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PMF:bs

15th February, 2008

Productivity Commission

GPO Box 1428

CANBERRA CITY ACT 2601

Re: Retail Rents

The following submission is based on 36 years of providing management consultancy to community pharmacies.

I am a pharmacist who owns pharmacies in Sydney and Canberra

My first job as a qualified pharmacist in 1968 was in Eastwood (Sydney). Eastwood was a typical retail strip with shops owned by different proprietors.

Thus retail tenants had the opportunity to move from one shop to another if the terms offered by a landlord were unsuitable.

In economics terms there were numerous suppliers of retail space that created a free and competitive market.

In 1972 I started providing management consultancy services to community pharmacy.

Part of the work involved assisting pharmacists negotiate their property leases.

In the early days leases were generally for 5 years at a fixed rent with rents reviewed only at the end of 5 years.

The inflation released by the first oil shock and the Whitlam government's high spending meant landlords on fixed rents were caught out.

As a counter major landlords introduced annual rent increases.

However not just CPI but CPI plus a fixed percentage 3 or 5%.

The major landlords via local government zoning regulations have been granted a monopoly on the retail space in a suburb/town thus allowing them to extract their annual rent increases from tenants.

The tenants have no where else to relocate unlike in the old strip retail precincts where there was a free market for retail space.

Expectation Augmented Inflation

In the 1980's great effort was made to remove the automatic increases in wages that flowed from the 1980's inflation. I understand the economists describe the process as expectation augmented inflation. For the good of the economy wages increases were supposed to be linked to productivity gains.

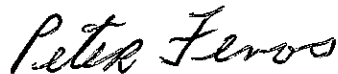
However, no effort has been made to eliminate the automatic annual rent increases that the monopoly mega landlords charge.

The landlords' increases bear no relationship to the productivity of the shopping centre. That is the number of people visiting the centre. It would be interesting to have treasury assess the impact on inflation that the mega landlords annual automatic rent increases have. I understand over 70% of retail sales occurs in shopping centres.

If the community via local government zoning regulation grants monopolies to shopping centre landlords, then the community should have some power over their pricing of rents.

I trust this information is of interest.

Yours faithfully,



PETER FEROS

PS. Photographs of the Eastwood Retail shopping are provided.

**EASTWOOD
PHARMACY**



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