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ESSENTIAL ECONOMICS

6 November 2013

Andrew Duggan
Director
JBA Planning
Level 7, 77 Berry Street
North Sydney 2059

Our Ref: 13212

Dear Andrew,

Re: Costco Marsden Park Further Considerations

This Letter of Advice relates to the proposed Costco Marsden Park and provides further analysis and commentary on issues related to the subject site, and, in particular, aspects related to the implications of the proposal for the future Marsden Park Town Centre.

Background

Our firm prepared a report titled *"Costco Marsden Park – Economic Impact Assessment"* on behalf of Costco Wholesale Pty Ltd in May 2013. The report was prepared as a background document to the request for a Planning Proposal prepared by JBA Planning.

Subsequent to request being made, Council officers prepared a report in relation to the proposed Costco Marsden Park for presentation at the Council meeting on 23 October 2013. In this report a number of points were related to land use and economic aspects considered in the Economic Impact Assessment report prepared by our firm.

In general, the issues relevant to our professional expertise that have been raised in the Council report follow three main themes:

- Site Suitability
- Retail Impact Assessment
- Economic Outcomes.

These three themes are considered in the balance of this letter.

1. *Site Suitability*

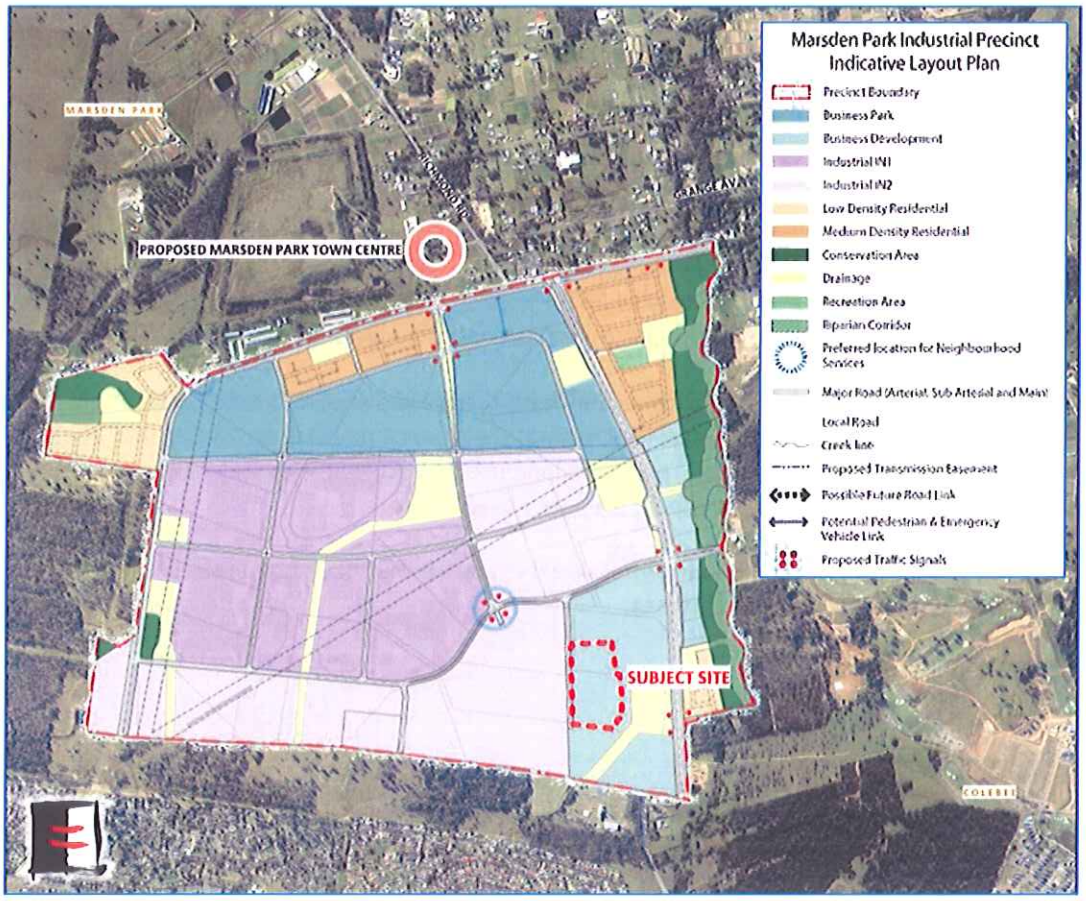
Subject Site

In our opinion, the proposed Costco Marsden Park site is an excellent location that responds to commercial realities and is consistent with strategic land use policies and objectives.

The site is located to the west of Richmond Road and south of the existing alignment of Hollinsworth Road in an area identified for 'B5-Business Development' in the Marsden Park Industrial Precinct, as shown in Map 1.

We note that a mix of general business uses, including bulky goods retailing, is proposed for the B5-Business Development area of the Marsden Park Industrial Precinct. Masters and IKEA have secured sites immediately adjacent to the proposed Costco store, with a Bunnings also approved nearby.

Map 1 Location Map



Source: NSW Department of Planning and Infrastructure, MapInfo, Essential Economics

Accessibility to the proposed Costco site from the surrounding region is enhanced by the proximity of the M7 motorway, which is located just 1.2km to the south-east of the subject site and connects with the road network serving western Sydney.

The high degree of accessibility required by Costco is reflected in the choice of locations across Australia that have convenient access to motorway networks, including:

- Costco Docklands: 400 metres from interchange
- Costco Auburn: 900 metres from interchange
- Costco Ringwood (under construction): 800 metres from interchange
- Costco Casula (under construction): 300 metres from interchange
- Costco North Lakes (approved): 600 metres from interchange.

At the proposed location, the proposed Costco Marsden Park will be able to serve both the North West Growth Centre and the broader west and north-west region of Sydney.

Costco Marsden Park's proposed location in the Marsden Park Industrial Precinct reflects the land-intensive nature of the Costco business model. In general, Costco seek sites of at least 4 hectares, in size to accommodate the warehouse of approximately 14,000m^2 and the need extensive adjacent parking, landscaping and delivery areas. For a site accommodating at-grade development only (i.e. no decked parking), land in excess of 5 hectares is typically required (as per Marsden Park).

The difficulty in incorporating a Costco store into a traditional main-street or shopping centre retailing environment has been reflected in the approval of stores at Auburn and Casula, each of which is located in proximity to other large-format retailers.

It is also our view, as articulated in the Economic Impact Assessment report, that the subject site is effectively an edge-of-centre location to the nearby Marsden Park Town Centre. Both will be linked by a mix of industrial and commercial uses along the western side of Richmond Road and, in functional terms, the Marsden Park Industrial Precinct and Marsden Park Town Centre will operate as a wider employment precinct.

We note that the *"Marsden Park – Retail & Employment Assessment"* prepared by MacroPlan in 2012 on behalf of the Department of Planning and Infrastructure also reflects the opportunity for the Marsden Park Industrial Precinct to generate land use synergies with the adjacent town centre:

> *"the Marsden Park Town Centre and Marsden Park Industrial Precinct... will perform as one large consolidated area of activity with movement of residents, workers and shoppers not limited by precinct planning boundaries." (Page 1)*

Furthermore, the *Marsden Park Precinct Planning Report* prepared by the Department of Planning and Infrastructure notes that benefits of the town centre site include:

> *"The compatibility with the adjacent Marsden Park Industrial Precinct."*
> (Page 126)

On this basis, it is our strong opinion that the subject site proposed for Costco Marsden Park is an edge-of-centre location to the proposed Marsden Park Town Centre. That is, the proposed Costco will create visitation and spending that has the potential to benefit other uses in the Industrial Precinct and the future Marsden Park Town Centre.

We therefore disagree with the assertion by Council that the proposed Costco Marsden Park is an 'out-of-centre' development.

Marsden Park Town Centre

The Marsden Park Town Centre is proposed for a site located approximately 1.6km north of proposed Costco Marsden Park. Current planning for the town centre, as indicated in the Marsden Park Precinct Planning Report, identifies a town centre occupying approximately 17.5 hectares on the north-west corner of Richmond Road and South Street.

Current planning for the centre as identified in the *"Marsden Park – Retail & Employment Assessment"* report and *Marsden Park Precinct Planning Report* indicates a staged development program for the town centre on the following basis:

Stage One (by 2018):	6,000m^2 to 8,000m^2 of retail floorspace, including supermarket and specialty shops.
Stage Two (by 2031):	Expansion to up to approximately 40,000m^2 of retail floorspace, potentially including additional supermarket(s), discount department store(s) and specialty shops.

In reality, the timing and nature of development for the Marsden Park Town Centre remains uncertain. This is partly related to complicated land ownership structure across the town centre site, with a total of ten different property owners. Furthermore, a transport corridor has been reserved in the southern portion of the town centre that may reduce the developable footprint of the centre.

In contrast, the subject site for the proposed Costco at Marsden Park is a single consolidated site available for development in the immediate future.

According to the Marsden Park Precinct Planning Report, planning for the town centre includes (see Page 126):

- A 'main street' style shopping environment supporting a pedestrian-friendly layout
- Active retail frontages
- A central town plaza
- High-density residential development in vicinity to the town centre
- The need to respond to current land ownership patterns.

It is clear from these directions that the anticipated urban form of the town centre is a street-based environment that supports close integration of higher-density residential development.

This proposed urban form for the town centre is ill-suited to the development of a Costco Warehouse that is a land-intensive, membership-only warehouse use, with limited capacity to support and activate street-based activity.

Map 2 shows the current Costco Marsden Park proposal relative to the proposed town centre.

Map 2 Proposed Costco Marsden Park Relative Size to Town Centre

Source: Essential Economics with MapInfo and Nearmap
Note: Indicative land areas shown

The proposed Costco Marsden Park site of approximately 5.9 hectares represents one-third of the 17.5 hectares of land identified for the Marsden Park Town Centre. Excluding land required for the transport corridor, open space and land already secured by another major retailer, development of a Costco in the Marsden Park Town Centre would be problematic in terms of delivering the site location and access requirements required for a successful Costco Warehouse.

Furthermore, development of such a large-format single-use building in the town centre is counter to street-based centre design principles currently being applied Australia-wide where large-format uses such as Costco and bulky goods traders are typically located at edge-of-centre locations or in bulky goods precincts. In our experience, having regard for our involvement in retail and activity centre assessments nationally and overseas, locating Costco within the town centre would undermine the ability of the centre to achieve its intended role and function as described in the Marsden Park Precinct Planning Report.

2 *Retail Impact Assessment of Marsden Park Town Centre*

The Council report has questioned the potential trading impact of the proposed Costco on the future Marsden Park Town Centre located to the north.

In their 2012 report, MacroPlan identifies the role and function of the retail centres in the Marsden Park Precinct (including the proposed town centre) as:

> *"providing convenience retail option to service daily and weekly convenience needs, with some higher order DDS and specialty floorspace within the town centre."*

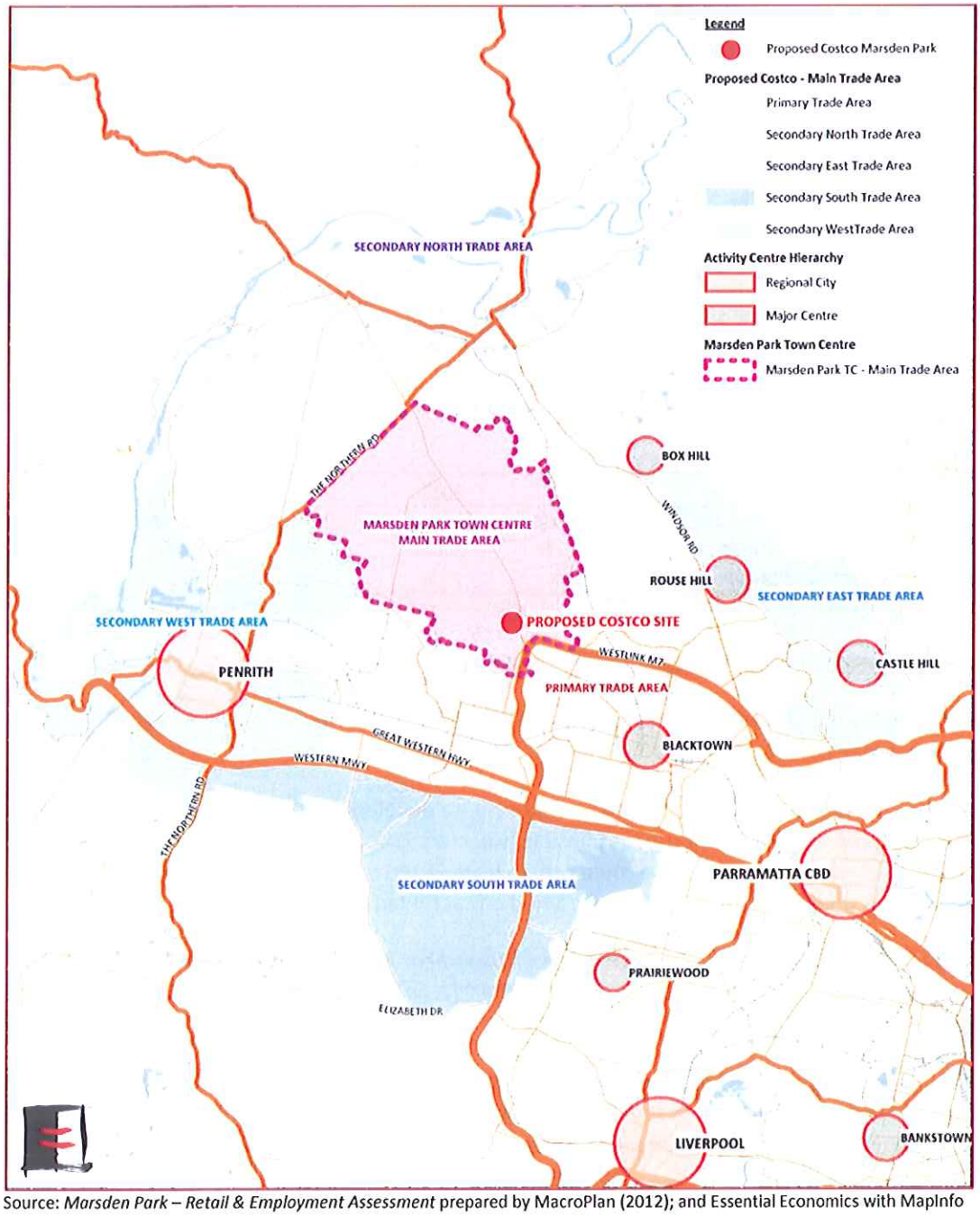
This functional role differs significantly from that of the proposed Costco Marsden Park (see also Chapter 1 *Costco Marsden Park – Economic Impact Assessment).* Most importantly, over 30% of sales at the Costco Marsden Park are expected to be business customers; these customers include businesses located in the Marsden Park Town Centre potentially purchasing wholesale goods at the nearby Costco.

A further relevant point is that Costco members shop at Costco on average only six times a year. This is not considered to be "convenience-based retailing" in the conventional sense where shoppers visit their local supermarket and/or convenience shops on a weekly basis or even more often to purchase their regular household needs.

As identified in the report we prepared in support of the application, Costco stores serve an extensive regional trade area. This means that any competitive trading impacts are distributed widely and thinly across many individual centres and stores. The regional catchment is similar to that of IKEA, and to a lesser extent the Bunnings and Masters stores also intending to locate in the industrial precinct.

Map 3 illustrates the extent of the Costco main trade area (MTA) in comparison with the Marsden Park Town Centre main trade area identified in the MacroPlan report.

Map 3 Comparison of Marsden Park Town Centre and Costco Main Trade Areas



Source: *Marsden Park – Retail & Employment Assessment* prepared by MacroPlan (2012); and Essential Economics with MapInfo

Marsden Park Town Centre's MTA represents only a small proportion of the proposed Costco store's MTA, highlighting the broader geographic draw of Costco.

In fact, the entire trade area served by the Marsden Park Town Centre fits entirely within the Primary trade area served by the proposed Costco. The Costco Primary trade area is one of five separate trade area sectors identified as part of the Costco MTA.

In 2016, when the proposed Costco store would be operating, the Costco MTA's population is estimated to be approximately 763,000 persons. At this time the Marsden Park Town Centre MTA population would be approximately 16,300 persons, representing just 2.1% of the Costco MTA population (see Table 1).

Even at development capacity around 2031, the Marsden Park Town Centre MTA population represents only 6.5% (63,700 persons) of the proposed Costco MTA population of 984,300 persons.

Table 1 Comparison of Main Trade Area Populations for Marsden Park Town Centre and Costco (No. Persons)

	2011	2016	2021	2026	2031
Costco Marsden Park MTA	695,000	763,100	835,300	914,500	984,300
Marsden Part Town Centre MTA	12,600	16,300	28,700	45,700	63,700
MPTC as share of Costco MTA Population	1.8%	2.1%	3.4%	5.0%	6.5%

Source: *Marsden Park – Retail & Employment Assessment* prepared by MacroPlan (2012); and Essential Economics (2012)

Potential Retail Impact on Marsden Park Town Centre

Several potential development scenarios for the Marsden Park Town Centre are identified in the MacroPlan report.

Adopting the scenario identified by MacroPlan where development at the town centre is prioritised, the earliest development phase is expected to occur in 2016. We have prepared estimates of retail turnover at the town centre from 2016 to 2031 that are derived from the supportable floorspace analysis contained in the MacroPlan report.

Our *Costco Marsden Park – Economic Impact Assessment* report estimates that the proposed Costco will capture a 1.1% market share from the PTA (which incorporates all of the Marsden Park Town Centre's MTA).

Allowing for a higher 1.5% market share to be generated from the Costco Marsden Park Town Centre MTA (the upper limit of reasonable expectations) means that there would be a very low 1.5% reduction in retail spending available for retailers in the town centre.

Table 2 outlines the potential impact that this might have on achievable retail turnover levels at the Marsden Park Town Centre.

Table 2 Costco Marsden Park Potential Impact of Sales at Marsden Park Town Centre (constant prices)

	2016	2021	2026	2031
Marsden Park Town Centre Retail Turnover[1]	$56.9m	$102.2m	$225.4m	$339.4m
Trading Impact of proposed Costco ($)[2]	-$0.9m	-$1.5m	-$3.4m	-$5.1m
Adjusted Town Centre Retail Turnover	**$56.1m**	**$100.7m**	**$222.0m**	**$334.3m**

Source: *Marsden Park – Retail & Employment Assessment* prepared by MacroPlan (2012); and Essential Economics
Note: (1) Turnover estimate derived from MacroPlan supportable retail floorspace analysis
(2) Assumes constant Costco Marsden Park store market share of 1.5% from Town Centre MTA area

The potential trading impact is estimated to be approximately -$0.9 million in 2016, increasing to -$5.1 million at full development around 2031. That is, on the basis of the increased competition from Costco Marsden Park, the town centre has a maximum potential loss of sales equivalent to just 1.5% of the retail turnover that would otherwise be achieved.

This is a very small impact that is well within the bounds of a normal competitive environment and would not undermine the commercial viability, or delay the development of, the Marsden Park Town Centre.

In our view, any potential negative trading impact on the Marsden Park Town Centre arising from competition for the spending of local residents would be offset by the increased visitation and exposure generated by the customers at the proposed Costco Marsden Park.

For example, in 2016 the proposed Costco is expected to generate approximately 680,000 shopping visits. Of these visits, just 13,500 are expected to be from residents of the Marsden Park Town Centre MTA. This means that in the order of 666,500 visits will be from people unlikely to have visited the Marsden Park Industrial Precinct without the presence of the Costco store.

If a small proportion (say 5%) of these people also visit the Marsden Park Town Centre, an additional 33,500 visits to the town centre would be generated and they would generate flow-on benefits for traders. In our opinion, this is likely to offset any potential trading impacts identified in Table 2.

Should the proposed Costco store be developed at another location, such as Rouse Hill as suggested in the Council report, the Marsden Park Town Centre, would still receive a trading impact (albeit marginally smaller) but without the offsetting increased exposure and visitation. Thus, the Marsden Park Town Centre would experience 'all of the impact and none of the benefit' associated with a new Costco in this circumstance.

In summary, any small reduction in the turnover at the Marsden Park Town Centre resulting from increased competition is expected to be offset by additional sales generated by the increased exposure and visitation associated with the nearby Costco store.

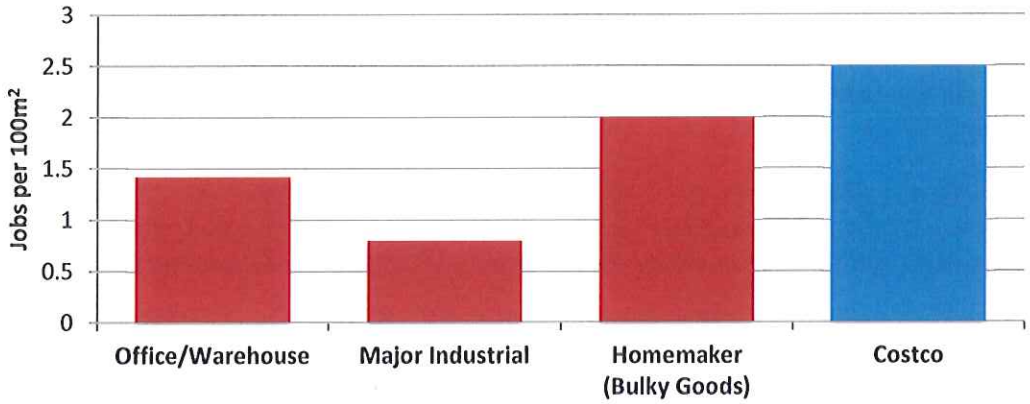
3 *Economic Outcomes*

In addition to the issues of site suitability and trading impact considered above, the Council report in relation to the proposed Costco Marsden Park provides comment on general economic issues that require a response.

Issue 1: If Costco did not occupy this site, another permissible use could be developed and could generate the same number or greater number of employees.

Our Response: The level of employment 'density' achieved by a Costco Warehouse is typically higher than that achieved by typical warehousing, light industrial and other employment uses (including bulky goods and homemaker retailing) as shown in Figure 1.

Figure 1 Comparison of Employment Densities



Source: Essential Economics

Issue 2: If spending did occur and not on this site, then the jobs will follow anyway.

Our response: The retail and wholesale sales sector has an important role to play in the efficient distribution of goods in the economy and should not be considered a 'zero-sum' industry. This is recognised by the Productivity Commission (2011).

A Costco at the subject site in Marsden Park is entirely consistent with strong policy directions seeking to attract investment to new growth areas (such as the North West Growth Centre) that maximises employment retention and local economic development. An alternative location for Costco elsewhere in the region is not necessarily consistent with this strategic policy intent.

This argument could potentially be used in the case of <u>any</u> retail or commercial development application.

Issue 3: The Costco Retail Warehouse use is essentially a composite of a supermarket (such as Coles) and a discount department store (such as Kmart) under one roof with other services provided.

Our response: This statement is inconsistent with Council's recognition earlier in the report that *"the total number of products carried within a typical* (Costco) *store numbering approximately 4,000, compared to a typical supermarket which carries over 30,000 products"*.

The significant differences between Costco and the retail formats mentioned by Council are explained in detail in Chapter 1 of the *"Costco Marsden Park – Economic Impact Assessment"*. Further to this, Table 3 summarises some key comparables.

Table 3 Comparison of Store Types (Indicative)

Store format	Full-line supermarket	Discount Department Store	Department Store	Costco
Floorspace (GFA)	3,000-4,500m^2	5,000-8,000m^2	10,000-25,000m^2	**13,500m^2**
Employees	≈60-80 EFT (120-160 total)	≈50-80 EFT (100-160 total)	≈70-170 EFT (150-350 total)	**250 EFT (350 total)**
Product line/SKUs	≈30,000+	≈50,000+	≈70,000+	**≈4,000**
Membership?	No	No	No	**Yes**
Location	Shopping Centre	Shopping Centre	Shopping Centre	**Free Standing**
Total turnover	$25-50m	$20-40m	$30-60m	**$150m**
% turnover to business	<2%	<5%	<5%	**32%**
Catchment Size	8,000+ persons	30,000+ persons	100,000+ persons	**700,000+ persons**

Source: Essential Economics
Note: These are indicative estimates, and ignore the substantial variation for particular stores
GFA: Gross Floor Area
SKU: Stock Keeping Unit

Summary and Conclusion

In summary, we draw the following key conclusions in relation to the proposed Costco Marsden Park and the specific issues raised by Council:

1 The proposed Costco Marsden Park site is an excellent location that responds to commercial realities and is consistent with strategic land use policies and objectives related to service provision and employment generation in urban growth areas.

2 The subject site is most appropriately considered an edge-of-centre location to the Marsden Park Town Centre in view of the strong synergies that will exist between both locations.

3 The ability to develop a Costco Warehouse in the Marsden Park Town Centre is constrained by the land-intensive nature of the Costco development model and the objectives of the *Marsden Park Precinct Planning Report* to deliver a street-based shopping environment that integrates with residential and community functions.

4 The potential trading impacts on the Marsden Park Town Centre associated with the proposed Costco Marsden Park are negligible (no more than 1.5% reduction in sales) and would not delay or undermine the growth and development of the town centre as currently supported by land use policy.

5 The proposed Costco Marsden Park would be expected to bring over 600,000 visits annually to the Industrial Precinct that otherwise would not visit the area, with each of these visits having the potential to generate sales at the Marsden Park Town Centre.

6 An alternative Costco location in the region would potentially deliver 'all of the trading impact and none of the benefit' to the Marsden Park Town Centre.

7 Costco is a unique business model in the Australian context that does not replace 'traditional' retail formats, such as those proposed for the Marsden Park Town Centre.

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If you have any further questions in relation to the matters raised in this letter, please don't hesitate to call on 03 9347 5255.

Yours sincerely,

Sean Stephens
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Essential Economics Pty Ltd