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Dear Jane

NORTH ORANGE MARKETPLACE – RECOMMENDED EXPANSION TIMING

This letter presents an analysis of the North Orange Marketplace main trade area population growth and supermarket floorspace demand growth, provides an overview of the economic analysis and correspondence over the past 2 years or so, and provides recommendations as to the appropriate timing of an expansion of the centre.

Summary Recommendation

There is a major under-supply of supermarket floorspace at present in the North Orange Marketplace main trade area and delaying the proposed expansion of the centre would have a very marginal mitigating effect on the impacts on CBD retailers. We understand that SCA Property is looking to expand the North Orange Marketplace shopping centre as soon as it is granted approval to do so, however, it is planning to stagger the expansion in two stages. The first stage would be anchored by a supermarket (either Coles or Aldi) with supporting specialty retail, with the second stage to include either Coles or Aldi (pending which tenant underpins the first stage), plus some additional specialty retail.

We recommend that a first stage of expansion should proceed as soon as it can be practically developed (i.e. approved now), and that the second stage should be approved at a timing point that would allow the centre to fully open by June 2020 (i.e. a first full year of trade of FY 2020/21).

Background

MacroPlan Dimasi Economic Impact Assessment (Sept 2014)

MacroPlan Dimasi prepared an Economic Impact Assessment (EIA) dated September 2014, assessing the potential market demand for, and the associated economic impacts of, a proposed expansion of the North Orange Marketplace.

The key findings from the MacroPlan Dimasi EIA were that a second large supermarket could be supported in North Orange from a need and demand perspective, and that the proposed expansion would have minor trading impacts on the Orange Central Business District (CBD).

Leyshon Consulting/Orange Council request for information January 2015 and meetings with Leyshon/Council in 2015

Leyshon Consulting was engaged by Orange Council to peer review the MacroPlan Dimasi EIA and sought clarification on several elements of the EIA in an email in January 2015. MacroPlan Dimasi provided responses to this information request and engaged in a subsequent meeting with Orange Council and Peter Leyshon to discuss the request for information and various issues associated with the proposed development.

As part of the formal correspondence that occurred between MacroPlan Dimasi and Council (for which Leyshon Consulting acted on behalf), the following key points were identified, which we have chosen to reiterate due to their relevance in establishing an appropriate timing for the future expansion of the centre:

- We support the Orange Council's concerns in relation to preserving the integrity of the Orange CBD. Indeed, we consider the retail environment in the Orange CBD to be one of the best – in terms of size, mix, and vibrancy – in regional NSW. We agree that large, non-food anchored tenants like discount department stores be encouraged in the CBD. However, retailing is a dynamic sector and consumer behaviours/preferences change over time. Consumers want new, modern, comprehensive supermarket offers that provide value for money and convenience. Our analysis in our EIA dated September 2014 and subsequent assessment of the retail environment across Orange more broadly, provided compelling evidence that additional full-line supermarket floorspace is warranted in North Orange and co-locating such space as part of an existing centre/precinct is highly desirable.

- Both Leyshon and MacroPlan Dimasi concur that the expected trading impacts on the Orange CBD of the proposed expansion would be within acceptable ranges.
- The provision of supermarket floorspace in Orange at 381 sq.m per 1,000 residents is below the non-metro NSW average of 394 per sq.m 1,000 residents, which in turn is considerably less than the rate of provision at many other NSW regional cities and towns, where this rate can range between 450 – 700 sq.m per 1,000 residents.
- A key issue of concern for Council is whether a policy precedent would be set for a second large supermarket to locate at South Orange. Based on our analysis, we consider that it would most likely be 20+ years before a sufficient main trade area population would be established around South Orange to support two supermarkets at that locality.

Updated comments/analysis

The original development application was submitted in September 2014, in which it was assumed that the proposed expansion could be developed and open by 2015/16. Due to delays in gaining planning approval, in conjunction with timings associated with development planning and construction, the practical opening date for an expanded centre would have pushed out by around 2 years. This means that the earliest practical date at which a first stage of expansion could be completed and open for trade, would be around early 2018.

Since the 2014 application and the date of this letter, the incumbent retailers at the North Orange Marketplace as well as Orange CBD retailers, will have benefited will from additional population driven demand, and will have the benefit of at least a further 2 years with no additional competition from an expanded North Orange Marketplace.

We understand that as at the time of writing this letter Council is considering including a timing condition within the approval for the rezoning of the subject site – ultimately to delay the proposed expansion, to allow additional demand to establish. This would enable retailers in the Orange CBD a few additional years without additional competition.

As indicated earlier, the estimated impacts on the Orange CBD are agreed by both Leyshon Consulting and MacroPlan Dimasi to be within acceptable ranges, and thus any delay in the proposed expansion would not be really mitigate potential adverse impacts, rather enable retailers in the CBD to benefit from a few more years of less competition.

Any delays in the proposed expansion of North Orange Marketplace would still result in virtually the same proportionate impacts on the Orange CBD. This is because when the expansion does occur (be it 2017, 2018 or 2020), the centre would be expected to achieve/attract the same or similar market shares of the available expenditure market irrespective of which year it opens. All retailers would have generally benefited from growth in the surrounding expenditure market, and thus the redirection of sales from the Orange CBD retailers as a proportion of the total sales volume achieved by CBD retailers, would be virtually the same irrespective of whether the centre were to expand in 2017, 2018 or 2020.

In short, the timing of the expansion is not really the issue here – the main issue is the policy precedence of two large supermarkets. In our view, the first stage of proposed expansion should be allowed to occur immediately, so the expansion can be completed as soon as it can be practically developed, with the second stage to follow soon thereafter. We have provided evidence to support our recommendation in the following sub-section.

Updated population estimates and revised projections

Table 1 presents an updated analysis of the main trade area population over the period 2015 to 2026, having regard to the latest population data released by the ABS. The ABS released its annual Regional Population Growth (Cat No 3218.0) publication on 30 March 2016, which contains estimated residential population (ERP) data for the year to June 2015.

We have based our projections of population growth having regard to the official NSW DPE projections (from 2014) for the Orange LGA, recent historical ERP growth over the past 3 – 4 years (i.e. 2011 – 2015) as well as surrounding residential development activity and planned residential development.

Our projections also have regard to the over-arching future population growth expected across the whole Orange LGA – which is projected to grow by around 1.0% per annum or so over the next 10 – 20 years (i.e. around 400 – 450 persons per annum).

The current main trade area population is estimated at 20,300, including 8,300 in the primary sector. This population is expected to increase by around 6% in the next 3 years to 2018, with the primary sector population projected to grow by around 10 – 11% in this timeframe. The main trade area population is expected to grow by around 2,300 persons by 2021, reaching 22,650.

Typically, the equivalent of one supermarket of around 3,940 sq.m is provided per 10,000 persons in regional cities and towns across NSW, or around 394 sq.m per 1,000 residents. Clearly, an available trade area population at North Orange of 20,000, plus a significant potential volume of business from regional traffic along the Northern Distributor Road, indicates that the equivalent of two such supermarkets at the subject site would be reasonably supported by the available market demand in the defined main trade area.

Table 2.1 North Orange trade area population, 2006-2026*						
Trade area sector	Estimated population			Forecast population		
	2006	2011	2015	2018	2021	2026
Primary	5,540	7,460	8,260	9,160	9,910	11,160
Secondary sectors						
• South	7,130	7,420	7,900	8,140	8,290	8,490
• West	<u>3,520</u>	<u>3,750</u>	<u>4,150</u>	<u>4,300</u>	<u>4,450</u>	<u>4,700</u>
Total secondary	10,650	11,170	12,050	12,440	12,740	13,190
Main trade area	16,190	18,630	20,310	21,600	22,650	24,350
Trade area sector	Average annual growth (no.)					2021-26
	2006-11	2011-15	2015-18	2018-21	2021-26	
Primary	384	200	300	250	250	
Secondary sectors						
• South	58	120	80	50	40	
• West	<u>46</u>	<u>100</u>	<u>50</u>	<u>50</u>	<u>50</u>	
Total secondary	104	220	130	100	90	
Main trade area	488	420	430	350	340	
Trade area sector	Average annual growth (%)					2021-26
	2006-11	2011-15	2015-18	2018-21	2021-26	
Primary	6.1%	2.6%	3.5%	2.7%	2.4%	
Secondary sectors						
• South	0.8%	1.6%	1.0%	0.6%	0.5%	
• West	<u>1.3%</u>	<u>2.6%</u>	<u>1.2%</u>	<u>1.1%</u>	<u>1.1%</u>	
Total secondary	1.0%	1.9%	1.1%	0.8%	0.7%	
Main trade area	2.8%	2.2%	2.1%	1.6%	1.5%	
*As at June Source: ABS Census 2011; NSW Department of Planning and Environment 2014; MacroPlan Dimasi						

Supermarket floorspace demand

Throughout our previous correspondence/analysis, we have consistently presented information that shows a very significant under-supply of supermarket floorspace within the main trade area at present, which would only be exacerbated without additional supermarket facilities being provided.

Table 2 presents an updated analysis of the demand for supermarket floorspace generated by residents of the trade area with the existing, and proposed, supply of supermarket floorspace, outlining the estimated current and future market gap for supermarket floorspace within the main trade area. We have undertaken the following steps to calculate the estimated gap:

- Estimated the current and future population within the main trade area over the period 2015 – 2026.
- Estimated per capita expenditure on take-home food and groceries (F&G) using MarketInfo data.
- Allowed for 75% of F&G expenditure to be directed to supermarkets. This estimate is consistent with national benchmarks for regional locations, and allows for the remaining 25% to be allocated to smaller foodstores, food specialty stores, service stations and other general retail stores.
- Multiplied per capita F&G expenditure directed to supermarkets by the available population to determine the total available F&G expenditure pool to be directed to supermarkets.
- Allowed for 6% of supermarkets' turnover to comprise general merchandise (i.e. non-food) retail items, which is typical across national supermarkets.
- Applied a suitable retention rate of available expenditure within the main trade area that. To do so, we have first allowed for an outflow of 20% of total supermarket expenditure, i.e. 80% of supermarket expenditure generated by main trade area residents is estimated to be retained within the trade area, if an extensive range of supermarket options is provided within the area. We have then allowed for inflow from customers/visitors who live beyond the main trade area, which we have estimated at be about 15%. The consequential outcome of these assumptions is that there is a net outflow of 5% (i.e. a net retention rate of 95%). This is considered reasonable, as it has regard to the centre potentially supporting two full-line supermarkets and a discount supermarket while accounting for the supermarket offer in the Orange CBD.
- The total supermarket expenditure pool is then translated into supermarket floorspace demand by dividing by an applied retail turnover density (RTD). We have applied an RTD for supermarkets and grocery stores of \$9,500 per sq.m in 2015, which we consider would reflect a successful and profitable average trading level. We have also allowed for some real growth in this RTD, averaging around 0.5% per annum from 2015

onwards. It is possible for supermarkets to trade profitably at levels well below \$9,500 per sq.m, however, this represents a relatively conservative position to estimate the implied supermarket floorspace demand generated by the main trade area population.

Based on the above methodology, Table 4.1 shows that residents of the main trade area generate demand for about 8,467 sq.m of supermarket floorspace at 2015, which is estimated to increase by around 210 sq.m per annum to reach 9,531 sq.m by 2020, and further to 10,724 sq.m by 2026.

This analysis shows that a first stage of expansion of the centre (including an expansion of 800 sq.m on the existing Woolworths and either a new Aldi supermarket of 1,500 sq.m or a new Coles supermarket of 4,000 sq.m) could be accommodated into the main trade area anytime from 2017 onwards, as there would be a supermarket market gap of around 5,700 sq.m by this time with no expansion.

Table 2 North Orange Marketplace - main trade area - supermarket floorspace demand and market gap								
Factor	2015	2016	2017	2018	2019	2020	2021	2026
<u>MTA population</u>								
Main trade area population	20,310	20,740	21,170	21,600	21,950	22,300	22,650	24,350
<u>MTA supermarket expenditure</u>								
F&G Spend per capita* (\$)	5,274	5,327	5,380	5,434	5,488	5,543	5,599	5,886
Total F&G exp. (\$M)	\$107.1	\$110.5	\$113.9	\$117.4	\$120.5	\$123.6	\$126.8	\$143.3
F&G expenditure to smkts at 75% (\$M)	\$80.3	\$82.9	\$85.4	\$88.0	\$90.4	\$92.7	\$95.1	\$107.5
6% of smkt sales from GM (\$M)	<u>\$5.1</u>	<u>\$5.3</u>	<u>\$5.5</u>	<u>\$5.6</u>	<u>\$5.8</u>	<u>\$5.9</u>	<u>\$6.1</u>	<u>\$6.9</u>
Total smkt expenditure by MTA residents (\$M)	\$85.5	\$88.1	\$90.9	\$93.6	\$96.1	\$98.6	\$101.2	\$114.3
<u>Net retention and available supermarket expenditure</u>								
MTA containment ratio	80%	80%	80%	80%	80%	80%	80%	80%
BTA capture rate	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
Total available smkt expenditure (\$M)	\$80.4	\$83.0	\$85.5	\$88.1	\$90.5	\$92.8	\$95.2	\$107.6
<u>Supermarket floorspace demand</u>								
RTD @ \$9500 increasing at 0.5% p.a.	<u>\$9,500</u>	<u>\$9,548</u>	<u>\$9,595</u>	<u>\$9,643</u>	<u>\$9,691</u>	<u>\$9,740</u>	<u>\$9,789</u>	<u>\$10,036</u>
Supportable smkt floorspace (sq.m)	8,467	8,689	8,914	9,140	9,334	9,531	9,729	10,724
<u>Existing supermarket floorspace supply</u>								
Woolworths at North Orange Marketplace	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200
<u>Supermarket floorspace gap</u>								
Total supermarket gap (sq.m)	5,267	5,489	5,714	5,940	6,134	6,331	6,529	7,524
% of total demand	62%	63%	64%	65%	66%	66%	67%	70%
*Constant 2015 dollars & including GST Source: MarketInfo; MacroPlan Dimasi								

Put simply, there is a major under-supply of supermarket floorspace at present in the North Orange Marketplace main trade area and delaying the proposed first stage of the expansion of the centre would have a very marginal mitigating effect in relation to impacts on CBD retailers. If the development were to be approved in the very near future, due to development planning and construction timings, the expansion would realistically be completed by late 2017/early 2018 at the earliest for a first year of trade around calendar year 2018.

In our view, a third supermarket could also be provided soon thereafter. By June 2020, with a few more years' market growth, the third supermarket could be supported at the centre, as the supermarket supply and demand position would be broadly in equilibrium by this point in time assuming all three supermarkets were to locate at the centre.

In summary, we recommend that a first stage of expansion should proceed as soon as it can be practically developed (i.e. approved now), and that the second stage should be approved at a timing point that would allow the centre to fully open by June 2020 (i.e. a first full year of trade of FY 2020/21).

Yours sincerely



James Turnbull

Senior Manager

Retail