
INDUSTRIAL LAND SUPPLY & DEMAND ASSESSMENT

Winchelsea

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Executive Summary

Spatial Economics has been commissioned by Spectrum Planning Solutions on behalf of JR and KA Developments Pty Ltd to provide an assessment of industrial land supply and demand for Winchelsea. This is in support of a planning scheme amendment and planning permit to rezone and develop land at 25 Cressy Road Winchelsea into an industrial estate.

The application is for a combined permit and amendment to rezone the site from Farming Zone (FZ) to Industrial Zone 1 (INZ1) and develop the land into a 23-lot subdivision.

Winchelsea is one of only two designated growth towns within Surf Coast Shire with the potential to grow to a population of 10,000 people by 2050. The timely provision of small industrial lots will facilitate both direct and indirect jobs within the town. This will help consolidate growth in the town and provide a higher level of self-sufficiency.

There is currently a limited supply of vacant industrial land; 3.4 hectares in 5 lots. There has been no take-up of industrial land in recent years reflecting limited supply of land rather than constrained demand. There is a theoretical 9 years supply of industrial land. This number is highly variable and if just one large lot was utilized the number of years of supply would fall drastically. To facilitate and support residential growth there will be an increasing demand for well-located small industrial lots.

The development of industrial land is necessarily lumpy particularly in small townships. It is not feasible to develop and release industrial land incrementally. Industrial land developers require medium term time horizons of industrial land subdivisions.

The site is in an ideal location for industrial land expansion. It is well away from current and future residential land; it has good transport access and 24-hour accessibility. The site is compatible with other uses and is adjacent to the existing industrial precinct. The site can be serviced with appropriate infrastructure.

The need to lead with industrial development also supports good planning. By developing industrial land early, issues such as competing land uses are minimised.

As observed in other parts of Victoria the development of industrial land is often thwarted by lack of willing developers. Winchelsea is fortunate that there is an active developer prepared to absorb the risks of development and provide 23 small lots that will satisfy demand in the medium term.

The timely development of 25 Cressy Road into an industrial estate is justified strategically and economically.



1.0 Introduction

Spatial Economics has been commissioned by Spectrum Planning Solutions on behalf of JR and KA Developments Pty Ltd to provide an assessment of industrial land supply and demand for the settlement of Winchelsea. This is in support of a planning scheme amendment and planning permit to rezone and develop land at 25 Cressy Road Winchelsea (“the site”) into an industrial estate.

1.1 Proposal Summary

The application by Spectrum Planning Solutions is applying for a combined permit and amendment to rezone the site from Farming Zone (FZ) to Industrial Zone 1 (INZ1) and develop the land into a 23-lot subdivision.

2.0 Context

Within the Surf Coast Shire there are four towns with industrial land stocks, Torquay, Lorne and Anglesea along the coast and Winchelsea inland. The majority of the industrial land stocks is located in Torquay and Winchelsea. Winchelsea is well located on the Princes Highway and the Warrnambool train line and positioned within commuting distance to a rapidly growing Geelong.

Winchelsea has been designated as one of only two growth towns within Surf Coast Shire along with Torquay. The G21 Regional Growth Plan indicated that Winchelsea has the potential to grow to a population of 10,000 by 2050. The timing of this growth is difficult to accurately estimate and it is prudent to plan with the expectation that this population may be reached well before 2050.

As the price of land and housing has accelerated in Geelong in recent years as the shift to regional centres has been turbocharged by Covid 19, the opportunities in Winchelsea have correspondingly grown. Geelong residential greenfield land prices are approaching those seen in the Melbourne greenfield estates and this will have a flow on effect as young families seek affordable housing opportunities.

The opportunities for expansion in Torquay are limited and there will also be a transfer of demand into Winchelsea as the prospects in Torquay are exhausted.

Winchelsea is very well placed to sustain continued growth and part of the growth path is to ensure an adequate supply of industrial land to facilitate and not restrict growth.

2.1 Strategic Development of Winchelsea

Winchelsea is slated for continued growth. Every strategic study completed in recent years identifies Winchelsea as the location for significant growth. Winchelsea is the only inland town in the Surf Coast Shire that has planned for growth with the expectation that the town will grow towards a population of 10,000.

Recent significant infrastructure has laid the foundation for this growth including the Princes Highway duplication which shortens and makes the commute to Geelong more accessible. The provision of reticulated gas further reinforces enabling infrastructure for continued industrial development.



Winchelsea has historically served the surrounding rural communities. This will continue as the town's resident population continues to grow. The planning scheme states that:

- *Avoid commercial and industrial use and development along the Princes Highway outside of commercial and industrial zones.*
- *Direct industrial use and development to the Winchelsea Industrial Estate to prevent conflict with residential areas and to maintain rural land for agriculture.*

The provision of well-located and timely industrial land is a key principle of the growth strategy of Winchelsea.

The current population of Winchelsea is around 1,700 with recent growth around 2% per annum. To reach a population of 10,000 by 2050 would imply a growth rate of around 6% per annum. This is a high rate of growth and means that there would be substantial changes within a short amount of time within the town. To facilitate this growth the provision of suitable industrial land is a core part of the planning process.

As the population grows the need for local employment grows. The aim of containing jobs within the town and district helps reinforce the vibrancy and success of the town. This increase in local jobs coincides with the provision of local services as the population grows. Locals will no longer have to travel to Geelong as much for goods and services as the businesses located within the industrial precinct develop and expand to serve the local community. Industrial land will also continue to serve the surrounding farming community.

Within the Surf Coast Shire, the only other township slated for growth in the G21 strategy is Torquay. Torquay has experienced considerable population growth in recent years and the land for future residential and industrial development are limited. Along with the unprecedented demand for residential greenfield land in Geelong and Torquay in the last few years, prices have risen approaching greenfield land prices in metropolitan Melbourne.

This will further increase the attractiveness of Winchelsea as buyers seek more affordable housing solutions. The trend for separate houses and open space combined with the dramatic change in the ability to work from home suggests that the growth of Winchelsea is assured in the short and longer term.



3.0 Industrial Land - Winchelsea

Currently there are two industrial precincts in Winchelsea, one to the west of town and a smaller one to the east, both zoned Industrial 1 (INZ1).

There is also a precinct zoned Commercial 2 (C2Z) opposite the western industrial precinct. The industrial precinct to the east of town is fully occupied and there is limited supply available in the western precinct.

Map One illustrates the supply situation as of September 2021. Of the 20.2 hectares of industrial land, there is 3.4 hectares that are vacant across 5 separate lots. This represents 17% of the total supply of industrial land measured in area.

Of the available lots, only two are smaller than 2,000 sqm, meaning that there is limited opportunity for small businesses to locate in Winchelsea currently.

In 2019, Spatial Economics undertook an update of the industrial land supply assessment for the Surf Coast Shire. The assessment concluded for Winchelsea that:

- From March 2015 to January 2019 industrial land consumption was 0.3 hectares per annum;
- From 2006 to 2018 there were five industrial lots subdivided (all of which were below 5,000 sqm and are now currently occupied); and
- Consumption of industrial land stocks was around 0.3 hectares per annum.

Since the 2019 assessment, there has been no further industrial subdivision activity or consumption of existing zoned vacant industrial land stocks.

Historical industrial land consumption has been at around 0.3 hectares per year indicating around 9 years of supply at current growth rates for Industrial 1 zoned land – assuming the larger lots are subdivided to smaller lots to accommodate likely future demand.

However, there is the expectation that population growth will accelerate in the coming years which will flow into increased demand for industrial land. The take-up figure of 0.3 hectares per annum is also compromised by the limited existing supply. The limited supply of industrial land also affects the take-up of industrial land. Adjacent farm owners are often reticent to sell their farms for urban development further restricting supply opportunities. With limited competition and constrained supply, the opportunity for businesses to locate in Winchelsea are constrained.



Map One: Western Industrial Precinct, Winchelsea



The case study below illustrates a live and current example of where there is a strong underlying demand for industrial land, but due to the supply configuration has constrained the expressed demand for industrial land.

CASE STUDY – Supply constraining demand - Moyne

Spatial Economics have observed over numerous regional municipal areas/townships that the supply configuration and ownership patterns can constrain expressed demand for industrial land. This can stem from a lack of supply opportunities and/or most commonly, a lack of active development intentions. This arises due to either a lack of resources to subdivide/develop industrial lands and/or the skill and knowledge base to undertake development.

To illustrate the above issue, the industrial land supply and development activity for the municipal areas of Moyne and Warrnambool are used.



The industrial land market in the municipal area of Moyne is characterised by:

- significant industrial building approval activity (averaging around \$18 million annually over the last few years, compared to Warrnambool at around \$9 million per annum);
- significant stocks of undeveloped zoned industrial lands;
- minimal industrial subdivision activity (only 2 lots subdivided sized below 0.5 hectares since 2008), compared to 55 lots in Warrnambool; and
- minimal consumption of industrial land compared to Warrnambool.

Further analysis and investigation concluded that:

- the significant building approval activity in Moyne was occurring outside of industrial zoning;
- the lack of existing subdivided small industrial lots in Moyne resulted in local industrial users locating to Warrnambool where there is an ample supply of small industrial lots; and
- the lack of industrial subdivision activity in Moyne in the context of an ample supply of industrial land was due to the industrial land owners lack of development intentions. Specific issues identified included:
 - insufficient resources to undertake subdivision of industrial lands;
 - insufficient skills, knowledge and experience to undertake industrial land subdivision;
 - lack of development intentions for their land parcels, often using the land for non-industrial purposes (farming, lifestyle properties);
 - lack of knowledge/information regarding the potential demand for subdivided industrial lots, and
 - the perceived and real financial risk in undertaking industrial land subdivisions.

The Winchelsea industrial land supply market is supply constrained. The Winchelsea industrial land supply market is characterised by:

- minimal vacant industrial lots (five lots);
- only 3.4 hectares of vacant industrial lands (INZ1);
- no industrial subdivision or land consumption since 2019, in the context of strong industrial and residential development activity across regional Victoria; and
- no industrial sales activity in recent years.

The above land supply characteristics are not conducive to promote a competitive land supply market and therefore resulting in suppressed expressed demand.

As previously identified, there is currently only around nine years of Industrial 1 (IN1Z) zoned land in Winchelsea. Nine years supply is somewhat of a theoretical estimate, and it is based on the identified supply actively being developed or within the land



development pipeline. This is in the context of constrained expressed demand, limited supply opportunities, an apparent lack of active recent/current development intentions (existing zoned stocks) and the years of supply does not consider a growing local resident population.

The State Planning Policy Framework states at Clause 11 that:

“Planning is to anticipate and respond to the needs of existing and future communities through provision of zoned and serviced land for housing, employment, recreation and open space, commercial and community facilities and infrastructure.”

The relevant objective is at 11.02-1 Supply of urban land:

“To ensure a sufficient supply of land is available for residential, commercial, retail, industrial, recreational, institutional and other community uses.”

Whilst the State Planning Policy Framework does not specify an exact quantum of industrial land supply at a municipal or township basis, it does highlight the core objective of “to ensure availability of land for industry” – Clause 17.03.1. This is also supported by the Winchelsea Structure Plan, 2021, which states: “Ensure that sufficient land is zoned for Commercial and Industrial purposes to cater for new businesses that will assist job creation within the township.”

The adoption of a 15 year supply of industrial land to meet expected demand similar to that as prescribed by the State Planning Policy Framework for residential lands is prudent. The use of the 15-year minimum land supply benchmark is a guiding tool to measure the sufficiency of land supply.

The above benchmark was originally developed as a simple, relatively transparent indicator to ensure sufficient broadhectare (residential and industrial) land within the growth areas of metropolitan Melbourne – representing three business cycles. Other factors were examined within the context of this benchmark, including, but not limited to - the level of industry competition, the composition of undeveloped land stocks and practicality/likelihood of identified supply being available for development to meet projected demand in the short, medium and longer term.

The benchmark was seen as guide to decision making to determine the quantum, location and timing of the need to identify additional land stocks and start timely planning for additional supply.

The 15-year supply benchmark is not a ‘magical’ target, which once supply levels are below this, perverse market outcomes result. However, it is a solid guide that indicates planning for additional land supply sources should be under-way.

It is observed that the current industrial land supply situation in Winchelsea is characterised by a constrained supply and therefore has resulted in the demand for industrial land transferred to other localities.



4.0 Industrial Land – Characteristics of Supply and Development

The development of industrial land has different drivers to residential land. Particularly so for smaller towns. It is not possible to release industrial land incrementally due to the costs involved in development. Developers usually need to have medium term horizons to satisfy demand for their development. Hence the development of industrial land is inherently lumpy.

The need to lead with industrial land development also supports good planning practice. One of the important characteristics of siting industrial land is that it does not have interface issues predominantly with residential development. By preceding residential development, the opportunity for conflict is reduced.

In some cases across regional Victoria due to the lumpy nature of industrial land development the Council has had to step in to facilitate development. This is a form of market failure where government intervention is required to ensure the desired outcome.

In the current circumstances this scenario is avoided through the willingness of a developer to commit to developing industrial land. The fact that the developer considers that there is a market for the 23 industrial lots to be produced is a good indication that there is sufficient demand (not a guarantee, but the Council is not financially burdened by the arrangement).

The issue of whether a site will be developed was highlighted in the Council discussion on 325 Mousley Road (Pound Paddock). In this case some councilors were concerned that when they sold the site it might not be developed and put forward a mechanism to encourage development. This extra mechanism was ultimately defeated but highlights the concerns in getting industrial land developed.

The type of development that occurs within the industrial estate depends on the economic characteristics of the local economy. In the case of Winchelsea, the driver for industrial land will be predominantly local services. These local services largely demand relatively small lots, certainly less than 0.5 hectare and often around the 1,000 to 2,000 sqm mark. This is a typical demand profile as evidenced across most regional centres/townships across Victoria.

The industrial subdivision proposed by the developer is for 23 small lots, ranging from 1,055sqm to 2,354sqm with 18 of the lots less than 1,500sqm. As shown in the case study below, this lot size distribution is consistent with demand elsewhere in comparable locations in regional Victoria.

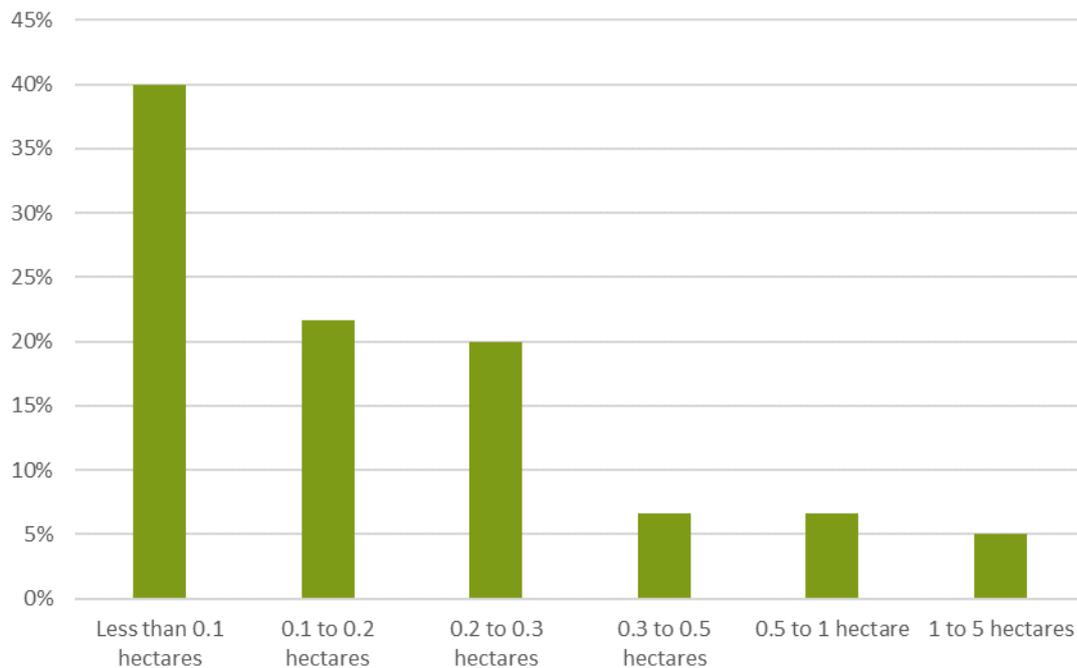
CASE STUDY – The Demand for Small Industrial Lots

Spatial Economics have undertaken industrial land supply and demand assessments for practically all Victorian metropolitan and regional municipalities. Spatial Economics have observed that the vast majority of industrial subdivision outcomes are for lots sized under 0.5 hectares.

Graph 1 below illustrates the outcomes of all industrial lot subdivision over the last ten years across the municipal area of Warrnambool.



Graph 1: Industrial Subdivision Outcomes by Lot Size Cohorts, Warrnambool



Approximately 88% of all subdivision activity over the last ten years in Warrnambool were for industrial lots size less than 0.5 hectares.

This is a typical outcome of industrial subdivision activity that is targeting local service based industrial uses such as mechanics, windscreen repairs, small warehousing that supports local trade businesses and small localized enterprises.

The proposed rezoning and subdivision of the site will produce and target 'smaller' industrial land users i.e. with lots sized typically around 1,250 sqm or ranging from 1,055 sqm to 2,254 sqm. From Spatial Economics' perspective this is the ideal lot size distribution from a) a demand/price point perspective and b) from a land size requirement of the majority of likely industrial land users.

This again is confirmed from a land demand perspective. Land demand is defined as the conversion of a vacant industrial lot to an active industrial use. Using Warrnambool as the case study illustrates that over the last ten years, 82% of industrial land consumption (measured in new industrial premise construction) was for lots sized less than 3,000 sqm.



5.0 Industrial Land – Site Characteristic Requirements

The following is a broad checklist to determine suitable sites for industrial land. The areas are broken into location, site, infrastructure and financial.

Location

- proximity to existing (and proposed) urban growth areas, labour force and transport, without conflicting with residential areas or other sensitive land uses.
- close to or contiguous with other industrial activities.
- potential for long-term land supply expansion.
- located near suppliers and complementary businesses.
- minimal or no adjoining land use constraints.

Site

- minimum developable area, not constrained by legislative and statutory constraints.
- suitable site conditions (with consideration for development costs, drainage, soils, topography).
- relatively flat.
- does not have significant environmental or heritage values.
- is not prime agricultural land.
- compatibility with existing and adjoining land uses and possible buffer requirements.
- potential for business to expand on-site.
- potential to operate for 24-hour operations.
- minimal or no environmental, geotechnical or drainage constraints.
- unconstrained vehicle access and egress.
- sufficient space for adequate parking and turning space for industrial vehicles.

Infrastructure

- access to infrastructure and services (water, sewerage and power).
- serviced with appropriate infrastructure in terms of type and capacity.
- near to freight connections and other important road and/or rail networks.



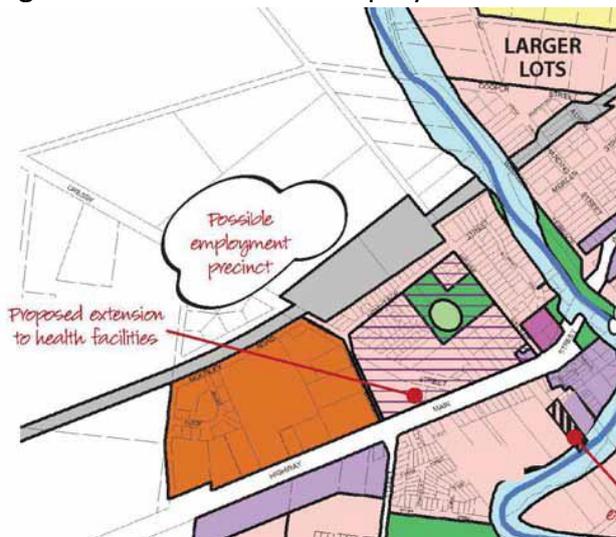
Financial

- commercially viable development including land yield, resolving planning and environmental constraints and infrastructure servicing.

The chosen site at 25 Cressy Road checks all these criteria successfully. This is reflected in the strategic planning done for Winchelsea in 2015 and the completion of infrastructure upgrades.

In the 2015 Winchelsea Growth Strategy a possible future employment precinct north of the railway line was depicted (cloud depiction so as not to exactly define the development area). The possible employment precinct depicted in figure 12 in the Winchelsea Strategic Plan of 2015 successfully implements the above site characteristics providing an ideal location for future industrial development. Importantly the final criteria are fulfilled through a willing developer.

Figure 1: Possible Future Employment Precinct



Source: Figure 12: Growing Winchelsea: Shaping Future Growth 2015



6.0 Strategic Justification

The proposal to develop the land at 25 Cressy Road Winchelsea into 23 small industrial lots is clearly justified without any real negatives to the proposal.

The site is in an ideal location for industrial land expansion. It is well away from current and future residential land; it has good transport access and 24-hour accessibility. The site is compatible with other uses and is adjacent to the existing industrial precinct. The site can be serviced with appropriate infrastructure.

The strategic direction of the town is for substantial growth out to 2050. The G21 Regional Growth Plan states that the township should prepare for a population up to 10,000 by 2050. This magnitude of growth requires supporting employment precincts including industrial land. Subsequently in the 2015 Winchelsea Growth Plan a location for future employment to the north of the railway station was identified. The subject site sits within this proposed future employment area.

It is important that the development of industrial land precedes other types of development for several reasons. Industrial land is often compromised by other uses, in particular residential development. As the demands on residential supply grow developers look for other options to create residential land. Residential land has a much larger customer base and in general is easier to sell than industrial developments. Residential developments can be scaled to a relatively small level and still be viable. For industrial land the costs of development make it harder to develop incrementally, hence development of industrial land can be lumpy. Lumpy in the sense that the developer will bring on a number of lots that they do not expect to sell or lease in the immediate future and need to take a medium-term view of the local market.

The relative ease of developing residential land over industrial land means there is continual pressure on land that has been suitably designated for employment purposes. By getting the industrial land developed in a timely manner means that the interface issues cannot be ignored into the future. Land use conflicts are reduced, and the efficiency of the industrial estate is preserved. Otherwise factors like noise and transport access can be compromised.

The timely development of Industrial land is paramount to the economic development of a town both directly and indirectly. Industrial activity directly engenders local jobs which through multiplier effects increases the prosperity of the town. Having local services means that locals reduce the need to travel to places like Geelong for basic services. This reduces the leakage of spending within the town and again increase local prosperity. Often land within industrial estates is used to facilitate economic activity somewhere else within the town. For example, a business may use the industrial land effectively as a warehouse with little or no direct employment, but the facility is paramount to the operation of the business which may have substantial employment.

Winchelsea is well placed for substantial growth as Covid 19 has accelerated changes to work and made the regions a more attractive place to live and work. With the unprecedented demand in Geelong occurring, house and land prices in Armstrong Creek have increased significantly. This places Winchelsea as a relatively affordable place to live.

The development of industrial land is lumpy and often requires intervention to ensure continued supply in small townships. In this instance a developer is prepared to absorb the



risk of developing the land and has calculated that there is a sound business case for developing the land. The development of 23 small lots is consistent with other demand seen across regional Victoria. The timely development of 25 Cressy Road into an industrial estate is justified strategically and economically.

