACCC announced it would not oppose the proposed merger, subject to section 87B undertakings accepted by the ACCC.

Market inquiries

32. The ACCC received written submissions from and spoke with a range of market participants other than Federation Centres and Novion, including major national retailers, local retailers, national franchises and shopping centre owners.

Market definition

33. Shopping centres bring together two sets of customers—shoppers and retail tenants.
34. Shopping centres compete to expand their base of shoppers by offering an attractive retail mix, better amenities, free or low-cost car parking or longer opening hours.
35. Shopping centres also compete with each other to attract new retail tenants and retain existing retail tenants when leases are due for renewal. The greater the number of shoppers or the higher the value of the shoppers (in terms of the amount spent on shopping) that a shopping centre attracts, the more attractive the centre is to actual and potential retail tenants and the more rent a shopping centre owner will be able to charge.

36. The ACCC considered the effect on competition in the following related markets:
- the supply of shopping centre amenities to shoppers; and
 - the supply of retail space in shopping centres to retailers.
37. In relation to the geographic scope of the relevant markets, the ACCC considered it appropriate, as a starting point, to identify competing shopping centres located within a radius of approximately 10 kilometres from the target centre and then vary this as appropriate, taking into consideration road configurations, traffic congestion and the willingness of customers to travel further to centres with a broader retail offering.
38. The ACCC notes that the geographic scope of the relevant markets may be narrower than 10 kilometres. The ACCC considers that the precise geographic scope is not determinative with respect to this matter and has conducted the competition assessment of each relevant market on the conservative basis of considering competitors within a 10 kilometre radius of the target site.
39. On this basis, the ACCC identified competition concerns in the area surrounding Frankston where the Bayside and Karingal shopping centres, owned by Novion and Federation Centres respectively, are the only multi-purpose shopping centres of any significant scale within the relevant geographic market (and, in fact, within approximately 20 kilometres of the Frankston CBD in Victoria). The ACCC defined this market as being the South East Melbourne market.

Likely future with and without the proposed merger

40. Section 50 of the Act prohibits mergers or acquisitions that would have the effect, or be likely to have the effect of substantially lessening competition in a market. In assessing a proposed acquisition pursuant to section 50 of the Act, the ACCC considers the effects of the acquisition by comparing the likely future competitive environment post-acquisition if the acquisition proceeds (the “with” position) to the likely future competitive environment if the acquisition does not proceed (the “without” position) to assist in determining whether the proposed acquisition is likely to substantially lessen competition in any relevant market.
41. The ACCC considered that the likely future without the proposed merger would be the status quo, where Federation Centres and Novion would continue to operate and compete as separate entities.

Competition analysis

South East Melbourne market

Customers

42. The ACCC considered that the proposed merger had the potential to substantially lessen competition in the South East Melbourne market for the supply of shopping centre amenities to customers.
43. At the time of the review, Federation Centres and Novion were each other’s closest competitor for shoppers in the South East Melbourne market. Novion owned and operated Bayside Shopping Centre in Frankston’s regional business

district, and Federation Centres had a 50% interest and managed the Karingal Hub Shopping Centre, located 4.4 km from Bayside.

44. Bayside and Karingal are the only shopping centres of any scale within approximately a 30 minute drive of Frankston. The only other shopping centre in the area classified as larger than a neighbourhood/supermarket centre is Somerville Shopping Centre. Somerville is a significantly smaller centre with a Coles, a Target and approximately 30 specialty stores in a single-storey, open air location adjacent to a non-enclosed parking facility.
45. Other shopping centres in the area are markedly smaller in size and did not have the equivalent amenities or retail offering that customers value when engaging in multi-purpose shopping. The ACCC considered that it was unlikely that any of these shopping centres would pose a significant competitive constraint on the merged entity post-acquisition.
46. The nearest major shopping centres to the centres owned by the merger parties in South East Melbourne is Southland shopping centre – located 25 kilometres from the Frankston CBD in Cheltenham, and Fountain Gate – located 29 kilometres away in Narre Warren. The ACCC considered that these shopping centres are not within the relevant geographic market.
47. The ACCC considered that the loss of competition between Bayside and Karingal may reduce the incentive of the merged entity to redevelop and improve the amenities at either or both shopping centres, thereby reducing the quality of each centre's offering compared to the future without the acquisition.

Retailers

48. The ACCC also considered that the proposed merger may lessen competition in the South East Melbourne market for the supply of retail space in shopping centres to retailers.
49. The ACCC considered that a loss of competition between the merger parties to attract shoppers to their respective shopping centres in the South East Melbourne market would in turn reduce the need for the shopping centres to compete to attract and retain retailers (who would in turn attract shoppers). The absence of alternative regional and sub-regional shopping centres in the South East Melbourne market, and the limited ability of retailers to substitute to other retail spaces in the local area (for example, shopping strips), may enable the merged entity to extract higher rents from retailers seeking retail space compared with the likely scenario absent the proposed merger. This loss of competition to attract retail tenants could also manifest itself in less favourable non-price terms for retailers (e.g. less flexibility in lease agreements, or a reduction in the quality of facilities that benefit retailers).

Other markets

50. As outlined above, there are seven other regions where the merger parties overlap based on a 10 kilometre radius from a target shopping centre – South West Perth, Brisbane, the Melbourne CBD, East Melbourne, West Melbourne, Adelaide and Geelong.

51. The ACCC considered that in these regions there appear to be sufficient alternatives to the merger parties that would act as a competitive constraint and therefore competition concerns are less likely.
52. Additionally, in some regions including West Melbourne, the Melbourne CBD and Geelong, the ACCC considered that there was minimal competitive overlap between the parties due to the distance between the parties' shopping centres and therefore the proposed acquisition was unlikely to substantially lessen competition in those regions.

Undertakings

53. In order to address the ACCC's competition concerns, the parties provided court enforceable undertakings under section 87B of the Act to divest either Federation Centres' 50% interest in the Karingal Hub shopping centre or Novion's 100% interest in the Bayside shopping centre to an ACCC approved purchaser.
54. The ACCC considered that the divestiture of either of these shopping centres would restore the pre-merger position whereby two independent parties compete for the supply of shopping centre amenities to customers, and the supply of retail space in shopping centres to retailers in South East Melbourne. On this basis the undertakings were considered likely to address the competition concerns and ensure that existing competition in the market is maintained.

Conclusion

55. The ACCC concluded that the proposed merger was likely to raise significant competition concerns in the South East Melbourne markets for the supply of shopping centre amenities to shoppers and for the supply of retail space in shopping centres to retailers, as it would bring together the only two shopping centres of significant size in the Frankston area. The ACCC did not identify competition concerns in any other market.
56. The section 87B undertakings accepted by the ACCC compel the merger parties to divest one of these shopping centres to an effective independent competitor in the event that the merger proceeds, thereby alleviating the competition concerns identified by the ACCC in the South East Melbourne market.
57. Taking into account the section 87B undertakings, the ACCC concluded that the proposed merger was unlikely to substantially lessen competition.