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| VERSION NO. DRAFT V1 | DATE OF ISSUE | REVISION BY | APPROVED BY |
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Executive Summary

- **Report Context**

This report has been prepared for Costco Wholesale Australia Pty Ltd ('Costco'), and presents an analysis of the potential economic impacts associated with the construction and operation of the proposed Costco Boolaroo. The report has been prepared in response to Council's Request For Information (RFI) received on the 18 September 2020 for DA/1066/2020.

- **The Proposal**

The proposed development relates to the construction and operation of a Costco Wholesale store at 2A Main Road, Boolaroo, within the Cockle Creek precinct (the former Pasminco site). The location is well-suited to Costco with the potential to serve a large local and regional population, as well as to facilitate the growth and development of an underutilised precinct in a manner aligned with strategic objectives. The site is located within close proximity to existing homes and future urban release areas, and thus will support employment and retail needs within a growing community.

- **About Costco**

Costco Wholesale operates as a regional shopping destination offering bulk buying merchandise and services at low prices to households and small-medium sized businesses. Costco is an example of the 'wholesale club' model, where the company gains revenue for charging membership, which in turn means that Costco members can access high quality branded products at low costs. Costco offers private label and brand-name products at low prices and in bulk sizes, achieved through its considerable buying power and low-cost operations. Typically, Costco is not used by consumers as a replacement for shopping at the local centre, store, or the nearby supermarket. This is reflected in an average basket size at Costco of more than \$200 per transaction compared with an average basket size of between \$35 and \$45 at a traditional supermarket.

- **Trade Area**

Costco Boolaroo will serve a total trade area (TTA), that generally encompasses the Greater Newcastle and Lake Macquarie region, as well as surrounding Local Government Areas (LGAs). In 2020, the TTA had a resident population of 723,490 people, including 430,240 people within the Main Trade Area (MTA) located in proximity to the site. This TTA population is projected to increase to 837,490 people by 2036, including 491,940 people within the MTA. Retail expenditure per capita by TTA residents in 2020 is estimated at \$14,460 per annum, with total retail expenditure estimated to increase by +33.7% by 2036, from \$10.6 billion to \$14.2 billion. Accordingly, Costco Boolaroo is well positioned to support a growing region with strong demand for access to retail goods and services.

- **Market share**

Total sales of \$150m are forecast for Costco Boolaroo in its initial trading year (assumed to be 2022), with 84% of these sales projected to be in retail product categories with the balance (16%) assumed to be non-retail sales, including fuel retailing, tyre sales and fitting, as well as business supplies. An estimated 73% of retail product sales are projected to be to households (with the balance going to business members). On this basis, Costco would achieve only a very small market share of approximately 0.7% of available retail spending by TTA residents in 2022.

- **Retail trading impacts**

Costco's trading impact would be equivalent to a reduction of just 1.5% of sales at the main competing centres identified in the impact analysis, relative to the sales they would otherwise achieve in 2022 without Costco. In each instance, projected sales for these centres in 2022 are higher than existing levels in 2020, even assuming the development of Costco Boolaroo. The relatively low trading impact on individual centres is principally because Costco, as a destination retailer, draws customers from a very extensive regional catchment. Thus, the Costco achieves only a very small share of all available retail spending by TTA residents. Trading impacts are therefore spread widely and thinly across numerous competing centres.

- **Economic outcomes and net community benefit**

Costco Boolaroo will generate considerable benefits for the wider community. This includes:

- Site suitability criteria shows that the proposed site is an appropriate economic use of the site that meets the unique, and difficult to replicate, locational requirements of Costco.
- The proposed development involves approximately \$42m in capital investment and would create approximately 82 construction jobs over a 12-month construction phase, plus a further 131 indirect or flow-on jobs elsewhere in the economy over that 12-month period due to the employment multiplier.
- Approximately 250 full-time equivalent (FTE) jobs (330 jobs in total) would be generated on an ongoing basis at the Costco store, plus a further 225 FTE jobs elsewhere in the local and national economies due to the employment multiplier effect.
- The introduction of Costco will provide shoppers and local business customers with improved retail choice and competitive prices, with analysis indicating that price savings of 10% to 25% can be achieved.
- Costco will provide small businesses with the opportunity to purchase low cost, high-quality merchandise for their own use (noting that sales to business represent approximately 27% of all sales at Costco).
- Costco actively engages with local businesses and suppliers to source goods and services.
- The introduction of Costco would not generate significant adverse impacts on the role and function of existing and proposed centres.

Introduction

This report has been prepared for Costco Wholesale Australia Pty Ltd ('Costco'), and presents an Economic Impact Assessment (EIA) for the proposed construction and operation of a Costco warehouse at 2A Main Street, Boolaroo.

In the Australian context, Costco provides a unique format, that offers high-quality merchandise and services at low prices to retail and wholesale customers who pay an annual membership fee. The first Costco store was opened at the Docklands in Melbourne in August 2009.

Costco offers well-known brand-name products at low prices through its considerable buying power and low-cost operations, thus delivering the best value possible to members. The Kirkland Signature private label is also controlled by Costco and offers basic household and business products at a substantial discount.

In some respects, Costco's format is comparable with other large-format retailers and wholesalers in regard to site layout, urban design and architectural presentation. However, Costco does not operate as a conventional shop and has very different trading characteristics compared with existing store types such as supermarkets, department stores, discount department stores, factory outlets, specialty shops, and bulky goods stores.

This Economic Impact Assessment report has been prepared by Ethos Urban to determine the effects on the local and regional economy.

The report contains the following chapters:

- 1 Project Context
- 2 Strategic Policy Context
- 3 Costco Model
- 4 Retail Market Assessment
- 5 Retail Impact Assessment
- 6 Economic Overview.

COVID-19 is an unprecedented global health crisis and economic event that is rapidly evolving. In these circumstances the short-term economic environment is extremely uncertain, especially where the forecasting of economic trends is involved. At the current time, the research and analysis of economic data – such as forecasts of economic activity, population and employment growth, and so on – reflects a return to "business as usual" scenario, while also noting the potential impacts that may be associated with the COVID-19 virus and the anticipated return to growth in economic indicators. Where required, we will be clear where a specific consideration of the implications of COVID-19 is being provided outside a business as usual scenario.

1.0 Project Context

This Chapter presents a summary of the proposed development at the Subject Site, and a description of the locational context for the proposal in terms of surrounding land uses.

1.1 Site location and context

The Subject Site is located at 2A Main Street, Boolaroo within the north-eastern part of the City of Lake Macquarie Local Government Area (LGA). Approximately 1km north of the Boolaroo local centre and 2.5km south of the strategic centre at Glendale Shopping Centre, the Subject Site is also approximately 19km south-west of the Newcastle CBD.

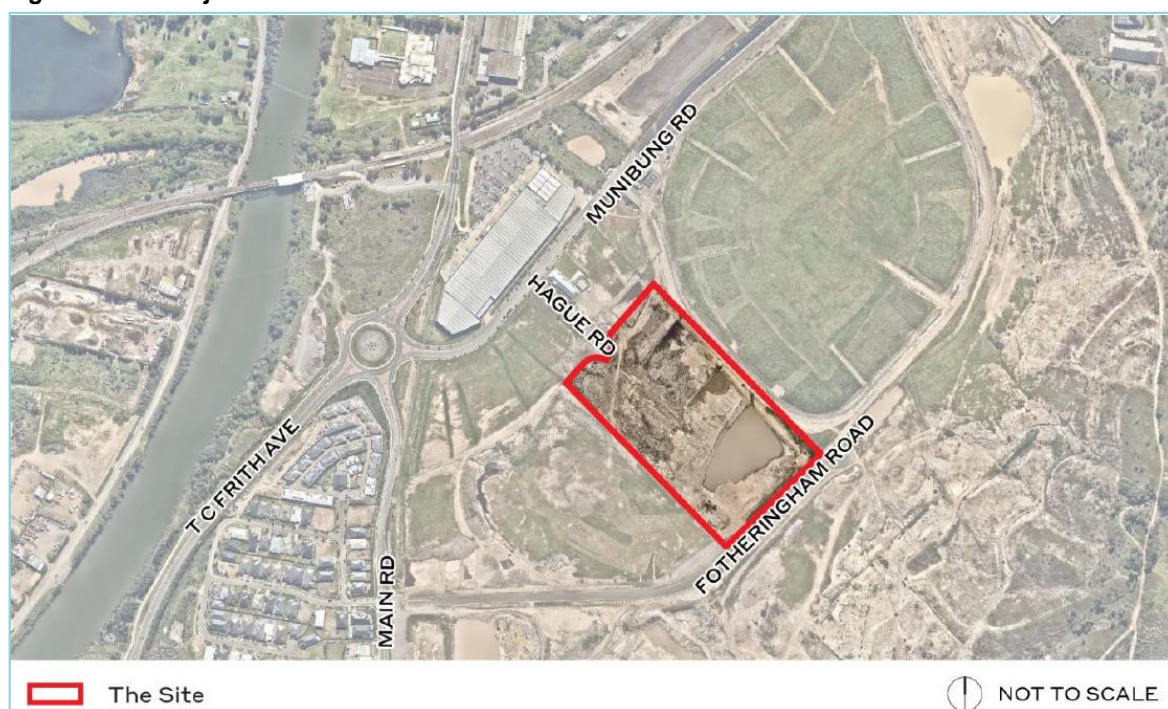
Part of the emerging Cockle Creek precinct, which occupies the site of the former Pasminco smelter, the Subject Site is bounded by a future road called Fotheringham Road to the south-east, the Containment Cell (as part of the Pasminco site) to the north-east, Hague Road to the north-west and a vacant development site to the south-west. An aerial photograph is outlined in **Figure 1**.

The area immediately surrounding the Subject Site is mostly vacant, with Bunnings Warehouse and industrial development to the north and east, and residential areas further south.

Surrounding land uses include:

- The Former Laboratory Building to the north-west located adjacent to Hague Road and Munibung Road
- The Bunning Warehouse to the north-west located between Munibung Road and TC Frith Avenue
- Newly constructed medium density residential development to the south and west along Main Road
- The Boolaroo local centre to the south.

It should be noted that the land to the immediate east, south and south-west comprises vacant land which is likely to be developed for a mix of large-format retailing, other commercial uses and low-density residential development. The containment cell for the contaminated soil extracted during the remediation process of the Pasminco site is located directly to the north.

Figure 1 Subject Site Aerial

Source: Ethos Urban, Nearmap

1.2 Site requirements

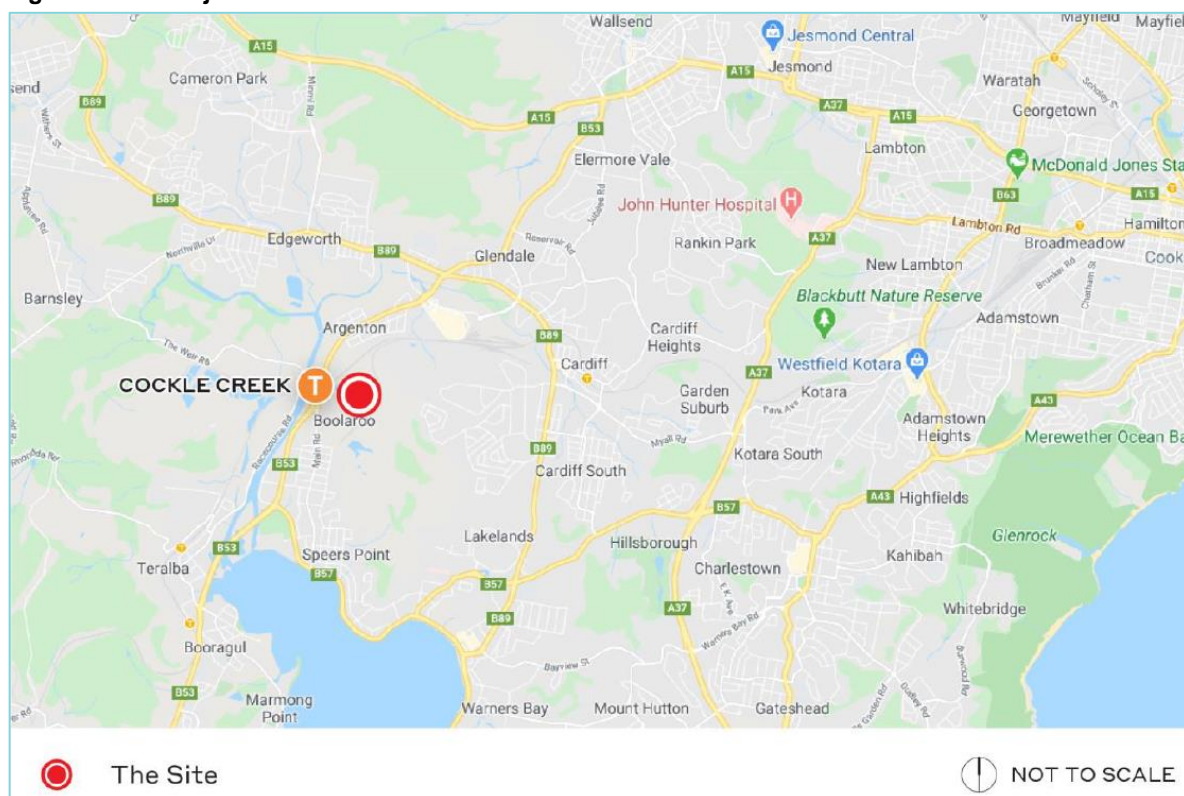
Costco has particular site requirements that are typical for many large destination retailers, although the physical scale of a Costco store means that finding appropriate and available locations is often very difficult. In general, the relevant locational criteria for Costco relate to factors such as:

- **The size of the land and its configuration.** A Costco warehouse requires a significant land area (generally a minimum of approximately 5 hectares) to accommodate the store, carparking, delivery areas, petrol canopy and other physical on-site requirements.
- **The ability to accommodate a preferred warehouse design.** Costco has very specific design requirements in terms of factors, including store design, orientation and customer parking/amenities.
- **The potential cost of development.** Competitive land and development costs are crucial for ensuring the economic viability of a major capital investment by Costco and ongoing delivery of the low cost pricing model to Costco members.
- **The exposure of the site to the regional catchment and the potential access arrangements that can be achieved.** It is vital that Costco has access to high-capacity regional transport networks which ensure high levels of accessibility to the site for a large population living within at least a 30-minute drive time from the site.
- **Whether the site has any planning constraints that need to be overcome (e.g. heritage controls, flood-prone, etc.).** These aspects are critical in terms of potential design, operational or other constraints.

The proposed Costco Boolaroo has locational attributes which meet the above requirements.

In terms of transport networks, the site is within a strategic location that is easily accessible from T C Frith Avenue and the Esplanade, which provide a north-south and east-west connection to the site.

The regional context for the proposed Costco Boolaroo is shown in **Figure 2**.

Figure 2 Subject Site location and context

Source: Ethos Urban

1.3 Proposed development

This application seeks approval for the following:

- The construction of a new Costco Wholesale & Retail Warehouse building totalling 13,786m² GFA;
- A Costco Fuel Station
- At grade car park providing 822 Spaces
- An internal access road connecting to Hague Road
- Construction of landscaping and associated physical infrastructure, stormwater measures and utilities.

An indicative image of the main entrance of the Costco Wholesale & Retail Warehouse is provided at **Figure 3**.

Figure 3 **Indicative photomontage of the Proposed Development**



Source: Group GSA

2.0 Strategic Policy Context

The following section identifies the key strategic drivers for the Subject Site, based on a review of the key state and local policies and strategies relevant to the proposed development.

Detailed commentary on Government policies of relevance to the Subject Site and the proposed redevelopment is provided in the broader planning statement. However, at a high-level a number of policies are adopted and proposed that would support the proposed development at the Subject Site. Some of these include:

- **Lake Macquarie Local Strategic Planning Statement** – The LSPS outlines the strategic objective that *‘more intensive employment development occurs in an around the Boolaroo and Speers Point Centres’*. Specifically, the LSPS states that new development should encourage investment and accommodate more employment opportunities closer to where people live. The proposed Costco Boolaroo store is in line with the strategic objectives of Lake Macquarie Council, by being strategically located within an area identified for intensification and enabling significant jobs growth within a key employment area close to existing homes. In addition, it is expected that the surrounding Cockle Creek precinct is expected to deliver some 500 new homes.
- **Greater Newcastle Plan 2036** – This Plan provides a strategic objective and desired role for the Munibung Precinct, which incorporates the Costco Boolaroo site. Specifically, the Greater Newcastle Plan outlines that Lake Macquarie Council will need to facilitate urban renewal within the Munibung Precinct through increased housing density and mixed-use development including large format retail and office uses. Costco is a large format retail store and will directly benefit and support retail needs for local and regional residents, and thus will support the Greater Newcastle Plan of accommodating more large format retail facilities within the Munibung Precinct.
- **Lake Macquarie City Community Strategic Plan** – The plan outlines the objective to deliver some 11,741 new jobs by 2036. The proposed Costco Boolaroo store will deliver additional jobs both during the construction stage of the project as well as on an ongoing basis once complete and operational. As such, Costco Boolaroo will support the Lake Macquarie Community Strategic Plan through supporting jobs growth in a key industry sector (retail) within the LGA.

3.0 Costco Model

This Chapter describes the unique Costco model and how it differs from traditional retail operators.

3.1 Costco overview

Costco Wholesale opened their first Australian store in Melbourne in August 2009. The company is one of the world's largest business wholesalers and retailers, with over 780 warehouses in the USA, Canada, Mexico, UK, Taiwan, Korea, Japan, Spain, China, Iceland and Australia. Costco employs over 250,000 people around the world. Globally, Costco has in excess of 100 million memberships (these 'memberships' are described later).

Costco was originally established to supply the needs of small to medium-size businesses with competitively priced wholesale goods, leveraging the cost benefits associated with buying in bulk, and taking advantage of Costco's purchasing power. Costco now also serves the household retail market, while still retaining an emphasis on bulk buying. Importantly, this means that retail customers only use Costco for the limited range of merchandise for which bulk purchases are an option.

For example, **Table 1** shows a comparison undertaken of standard size items for sale at a Costco in Melbourne and compares this with the largest comparable item at a major chain supermarket located in the same suburb on the same day.

Table 1 Costco Comparison of product sizes

| Product | Costco | Major Chain Supermarket | Costco Variation (x bigger) |
|----------------------------------|---------------|-------------------------|-----------------------------|
| Glad Cling Wrap | 300 metres | 100 metres | 3.0 times |
| Carman's Muesli Bar | 840 grams | 175 grams | 4.8 times |
| Heinz Tomato Ketchup | 2 litres | 500 ml | 4.0 times |
| Mission Wholegrain Wraps | 1,134 grams | 567 grams | 2.0 times |
| John West Tuna | 1,520 grams | 95 grams | 16.0 times |
| Milo | 1.5 kg | 1 kg | 1.5 times |
| Palmolive Hand Wash | 1,500 ml | 250 ml | 6.0 times |
| Saxa Cooking Salt | 2 kilograms | 0.75 kilograms | 2.7 times |
| Eclipse Mint | 544 grams | 34 grams | 16.0 times |
| Jalna Greek Yoghurt | 3.5 kg | 1 kg | 3.5 times |
| Uncle Toby's breakfast cereal | 1,450 grams | 765 grams | 1.9 times |
| Rexona women's spray deodorant | 900 grams | 150 grams | 6.0 times |
| Colgate Extreme Clean toothpaste | 680 grams | 190 grams | 3.6 times |
| Kleenex Toilet rolls | 10,368 sheets | 5,760 sheets | 1.8 times |
| OMO front loader washing powder | 10 kg | 5 kg | 2.0 times |

Source: Ethos Urban

Typically, Costco is not used by consumers as a replacement for shopping at the local centre, store, or the nearby supermarket. This is reflected in an average basket size at Costco of more than \$200 per transaction compared with an average basket size of between \$35 and \$45 at a traditional supermarket. On average, Costco members visit a warehouse 8 times per year, and this is in sharp contrast with supermarkets which are typically visited once or twice a week by most consumers.

A typical Costco layout and product display is shown in **Figure 4**.

Figure 4 Costco Store Layout and Product Display

Source: Costco, Group GSA

3.2 Costco business model

The Costco business model differs markedly from the traditional retail format that shoppers are accustomed to in Australia. Costco is an example of the 'wholesale club' model, which allows Costco to use its considerable purchasing power to deliver high-quality branded products to its members at low cost.

A key factor is that the company gains revenue from charging for membership, and this additional source of funds helps Costco to negotiate buying contracts with manufacturers. This structure also means that margins can be kept much lower than usual in the retail industry.

Typically, Costco achieves a sales margin of approximately 11%, and this margin is against the total cost of goods sold, not just the wholesale price. By comparison, margins can be above 30% to 40% for some traditional retailers. For customers, this means that – for a membership fee of \$60 per annum (or \$55 for business card holders) – high-quality merchandise is available at a significantly lower price when compared against competing retailers.

Note that Costco strictly enforce membership requirements at the store entry, and ensure that sales are made only to current members. The Costco membership card security is ensured through use of photo identification.

A comparison of the main operational features for different types of store formats is presented in **Table 2**, and this highlights the significant differences between a Costco store and the alternative store types listed.

Table 2 Comparison of store types

| Store format | Full line supermarket | Discount Department Store (DDS) | Department Store | Costco |
|--------------------------|-------------------------------|---------------------------------|--------------------------------|------------------------|
| Floorspace (GFA) | 3,000-4,500m ² | 5,000-8,000m ² | 10,000-25,000m ² | 13,750m ² |
| Employees | ≈60-80 FTE (120-160 total) | ≈50-80 FTE (100-160 total) | ≈70-170 FTE (150-350 total) | 275 EFT (375 total) |
| Product line/SKUs | ≈30,000+ | ≈50,000+ | ≈70,000+ | ≈4,500 |
| 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 businesses | <2% | <5% | <5% | ~30% |
| Population catchment | 8,000+ persons | 35,000+ persons | 100,000+ persons | 700,000+ persons |

Source: Costco, Ethos Urban

Note: These are indicative estimates; substantial variation can exist for particular stores

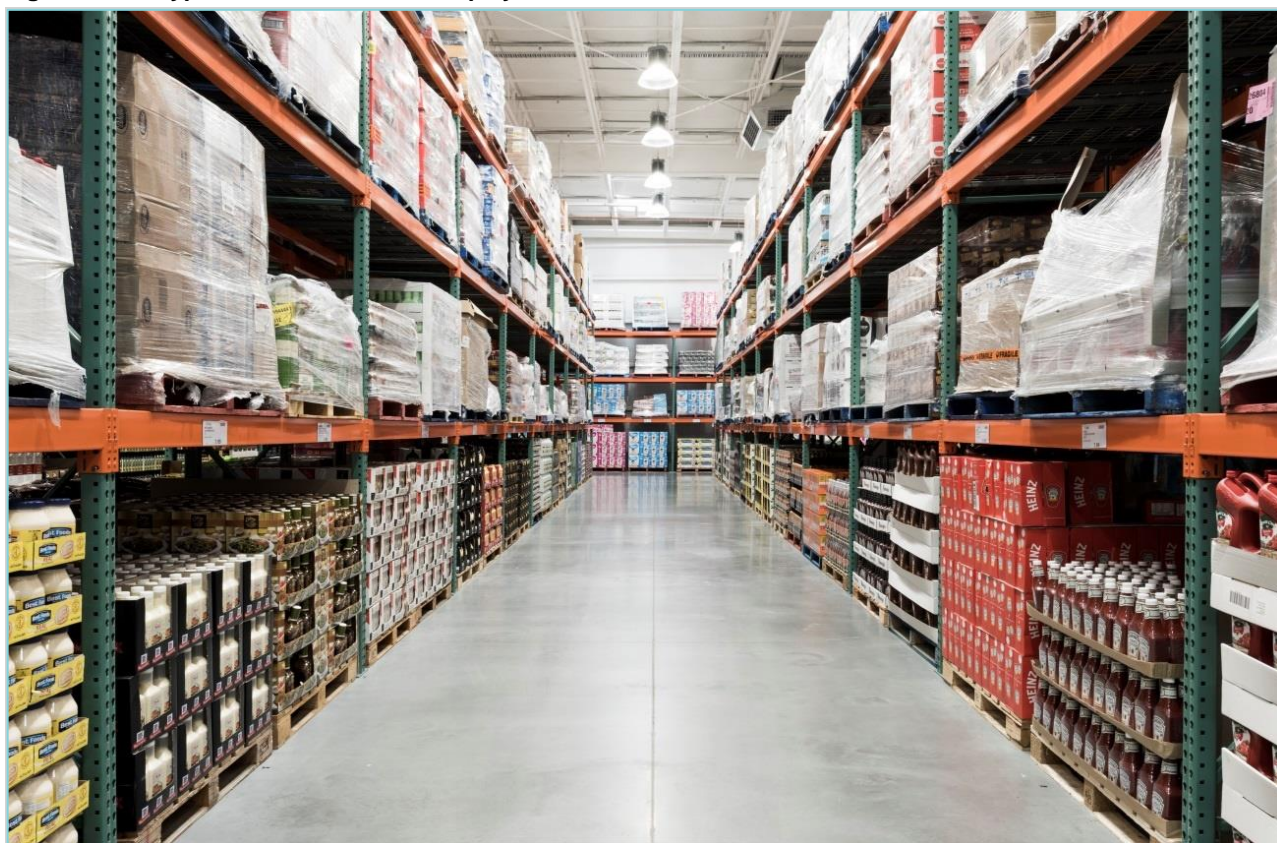
Another important outcome is that small businesses, such as corner stores, can purchase wholesale goods at low prices from Costco. These prices are sufficiently low that it is possible to resell those goods (typically repackaged as individual items) at prices that are competitive with supermarkets and other competitors.

While Costco has an emphasis on high-quality branded merchandise, the company actively engages with, and sources goods and services from, local suppliers and vendors in the regions surrounding their stores.

Costco also provides the opportunity for local suppliers to export goods to Costco Warehouses in other countries; for example, Australian meat and dairy products are currently being exported to Costco stores in Japan, South Korea and Taiwan.

Other opportunities for local business to supply Costco Boolaroo will also be available once the store is operational.

Figure 5 Typical Costco Product Display



Source: Costco

Costco product range

Costco typically has about 4,500 individual products (stock-keeping units, or SKUs) on its floor at any one time, and this is considerably fewer than the 30,000 or more SKUs typically on the shelves at a full-line supermarket, or up to 40,000 SKUs on offer in a large discount department store such as Kmart, Big W or Target.

The range of products at a typical Costco Warehouse is very wide, from fresh food (eggs, bread, meat, vegetables, etc) to clothing, jewellery, leisure goods (tents, BBQs, etc), whitegoods, dry groceries, frozen food, funeral caskets, electrical equipment, wine and liquor, sheets, towels, and pet food.

Costco also sells a range of products targeting trade and business customers, including:

- Office supplies
- Office furniture
- Cash registers
- Basic shop fittings
- Tiles
- Power and trade tools
- Product storage and display equipment
- Restaurant and kitchen supplies.

Business customers at Costco include a high share of the following:

- Independent restaurants and take-away food outlets
- Small supermarkets and convenience stores

- Child-care centres, kindergartens, education providers
- Professional businesses (doctors, lawyers, consultants etc)
- Hotels and motels
- Hair salons and other personal services
- Catering businesses
- Construction firms (small to medium).

Typically, these business customers would otherwise purchase most of their goods from dedicated business supplies and wholesaling firms, rather than retail shops in activity centres.

Generally, Costco sales to business customers are in the order of 30% of total sales, although this will vary by individual store.

As a result, Costco has a relatively lower level of direct competition with the traditional retail sector, which has an emphasis on serving households rather than business customers.

Other non-retail products sold by Costco to trade and household customers include optical glasses, hearing aids, caskets, spa baths and motor-vehicle tyres.

Costco fuel retailing

In addition to products sold in the warehouse, Costco has a petrol canopy at most of its Australian stores which provides members with low cost fuel. The use of a membership card is required to activate the fuel bowser, which also require the use of a pre-authorised credit or debit card before fuel is dispensed.

Costco fuel retailing adopts a 'best price in market' approach which ensures that Costco members receive the best price relative to an extensive range of competing fuel stations that are subject to price monitoring.

Fuel retailing is utilised by both household and business members, with large trucks and commercial vehicles a key component of overall sales. For some Costco members living in close proximity to the warehouse, fuel will often be purchased as a specialised trip on a day-to-day, top-up basis. However, for most members fuel sales are associated with a visit to the warehouse to purchase other goods.

Given the importance and sensitivity of fuel costs to many households and businesses, the introduction of Costco to fuel retailing in Australia represents an important increase in competition. This will have benefits for Costco members directly through cheaper fuel costs, as well as for the broader community through more competitive pricing in the general fuel retailing industry.

Research by the Australian Competition and Consumer Commission (ACCC) highlights the importance of competition as a key factor in determining fuel prices in specific areas. This is borne out by the experience of Costco in their own fuel price monitoring. The so-called 'Costco Effect' results in lower petrol prices at competitors within an approximate 5km radius of Costco fuel stations.

Figure 6 Costco Petrol Canopy

Source: Costco

Other services typically offered

Optical

Costco has an in-house optical service which includes qualified optometrists. General optical tests and consultations are available to Costco members. In addition, a wide range of frames, contact lenses and sunglasses are available for purchase.

Hearing

A hearing aid service is available to members which includes testing, fitting and guidance on the use of a variety of brands and technologies. Qualified hearing aid professionals are available by appointment to Costco members.

Tyre Centre

The Costco tyre centre is located immediately adjacent to the warehouse and allows members to have their vehicle serviced while shopping. Leading tyre brands are represented, such as Michelin and Bridgestone, as well as other brands and special orders. Services include wheel balance, fitting, repair, nitrogen tyre inflation, and tyre rotation.

3.3 Trading impact considerations

Costco competes with a very wide range of alternative shopping locations, including supermarkets, discount department stores, specialty stores, bulky goods or homemaker outlets, individual retailers, and wholesale outlets.

The extensive regional trade area served by each Costco store means that any competitive trading impacts are distributed widely and thinly across many individual centres and stores. This has been the experience in both Melbourne (four stores) and Sydney (three stores), where the membership base is spread across the whole metropolitan area, and any adverse competitive impacts have not been formally noted by individual traders.

Benefits are associated with the introduction of a new wholesale supplier offering highly competitive prices. The provision of low-cost business supplies has potential to generate benefits for end consumers, as small businesses can on-sell their goods at lower prices.

By bringing its unique retail model to Australia, Costco has substantially increased the level of competition in the retail market. The potential benefits for consumers relate to the likely price savings associated with this competition, and this encourages price reductions by other businesses as they adjust their operations to maintain market share.

4.0 Retail Market Assessment

This Chapter contains a retail market assessment for the proposed Costco Boolaroo store at the subject site at 2A Main Street, Boolaroo. The assessment includes the following information:

- Identification of the trade area likely to be served by the Costco store;
- Demographic analysis of the existing trade area population;
- Existing and forecast population levels in the trade area;
- Existing and forecast levels of available retail expenditure of trade area residents;
- Estimate of likely market shares to be achieved at the Costco store; and
- Estimate of likely market share performance in each trade area sector.

Key findings

- Reflecting the regional location and the fact that the nearest existing Costco is located some 140km away in metropolitan Sydney, a Total Trade Area (TTA) has been drawn to identify the likely trading influence of the Costco Boolaroo store. The overall trade area generally represents the region within a 50km radius of the Subject Site. Within the TTA, a Main Trade Area (MTA) that comprises two primary sectors and four secondary sectors has also been defined and generally represents the area within a 30-minute drive time from the proposed store.
- The TTA had a resident population of 723,490 persons in 2020 and is projected to increase to 837,490 persons by 2036. The MTA is projected to accommodate an additional 61,700 persons over the period to 2036, with 9,750 additional persons in the combined primary sectors.
- The TTA resident population has a younger age profile to that of Regional NSW. Specifically, age profile data shows that the TTA has a median age of 39.6 years compared to 42.0 years in Regional NSW. Trade area residents earn higher incomes when compared to Regional NSW and the majority of TTA households are family households.
- In 2020, retail expenditure per capita within the TTA was \$14,460. When considering the total TTA resident population of 715,490, overall retail expenditure is \$10.6 billion in 2020. This is projected to increase to \$14.2 billion by 2036, with increases in non-food expenditure accounting for the largest share of retail spending growth (all expressed in 2020 dollars).
- The proposed Costco Boolaroo is estimated to achieve sales of \$150 million in 2022, with \$91.4 million being derived from typical household expenditure from TTA residents. The remaining sales is anticipated from businesses, non-retail products, as well as sales from beyond the defined trade area.
- Taking into account the projected sales, the proposed Costco Boolaroo is estimated to achieve an overall market share of just 0.7% of available retail expenditure across the TTA.

4.1 Trade area definition

A retail trade area is an analytical tool that represents the spatial influence of a centre, or retail destination, and the region from which it is expected to draw consistent and significant levels of patronage. The extent of the trade area is defined by a number of factors which include the location of existing and proposed retail competition, the surrounding arterial road and freeway network, and physical barriers to movement (such as water courses, railway lines, etc). For Costco, another relevant consideration is the network of future Costco stores that will be progressively developed.

Typically, Costco stores draw around 80% of their sales from within approximately a 30-minute drive time. This trading pattern is drawn from the experience of Costco stores in other markets such as USA, Canada and UK, as

well as the new stores in Australia, and reflects the fact that people are attracted from an extensive region in order to shop at Costco.

A Total Trade Area (TTA) has been defined to identify the likely trading influence of a Costco store at the subject site at 2A Main Street, Boolaroo, and is shown as **Figure 7**. The TTA generally reflects the area within a 50km radius of the site, for whom the proposed Costco Boolaroo is an accessible and time effective shopping option for Costco members.

The defined trade area includes the following components:

- **Primary sectors:** defined to include two primary sectors and represents the immediate local catchment and area most likely to associate with the proposed development. The population within the primary sectors would have direct access to the proposed Costco and would be regular customers.
- **Secondary sectors:** defined to include four secondary sectors and represents the broader area that would have good access to the Subject Site and would visit the proposed Costco Boolaroo around 8-10 times a year.
- **Tertiary sectors:** defined to include three tertiary sectors that extend to include the broader Hunter region, as well as the northern extend of the Central Coast. These tertiary sectors represent the population that may still shop at the proposed Costco Boolaroo as part of a major destination shopping trip, however, on a less regular basis.

A breakdown of the various sectors is outlined below:

Primary Sectors

- A **Primary East**, bounded by the Newcastle Inner City Bypass to the east and Cockle Creek to the west, and captures the suburbs of Cardiff, Lakelands, Glendale and Warners Bay. The sector adjoins Cockle Bay and includes Boolaroo and the subject site at 2A Main Rd.
- A **Primary West**, which extends west from Cockle Creek to Heaton State Forest and as far south as Fennel Bay. The suburbs of Cameron Park, Holmesville and Edgeworth area located within the sector which also includes a significant amount of urban land for residential development.

Secondary Sectors

- A **Secondary North East**, includes the Newcastle City Centre and inner city suburbs such as Wickham, Broadmeadow, Waratah and Mayfield. The sector has a dense built environment, which extends east-west from Newcastle to Jesmond, and north-south from Sandgate to Adamstown Heights.
- A **Secondary South East**, which generally extends approximately 25km south from Charlestown in the north to Catherine Hill Bay in the south. Other major localities within the sector include Swansea and Belmont.
- A **Secondary South West**, which includes areas that are located to the west of Lake Macquarie (but within the Lake Macquarie LGA), such as Toronto, Morisset and Dora Creek. The Pacific Motorway (M1) runs north-south through the sector.
- A **Secondary North West**, which generally encompasses three nearby LGA's (Maitland, Cessnock and the remainder of Newcastle), and includes a number of towns including Kurri Kurri, Fletcher, East Maitland and Thornton.

Tertiary Sectors

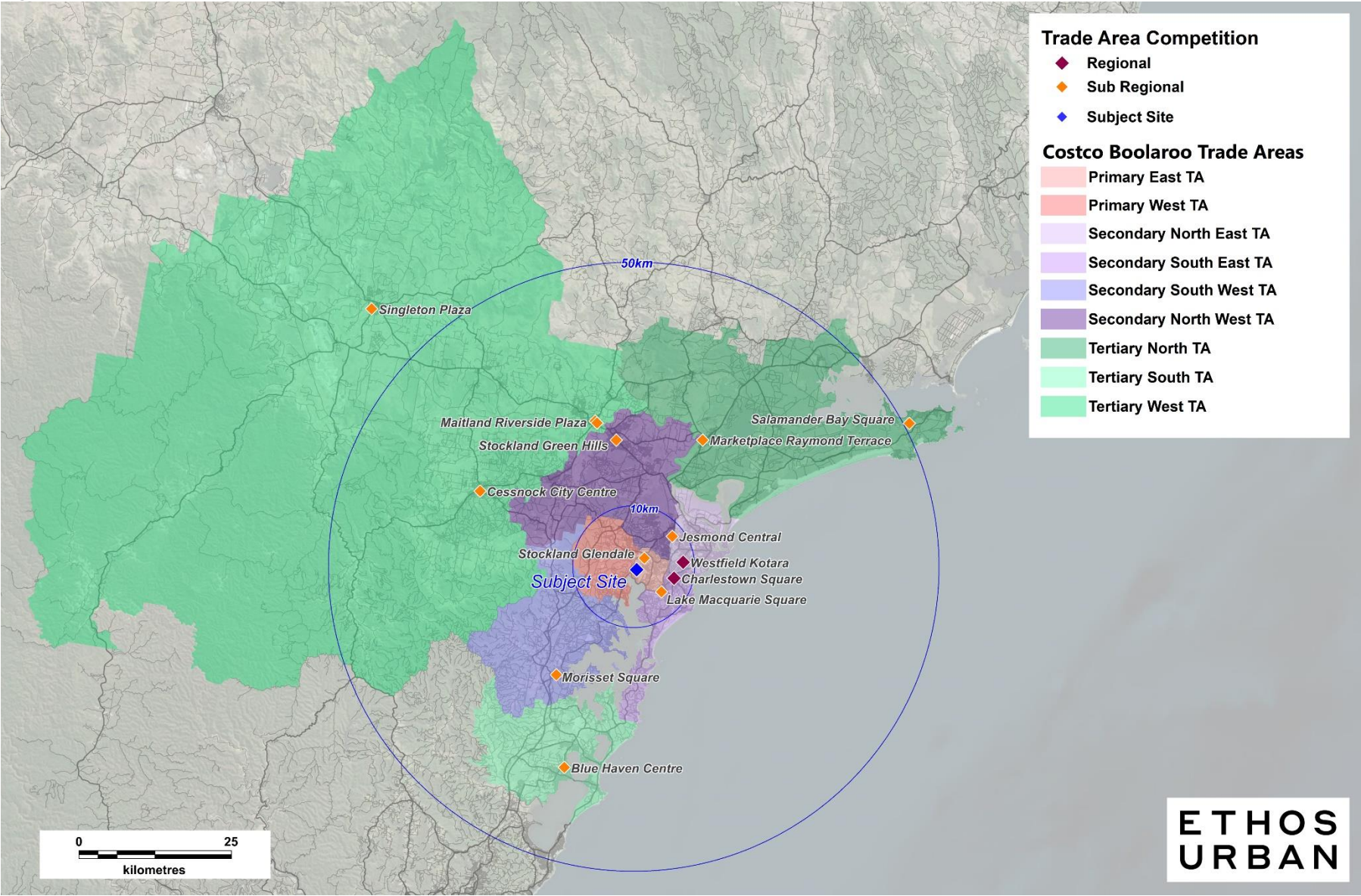
- A **Tertiary North**, which aligns with the Port Stephens LGA, directly north of Newcastle. Localities within the sector include Raymond Terrace, Medowie and Salamander Bay.
- A **Tertiary South**, which generally captures the northern suburbs of the Central Coast LGA that surround Tuggerah Lake, Budgewoi Lake and Lake Munmorah. San Remo, Lake Haven and Toukley are located within the sector.
- A **Tertiary West**, extends as west from Cessnock to Wollemi National Park. The sector includes the remainder of the Hunter Valley area including the regional townships of Singleton, Cessnock and Maitland.

The combination of the two primary sectors and four secondary sectors combine to form the **Main Trade Area (MTA)**. The MTA generally reflects a 30-minute travel time and has also been defined with consideration to relevant factors influencing likely shopping patterns.

The combination of the MTA and the three tertiary sectors comprise the **Total Trade Area (TTA)**. The Total Trade Area has been defined to generally reflect the area with 50km from the site. This is deemed appropriate given that the nearest Costco is located some 140km from the proposed site in metropolitan Sydney (Marsden Park, Auburn and Crossroads).

The extent of the Costco Boolaroo trade area is shown in **Figure 7**.

Figure 7 Costco Boolaroo Total Trade Area



4.2 Socio-economic profile

Demographic data has been drawn from the Australian Bureau of Statistics (ABS) 2016 Census of Population and Housing. The data analysis provides a general overview of the demographic characteristics of residents within the Total Trade Area and is compared to the Regional NSW benchmark (refer to **Table 3**).

Key demographic findings for the trade area are highlighted below:

- **Age profile:** Data shows that the TTA has a median age of 39.6 years, younger than the Regional NSW median of 42.0 years. Most notably, persons aged 35-64 years represent 37.8% of TTA residents (37.8%), while young adults aged 20-34 represent 18.8% of the total resident population, this compared to the Regional NSW average of 38.5% and 16.6%, respectively.
- **Household Income:** TTA residents earn a median annual household income of \$67,800, some 10.8% higher than Regional NSW. The MTA has a median annual household income of \$70,160, demonstrating that income levels in urban areas of Newcastle are relatively higher.
- **Household Composition:** The TTA has a household composition that is broadly in line with Regional NSW, with a large proportion of couple families (at 57.2%, compared to the Regional NSW average of 56.6%). Of the family households, 29.9% are couple families with children. Lone person households account for 25.4% of households.
- **Housing Tenure:** Dwellings within the TTA are primarily owned on a mortgage (35.3%), or outright (35.0%). This is slightly lower than the Regional NSW benchmark for home ownership. Of occupied dwellings in the TTA, 29.1% are rented.
- **Industry of Employment.** Within the TTA, health care and social assistance employs the largest share of residents (15.6%). Importantly for the proposed development, 10.5% of TTA residents work in the retail trade industry, while 9.5% are employed in construction related activities.

Overall, the demographic profile of trade area residents is characterised by a young, family orientated population who earn slightly higher than average incomes. This population would associate strongly with the value proposition and increased food and retail offer at Costco Boolaroo.

Table 3 Demographic Profile, 2016

| Category | Main Trade Area | Total Trade Area | Regional NSW |
|---|-----------------|------------------|--------------|
| <u>Income</u> | | | |
| Median household income (annual) | \$70,160 | \$67,800 | \$61,200 |
| Variation from median | 14.6% | 10.8% | 0.0% |
| % of Households earning \$2,500pw or more | 20.8% | 19.4% | 16.2% |
| <u>Age Structure</u> | | | |
| Median Age (years) | 39.3 | 39.6 | 42.0 |
| <u>Country of Birth</u> | | | |
| Australia | 89.7% | 90.1% | 89.3% |
| Other Major English-Speaking Countries | 4.7% | 5.2% | 5.5% |
| Other Overseas Born | 5.6% | 4.7% | 5.2% |
| <u>Household Composition</u> | | | |
| Couple family - Total | 56.5% | 57.2% | 56.6% |
| Family Households - Total | 69.9% | 71.0% | 69.2% |
| Lone person household | 26.0% | 25.4% | 27.6% |
| <u>Dwelling Structure (Occupied Private Dwellings)</u> | | | |
| Separate house | 80.4% | 82.9% | 82.9% |
| Semi-detached, row or terrace house, townhouse etc. | 12.0% | 10.7% | 9.2% |
| Flat, unit or apartment | 7.2% | 5.7% | 6.4% |
| Other dwelling | 0.4% | 0.7% | 1.4% |
| Occupancy rate | 91.1% | 89.8% | 86.8% |
| Average household size | 2.5 | 2.5 | 2.4 |
| <u>Tenure Type (Occupied Private Dwellings)</u> | | | |
| Owned outright | 34.6% | 35.0% | 38.7% |
| Owned with a mortgage | 35.2% | 35.3% | 31.6% |
| Rented | 29.5% | 29.1% | 28.9% |
| <u>Highest Year of School Completed (% of population aged 15 years and over)</u> | | | |
| Year 12 or equivalent | 47.9% | 43.7% | 43.7% |
| <u>Weekly Rent</u> | | | |
| Median weekly rent | 330 | 320 | 280 |
| Variation from median | 17.9% | 14.3% | 0.0% |
| <u>Occupation</u> | | | |
| Managers | 9.8% | 9.9% | 13.1% |
| Professionals | 22.5% | 19.1% | 18.1% |
| Technicians and trades workers | 14.9% | 15.9% | 14.9% |
| Community and personal service workers | 11.9% | 12.1% | 11.9% |
| Clerical and administrative workers | 13.7% | 13.2% | 12.4% |
| Sales workers | 9.7% | 10.0% | 9.6% |
| Machinery operators and drivers | 6.4% | 8.0% | 7.1% |
| Labourers | 9.6% | 10.5% | 11.4% |

Source: ABS, Census of Population and Housing, 2016; Ethos Urban

4.3 Trade area population

In 2020, the TTA had an Estimated Resident Population (ERP) of 723,490 persons, with 430,240 persons within the MTA and 66,240 persons (9.2%) living in the PTA. The Secondary North East sector comprises the largest sector in terms of population, reflective of the dense built form and urban nature of Newcastle City and in particular the inner city suburbs.

Population estimates and forecasts for the Costco Boolaroo trade area are shown below in **Table 4**. For the purposes of this analysis, we have re-based population estimates to 2020, with forecast population estimates sourced from ABS, forecast id, and the NSW DPIE 2019 population projections.

The estimates show that the TTA population is forecast to increase to 837,490 by 2036, reflecting an additional 114,000 new residents that will support a Costco store at Boolaroo. Of this growth, an estimated 54% will be supported by the MTA, which is forecast to increase by +61,700 persons between 2020 and 2036, with the PTA is projected to increase by +9,750 over the same period.

Population growth is expected to be driven by a mix of migration and natural increases, supported by new infill and urban development, particularly to the west of Newcastle and in close proximity to the Subject Site. The number of residents moving to Newcastle and surrounding areas is expected to increase over the near to medium term, driven by affordability as well as more recently, with impacts from COVID-19 and the focus on increased flexible working arrangements. The proximity of the Lower Hunter region means that the area is increasingly attractive to live for Sydney-based workers able to tele-commute.

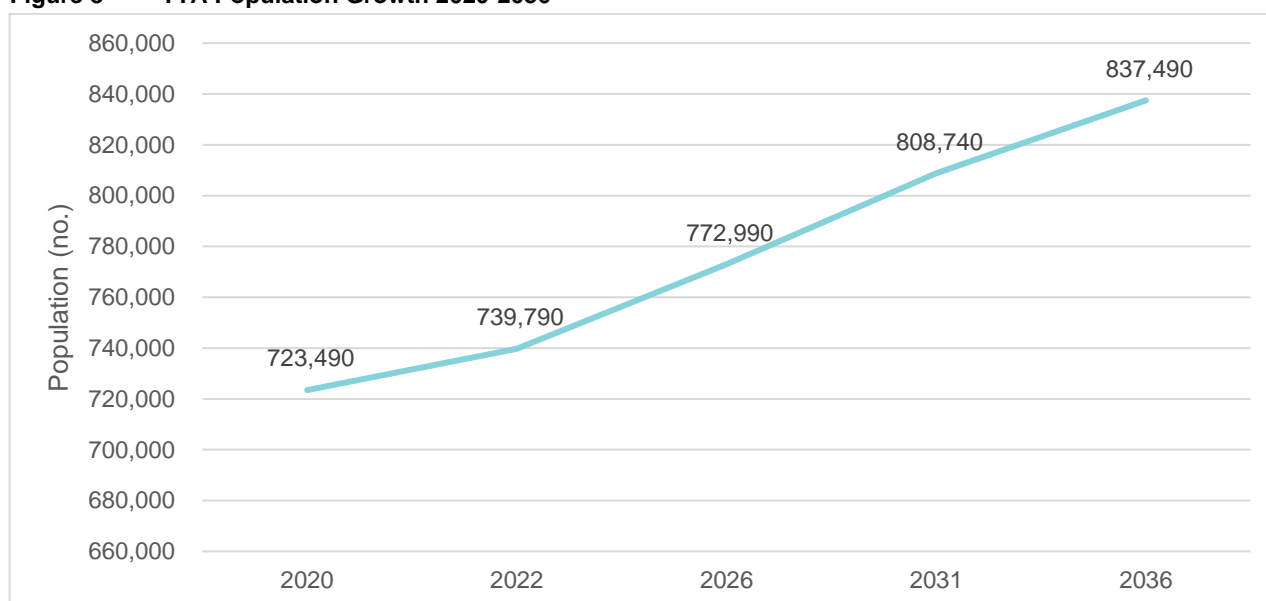
Key release areas and residential estates are provided throughout the TTA including Boolaroo, Cameron Park, Minmi, Rutherford and Bellbird. A number of opportunities to accommodate population growth are available through infill development projects which are already underway within suburbs including Warners Bay, Newcastle and Wickham.

The proposed Costco Boolaroo store will be trading in an environment of strong population growth and associated increased demand for retail goods and services. Similarly, the local service industry sector will continue to expand rapidly to meet the needs generated by this population, and will also require access to wholesale goods such as those supplied by Costco.

Table 4 Forecast Population, Costco Boolaroo Trade Area, 2020 to 2036

| | 2020 | 2022 | 2026 | 2031 | 2036 |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Population (No.) | | | | | |
| Primary Trade Area | | | | | |
| - Primary East | 34,170 | 34,520 | 35,520 | 37,020 | 38,020 |
| - Primary West | 32,070 | 32,870 | 34,470 | 36,470 | 37,970 |
| Total Primary | 66,240 | 67,390 | 69,990 | 73,490 | 75,990 |
| Secondary Trade Area | | | | | |
| - Secondary North East | 119,140 | 121,640 | 127,640 | 133,890 | 138,890 |
| - Secondary South East | 86,190 | 86,790 | 87,990 | 88,990 | 89,990 |
| - Secondary South West | 45,020 | 45,820 | 47,420 | 48,920 | 50,170 |
| - Secondary North West | 113,650 | 117,400 | 124,400 | 131,900 | 136,900 |
| Total Secondary | 364,000 | 371,650 | 387,450 | 403,700 | 415,950 |
| Main Trade Area | 430,240 | 439,040 | 457,440 | 477,190 | 491,940 |
| Tertiary Trade Area | | | | | |
| Tertiary North | 74,260 | 75,460 | 77,460 | 79,460 | 80,960 |
| Tertiary South | 106,670 | 109,070 | 113,870 | 118,870 | 123,870 |
| Tertiary West | 112,320 | 116,220 | 124,220 | 133,220 | 140,720 |
| Total Tertiary | 293,250 | 300,750 | 315,550 | 331,550 | 345,550 |
| Total Trade Area | 723,490 | 739,790 | 772,990 | 808,740 | 837,490 |
| Average Annual Growth (%) | | | | | |
| | | 2020-22 | 2022-26 | 2026-31 | 2019-21 |
| Primary Trade Area | | | | | |
| - Primary North | | 0.5% | 0.7% | 0.8% | 0.5% |
| - Primary South | | 1.2% | 1.2% | 1.1% | 0.8% |
| Total Primary | | 0.9% | 1.0% | 1.0% | 0.7% |
| Secondary Trade Area | | | | | |
| - Secondary North East | | 1.0% | 1.2% | 1.0% | 0.7% |
| - Secondary South East | | 0.3% | 0.3% | 0.2% | 0.2% |
| - Secondary South West | | 0.9% | 0.9% | 0.6% | 0.5% |
| - Secondary North West | | 1.6% | 1.5% | 1.2% | 0.7% |
| Total Secondary | | 1.0% | 1.0% | 0.8% | 0.6% |
| Main Trade Area | | 1.0% | 1.0% | 0.8% | 0.6% |
| Tertiary Trade Area | | | | | |
| Tertiary North | | 0.8% | 0.7% | 0.5% | 0.4% |
| Tertiary South | | 1.1% | 1.1% | 0.9% | 0.8% |
| Tertiary West | | 1.7% | 1.7% | 1.4% | 1.1% |
| Total Tertiary | | 1.3% | 1.2% | 1.0% | 0.8% |
| Total Trade Area | | 1.1% | 1.1% | 0.9% | 0.7% |
| Average Annual Growth (No.) | | | | | |
| | | 2020-22 | 2022-26 | 2026-31 | 2031-36 |
| Primary Trade Area | | | | | |
| -Primary North | | 175 | 250 | 300 | 200 |
| - Primary South | | 400 | 400 | 400 | 300 |
| Total Primary | | 575 | 650 | 700 | 500 |
| Secondary Trade Area | | | | | |
| - Secondary North East | | 1,250 | 1,500 | 1,250 | 1,000 |
| - Secondary South East | | 300 | 300 | 200 | 200 |
| - Secondary South West | | 400 | 400 | 300 | 250 |
| - Secondary North West | | 1,875 | 1,750 | 1,500 | 1,000 |
| Total Secondary | | 3,825 | 3,950 | 3,250 | 2,450 |
| Main Trade Area | | 4,400 | 4,600 | 3,950 | 2,950 |
| Tertiary Trade Area | | | | | |
| Tertiary North | | 600 | 500 | 400 | 300 |
| Tertiary South | | 1,200 | 1,200 | 1,000 | 1,000 |
| Tertiary West | | 1,950 | 2,000 | 1,800 | 1,500 |
| Total Tertiary | | 3,750 | 3,700 | 3,200 | 2,800 |
| Total Trade Area | | 8,150 | 8,300 | 7,150 | 5,750 |

Source: NSW DPIE, Forecast.id, ABS 2019, Ethos Urban

Figure 8 TTA Population Growth 2020-2036

Source: ABS 2016, DPIE, Forecast.id

4.4 Employment and worker profile

A review of the population who are employed within the Lake Macquarie LGA is also considered, as these workers would be situated in close proximity to the Subject Site on a typical workday.

The key employment characteristics to highlight workers within the Lake Macquarie LGA include:

- In 2016, there were an estimated 57,769 workers who were employed within Lake Macquarie, +5,701 workers from the previous 2011 figure of 52,068.
- The majority of people working within Lake Macquarie are employed within consumer services (62.0%), while 11.3% work in producer services. Secondary sector jobs account for 15.6% of total jobs.
- Health care and social assistance is the largest industry group, accounting for 17.8% of all LGA workers. This is followed by retail trade, which supported some 13.9% of LGA workers in 2016.
- In 2016, 9.2% of workers were employed in construction related industries.
- The accommodation and food services industry supports 8.3% or 4,782 workers within Lake Macquarie.
- Industries with lower representation include agriculture, forestry and fishing, arts and recreation, and information, media and telecommunications.

The Costco Boolaroo store will support direct employment opportunities in retail trade and construction, as well as indirect jobs in related supplier activities.

Accommodation and food services is also an industry which employs many local residents and is among the hardest hit industry in terms of job losses resulting from the recent COVID-19 pandemic. Retail development and jobs will provide opportunities for hospitality workers given the similar 'customer facing' skill set.

An industry breakdown of employment within the Lake Macquarie LGA is shown over the page in **Table 5**.

Table 5 Industry of Employment – Lake Macquarie LGA 2016

| | 2016 | |
|---|---------------|---------------|
| | No. Jobs | % |
| Primary Industries | 1,482 | 2.6% |
| Primary Sector | 1,482 | 2.6% |
| Agriculture, Forestry & Fishing | 200 | 0.3% |
| Mining | 1,282 | 2.2% |
| Secondary Industries | 9,037 | 15.6% |
| Secondary Sector | 9,037 | 15.6% |
| Construction | 5,323 | 9.2% |
| Manufacturing | 3,714 | 6.4% |
| Tertiary Industries | 42,359 | 73.3% |
| Consumer Services | 35,817 | 62.0% |
| Accommodation & Food Services | 4,782 | 8.3% |
| Administrative & Support Services | 1,790 | 3.1% |
| Arts & Recreation Services | 674 | 1.2% |
| Education & Training | 5,102 | 8.8% |
| Health Care & Social Assistance | 10,295 | 17.8% |
| Professional, Scientific & Technical Services | 2,598 | 4.5% |
| Public Administration & Safety | 2,548 | 4.4% |
| Retail Trade | 8,028 | 13.9% |
| Producer Services | 6,542 | 11.3% |
| Electricity, Gas, Water & Waste Services | 653 | 1.1% |
| Financial & Insurance Services | 1,771 | 3.1% |
| Information Media & Telecommunications | 418 | 0.7% |
| Rental, Hiring & Real Estate Services | 909 | 1.6% |
| Transport, Postal & Warehousing | 1,694 | 2.9% |
| Wholesale Trade | 1,097 | 1.9% |
| Excluded | 4,891 | 8.5% |
| Inadequately described | 1,565 | 2.7% |
| Not applicable | 0 | 0.0% |
| Not stated | 578 | 1.0% |
| Other Services | 2,748 | 4.8% |
| Grand Total | 57,769 | 100.0% |

Source: ABS 2016 Census of Population and Housing

4.5 Retail spending

Estimates of retail spending by residents within close proximity to the proposed store have been prepared with reference to the *MarketInfo* retail spending model. *MarketInfo* is a micro-simulation model which uses a variety of data sources including ABS Household Expenditure Survey, ABS Census of Population and Housing data, ABS Australian National Accounts, and other relevant sources. Estimates of retail spending by residents in the study area are provided for the following broad product categories:

- **Food, Liquor and Groceries (FLG)** – includes spending on fresh food, groceries and take-home liquor. This main category is relevant to supermarket-based shopping
- **Food catering** – includes cafes, restaurants and take-away food.
- **Non-Food** – includes apparel, homewares, bulky merchandise, general merchandise and retail services (e.g. hairdressers, beauty salons etc).

Estimates of current total retail spending by local residents across each spending category show that the **Total Trade Area has a slightly higher per capita retail expenditure when compared to the Regional NSW average across most spending categories.**

Estimates of current per capita retail expenditure are shown in **Table 6** and highlight that TTA residents spend on average \$14,460 per capita in 2020. More specifically, the PTA has per capita retail expenditure of \$14,120, with the STA at \$14,860 and the MTA at \$14,750.

All retail spending forecasts are presented in constant 2020 dollars.

Table 6 Per Capita Retail Expenditure, Costco Boolaroo Trade Area 2020 (\$2020)

| Trade Area | Food, Liquor and Groceries | Food Catering | Non-Food | Services | Total Retail |
|---|----------------------------|---------------|----------|----------|--------------|
| Per Capita Spending (\$2019/20) | | | | | |
| Primary Trade Area | \$6,170 | \$1,800 | \$5,680 | \$470 | \$14,120 |
| Secondary Trade Area | \$6,240 | \$2,130 | \$6,120 | \$520 | \$14,860 |
| Main Trade Area | \$6,230 | \$2,080 | \$6,050 | \$510 | \$14,750 |
| Total Trade Area | \$6,220 | \$1,930 | \$5,890 | \$490 | \$14,460 |
| Regional NSW | \$6,280 | \$1,810 | \$5,850 | \$490 | \$14,420 |
| Variation from Rest of NSW average | | | | | |
| Primary Trade Area | -1.8% | -0.6% | -2.9% | -4.1% | -2.1% |
| Secondary Trade Area | -0.6% | 17.7% | 4.6% | 6.1% | 3.1% |
| Main Trade Area | -0.8% | 14.9% | 3.4% | 4.1% | 2.3% |
| Total Trade Area | -1.0% | 6.6% | 0.7% | 0.0% | 0.3% |

Source: *Ethos Urban, MarketInfo*

Total retail spending and forecasts by Trade Area residents is shown below in **Table 7**. These are based on the application of the average per capita spending levels to forecast population. In addition, an allowance for real growth in average per capita retail spending has been applied that reflects long-term trends as measured by the ABS Australian National Accounts.

Current total retail expenditure by residents within the TTA is estimated at \$10.6 billion and is forecast to increase to an estimated \$14.2 billion in 2036, representing an increase of \$3.6 billion over the projected period. This includes an increase in non-food from \$4.3 billion to \$6.5 billion, and an increase in food, liquor and groceries from \$4.5 billion to \$5.5 billion by 2036. This substantial level of expenditure reflects the extensive trade area that the proposed Costco Boolaroo store would serve.

In total, spending capacity within the TTA is forecast to increase by 33.7%, with total retail expenditure forecast to increase at an average annual rate of +1.8%.

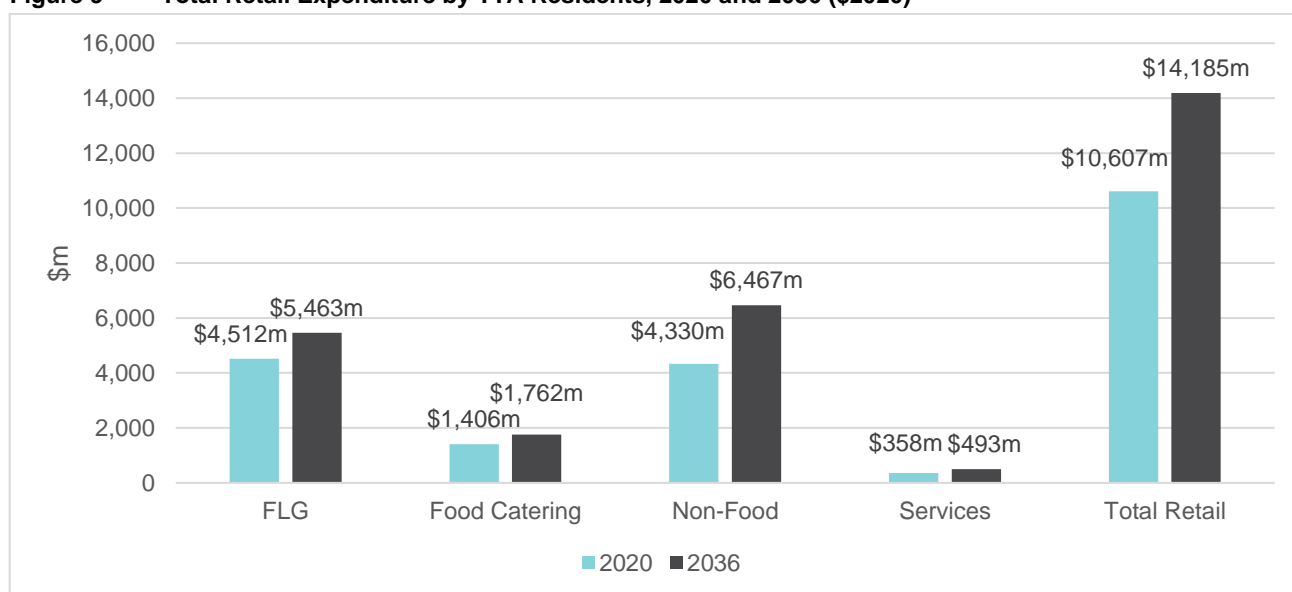
Table 7 Total Retail Expenditure, Costco Boolaroo Trade Area 2020 to 2036 (\$2020)

| Retail Category | 2020 | 2022 | 2026 | 2031 | 2036 |
|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Primary | | | | | |
| FLG | \$409.5m | \$419.0m | \$440.1m | \$468.6m | \$491.4m |
| Food Catering | \$119.7m | \$123.0m | \$130.3m | \$140.2m | \$148.7m |
| Non-Food | \$382.2m | \$401.4m | \$444.4m | \$505.3m | \$566.0m |
| Services | \$31.8m | \$33.1m | \$35.9m | \$39.8m | \$43.5m |
| Total Retail | \$943.2m | \$976.4m | \$1,050.6m | \$1,154.0m | \$1,249.6m |
| Total Secondary | | | | | |
| FLG | \$2,278.4m | \$2,339.3m | \$2,466.1m | \$2,605.8m | \$2,722.9m |
| Food Catering | \$780.6m | \$804.7m | \$855.8m | \$914.9m | \$967.0m |
| Non-Food | \$2,263.0m | \$2,384.9m | \$2,649.5m | \$2,989.3m | \$3,335.9m |
| Services | \$192.1m | \$200.4m | \$218.2m | \$240.0m | \$261.2m |
| Total Retail | \$5,514.0m | \$5,729.2m | \$6,189.5m | \$6,750.0m | \$7,287.0m |
| Main Trade Area | | | | | |
| FLG | \$2,687.9m | \$2,758.3m | \$2,906.2m | \$3,074.4m | \$3,214.3m |
| Food Catering | \$900.2m | \$927.6m | \$986.0m | \$1,055.1m | \$1,115.7m |
| Non-Food | \$2,645.2m | \$2,786.3m | \$3,093.8m | \$3,494.6m | \$3,901.9m |
| Services | \$223.9m | \$233.4m | \$254.0m | \$279.8m | \$304.6m |
| Total Retail | \$6,457.2m | \$6,705.6m | \$7,240.1m | \$7,904.0m | \$8,536.5m |
| Total Trade Area | | | | | |
| FLG | \$4,512.3m | \$4,639.9m | \$4,902.8m | \$5,202.1m | \$5,463.1m |
| Food Catering | \$1,405.8m | \$1,451.5m | \$1,547.1m | \$1,659.9m | \$1,762.0m |
| Non-Food | \$4,330.4m | \$4,570.8m | \$5,089.8m | \$5,766.5m | \$6,466.6m |
| Services | \$358.2m | \$374.2m | \$408.4m | \$451.1m | \$493.1m |
| Total Retail | \$10,606.7m | \$11,036.4m | \$11,948.0m | \$13,079.6m | \$14,184.9m |

Source: Ethos Urban, Marketinfo.

Total retail expenditure is expected to grow most rapidly in the Secondary North East and Secondary North West sectors at an annual growth rate of +2.1% over the period 2020 to 2036 period. This is a high growth rate in available expenditure compared with the projected growth rate of the overall TTA of +1.8% over the forecast period.

Figure 9 below shows the forecast retail expenditure by category for the TTA.

Figure 9 Total Retail Expenditure by TTA Residents, 2020 and 2036 (\$2020)

4.6 Retail sales breakdown

The proposed Costco store at Boolaroo is forecast to generate sales of approximately \$150m (2020 dollars) in 2022, which is taken as the first full year of trading. This estimate is based on expectations of trading performance, as well as discussions with Costco and consideration of sales levels achieved at other stores.

Although most retailers factor in significant growth in sales over the first few years as stores reach maturity, the experience for Costco in Australia has been that the unique Costco offer has resulted in very strong first-year results. With this in mind, turnover performance at the proposed new store is expected to be strong in the first years after opening, although with potential for further growth over time as new residents move into the region.

Of total sales at Costco Boolaroo, an estimated 73% or \$91.4 million would be retail sales generated by households. The remaining balance of 27% would be sales generated by business expenditure. This is a feature of the Costco operation worldwide, where membership is available to both households and businesses.

A large share of total sales is expected to be accrued from food sales, which are estimated to account for 70% or \$64.4 million of total sales.

Table 8 Costco Boolaroo Forecast Turnover, 2022 (\$2020)

| Retail Category | Estimated Allocation of Sales | Estimated Total Sales by Type | Estimated Allocation of Sales to Households | Estimated Sales to Households | Share of Total Sales to Households |
|-----------------------|-------------------------------|-------------------------------|---|-------------------------------|------------------------------------|
| Food, Liquor, Grocery | 60% | \$90.0m | 70% | \$63.0m | 69% |
| Food Court/Cafe | 1% | \$1.5m | 95% | \$1.4m | 2% |
| Total Food | 61% | \$91.5m | 70% | \$64.4m | 70% |
| Apparel | 3% | \$4.5m | 100% | \$4.5m | 5% |
| Homewares | 5% | \$7.5m | 80% | \$6.0m | 7% |
| Bulky Merchandise | 5% | \$7.5m | 75% | \$5.6m | 6% |
| General Merchandise | 9% | \$13.5m | 70% | \$9.5m | 10% |
| Retail Services | 1% | \$1.5m | 95% | \$1.4m | 2% |
| Total Non-Food | 23% | \$34.5m | 78% | \$27.0m | 30% |
| Total Retail | 84% | \$126.0m | 73% | \$91.4m | 100% |
| Non-Retail | 16% | \$24.0m | | | |
| Total | 100% | \$150.0m | | | |

Source: Costco Wholesale, Ethos Urban

4.7 Market share analysis

Calculations of market share in this assessment are based on Costco drawing almost 90% of its sales from within the TTA, and the balance from beyond. Costco is expected to generate sales to households of \$91.4m in 2022, which is assumed to be the first full year of operation, as shown in **Table 8**.

These sales reflect very low market shares, with the total sales derived from the TTA (\$81.2m in 2022) resulting in an overall market share of just 0.7% of available retail spending, as shown in **Table 9**.

The market share in the PTA is forecast at 2.5%, with a lower market share in the MTA and TTA, of 0.9% and 0.7%, respectively. These market shares are very low, reflecting the extensive trade area (in geographic terms) that the proposed store will serve, and the significant size of the resident population.

Traditional retail stores, such as supermarkets and discount department stores, tend to have much more tightly defined catchments in which they achieve a much higher market share of available spending.

Table 9 Costco Boolaroo Forecast Retail Market Share, 2022 (\$2020)

| | Total Sales | | | Market Share | | | Distribution of Total Sales | | |
|-------------------------|----------------|----------------|----------------|--------------|-------------|-------------|-----------------------------|-------------|-------------|
| | Food | Non - Food | Total | Food | Non - Food | Total | Food | Non - Food | Total |
| Primary Trade Area | | | | | | | | | |
| - East | \$8.2m | \$2.7m | \$10.9m | 2.9% | 1.2% | 2.1% | 13% | 10% | 12% |
| - West | <u>\$9.9m</u> | <u>\$3.3m</u> | <u>\$13.2m</u> | <u>3.8%</u> | <u>1.6%</u> | <u>2.9%</u> | <u>15%</u> | <u>12%</u> | <u>14%</u> |
| Total Primary | \$18.1m | \$6.0m | \$24.1m | 3.3% | 1.4% | 2.5% | 28% | 22% | 26% |
| Secondary Trade Area | | | | | | | | | |
| - North East | \$8.1m | \$2.9m | \$10.9m | 0.8% | 0.3% | 0.6% | 12% | 11% | 12% |
| - South East | \$6.2m | \$2.5m | \$8.7m | 0.9% | 0.4% | 0.7% | 10% | 9% | 10% |
| - South West | \$4.3m | \$1.8m | \$6.0m | 1.2% | 0.6% | 0.9% | 7% | 7% | 7% |
| - North West | <u>\$10.1m</u> | <u>\$3.2m</u> | <u>\$13.3m</u> | <u>1.1%</u> | <u>0.4%</u> | <u>0.8%</u> | <u>16%</u> | <u>12%</u> | <u>15%</u> |
| Total Secondary | \$28.6m | \$10.4m | \$39.0m | 0.9% | 0.4% | 0.7% | 44% | 39% | 43% |
| Main Trade Area | \$46.7m | \$16.4m | \$63.0m | 1.3% | 0.5% | 0.9% | 72% | 61% | 69% |
| Tertiary Trade Area | | | | | | | | | |
| - North | \$3.0m | \$1.4m | \$4.4m | 0.5% | 0.3% | 0.4% | 5% | 5% | 5% |
| - South | \$4.0m | \$2.7m | \$6.6m | 0.5% | 0.4% | 0.5% | 6% | 10% | 7% |
| - West | <u>\$4.6m</u> | <u>\$2.5m</u> | <u>\$7.1m</u> | <u>0.5%</u> | <u>0.3%</u> | <u>0.4%</u> | <u>7%</u> | <u>9%</u> | <u>8%</u> |
| Total Tertiary | \$11.6m | \$6.6m | \$18.2m | 0.5% | 0.3% | 0.4% | 18% | 24% | 20% |
| Total Trade Area | \$58.0m | \$23.0m | \$81.2m | 1.0% | 0.5% | 0.7% | 90% | 85% | 89% |
| T/O from Beyond MTA | \$6.4m | \$4.1m | \$10.5m | | | | 10% | 15% | 11% |
| Total Costco | \$64.4m | \$27.0m | \$91.4m | | | | 100% | 100% | 100% |

Source: Costco, Ethos Urban

5.0 Retail Impact Assessment

This chapter examines the likely trading impact of the proposed Costco Boolaroo store, and in particular its impact on other centres in the trade area.

Retail trading impacts are considered at the centre-wide level, with the emphasis on identifying the levels of impacts that are likely to lead to a diminution in the role of competing centres or the loss of critical anchor tenants. Direct competitive impacts (i.e. on an individual basis for specific businesses) are not a legitimate consideration on which new retail developments are assessed.

Key findings

- Projected sales at the proposed Costco Boolaroo will account for a small proportion of overall retail sales in the TTA, at 0.7% of total resident retail expenditure. Remaining sales are anticipated from businesses as well as from sales beyond the defined TTA.
- Existing and future facilities stand to benefit from anticipated market growth overtime.
- While there are a number of major retail facilities in the surrounding region, centres of most relevance to the proposed development include the major regional and sub-regional centres. Several smaller centres and supermarkets are also of some relevance, however, these will predominately serve the population in the immediate surrounding area.
- Selected competitive centres are estimated to account for around 560,000m² of retail floorspace and achieve sales of around \$3,800 million, representing a market share of around 34% of total retail expenditure within the TTA.
- The results of this retail trading impact analysis indicate that the introduction of Costco Boolaroo will not generate any significant disruption in the operation of the retail hierarchy serving the region with an impact on the selected centres at 1.5% of projected sales. This leads to the reasonable expectation that the proposed Costco will not result in the closure of major traders, or impact negatively on the range and quality of retail provision in surrounding centres.

5.1 Regional impact

The proposed new Costco Boolaroo is expected to generate \$150m in turnover in its first full year of trading in 2022, of which an estimated \$81.2m will be drawn in retail sales from residents of the TTA. The remainder of projected sales is anticipated from businesses as well as from sales beyond the defined TTA.

An assessment of the overall regional impact arising from the introduction of a new Costco Boolaroo in 2022 is presented in **Table 10**. This considers the extent to which growth in TTA spending would be captured by the Costco store, and the available growth in spending that would otherwise be able to support existing and new retail facilities elsewhere in the trade area.

Even with the introduction of Costco Boolaroo in 2022, an additional \$348m in new retail spending will be generated in the identified TTA over the period 2020 to 2022. This available spending will be directed to centres within the TTA and beyond, supporting existing retailers and leading to opportunities for retail expansion.

Costco Boolaroo will have only a minor effect on the spending patterns in the wider region, accounting for around 0.7% of resident's retail expenditure across the TTA, and only partly meeting the significant demand for new retail floorspace that is required to serve the growing population of the TTA.

Spending growth will continue to occur over time, with Costco to capture just a small share of the available growth in spending, with substantial growth remaining for existing and future retail facilities.

Table 10 Costco Boolaroo Regional Impact Assessment

| | 2020 | 2022 | 2026 |
|---|-----------|----------------|------------------|
| Costco Boolaroo | | | |
| Costco Boolaroo Turnover from Total Trade Area (\$m) ¹ | | \$81m | \$88m |
| Total Trade Area Retail Spending (\$m) | \$10,607m | \$11,036m | \$11,948m |
| Total Trade Area T/O to Other Retailers (\$m) ² | \$10,607m | \$10,955m | \$11,860m |
| Change in Turnover to Other Retailers Relative to 2020 (\$m) | | +\$348m | +\$1,253m |

Source: Ethos Urban

Note: (1) Assumes constant TTA Market Share; (2) Excludes Costco Boolaroo

Implications for Lake Macquarie

The nearest Costco stores are located in Sydney (Marsden Park, Auburn and Casula), more than 140km away. While there are a range of retail facilities within the TTA including regional and sub regional shopping centres, the Costco offering is unique, in that it offers consumers bulk buying options, primarily targeted at small-medium sized businesses and more recently the household retail market. Importantly, consumers do not use Costco as a replacement for shopping at local stores and supermarkets. This is reflected by:

- **Average basket size** at Costco of more than \$200 per transaction compared with an average basket size of between \$35 and \$45 at a traditional supermarket.
- **Costco members visit a warehouse 8 times per year** and this is in sharp contrast with supermarkets which are typically visited once or twice a week by most consumers.

Accordingly, the proposed Costco at Boolaroo will not compete directly with existing or future retail facilities within the broader region and these facilities will continue to serve the local and regional population and provide a differentiated retail offer than the proposed Costco.

5.2 Competing centres

The proposed Costco Boolaroo store will serve a large regional catchment that includes a wide range of centres including major regional and sub-regional shopping centres, supermarkets as well as smaller freestanding supermarkets, strip retailing and bulky goods facilities that provide for the needs of local residents.

The location of the main competing centres to Costco Boolaroo are shown in **Figure 9**.

A list of the main centres identified as competing with the proposed Costco Boolaroo across the Total Trade Area are listed in **Table 11**. For the purposes of this analysis, while regional and sub-regional centres are of most relevance, supermarkets within the PTA are also considered. In addition to the centres listed in **Table 11**, there are many other smaller local and neighbourhood centres that serve the convenience retail and service needs of local residents. These centres have not been explicitly identified for the purposes of this assessment as they are unlikely to experience any meaningful trading impact from the proposed Costco store which offers regional-level destination retailing.

5.2.1 Regional centres

By definition, regional shopping centres are anchored by at least one full line department store. Within the TTA, there are two regional shopping centres, each located within the STA-North East and South-East sectors. These centres include:

- **Westfield Kotara:** a regional shopping centre anchored by David Jones, Kmart, Target, Woolworths and Coles, and approximately 280 specialities, is located approximately 11km by road from the Subject Site in Boolaroo. According to Shopping Centre News Big Guns 2020, the centre has a Moving Annual Turnover (MAT) of around \$495 million. This is following a major redevelopment of the centre in 2018.
- **Charlestown Square:** Situated 12km from the site, the centre currently includes a Myer, Big W, Target, Coles, Woolworths and ALDI, as well as 240 specialities. The centre currently achieves a MAT of around \$562 million.

The size, location and role of both Westfield Kotara and Charlestown Square, means that these centres will remain the key destination centres for higher order retail needs, including non-food facilities. As such, these centres will continue to serve a key role within the retail hierarchy.

While not classified as a regional centre based on the definition outlined above, the Newcastle CBD will also attract a proportion of retail spending from the total trade area despite the limited provision of major national anchor tenants. The Newcastle City Centre serves a regional centre role, as the main education, health and commercial destination for the Hunter Region but also includes a number of retail facilities primarily with a food catering/dining focus, including along Hunter Street. It is understood that the Newcastle City Centre incorporates more than 100,000m² of retail floorspace, however, this includes major centres and tenants including Marketown Shopping Centre and ALDI that are considered separately in the following analysis. As such, while it is important to note the role of the Newcastle CBD, the competitive relevance to the proposed Costco at Boolaroo is likely to be limited, as the CBD will serve a very different role and function.

5.2.2 Sub-regional centres

Sub-regional shopping centres are defined as having at least one discount department store. Within the TTA, there are 13 sub-regional shopping centres, each serving the needs of local population groups.

The two sub-regional centres of most relevance to the proposed development include:

- **Stockland Glendale:** located 2.5km from the Subject Site within the Primary East sector and totals some 55,374m² of GLA which includes a number of major tenants including Kmart, Target, Coles and Woolworths. In addition to this, the centre also includes over 70 speciality stores. According to Big Guns 2020 (Shopping Centre News), the centre currently achieves a MAT of around \$320 million.
- **Jesmond Central:** located some 9km from the Subject Site within the Secondary North West sector and totals some 20,349m². The centre is anchored by Big W and Woolworths. The centre is estimated to achieve a MAT of around \$159 million.
- **Lake Macquarie Square:** located some 9.5km from the Subject Site (by road). The centre recently completed a \$60m redevelopment in 2019 which consolidated the former Lake Macquarie Fair and Mount Hutton into one major retail destination, the centre now totals 23,548m² of GLA. The centre is anchored by Big W, Woolworths and Coles, and includes 69 speciality stores and a newly completed dining precinct. The centre is situated within the Secondary South-West sector and is estimated to achieve a MAT of \$165 million.

Remaining sub-regional shopping centres within the TTA are all located more than 10km from the proposed Boolaroo site and predominately serve their local catchment areas.

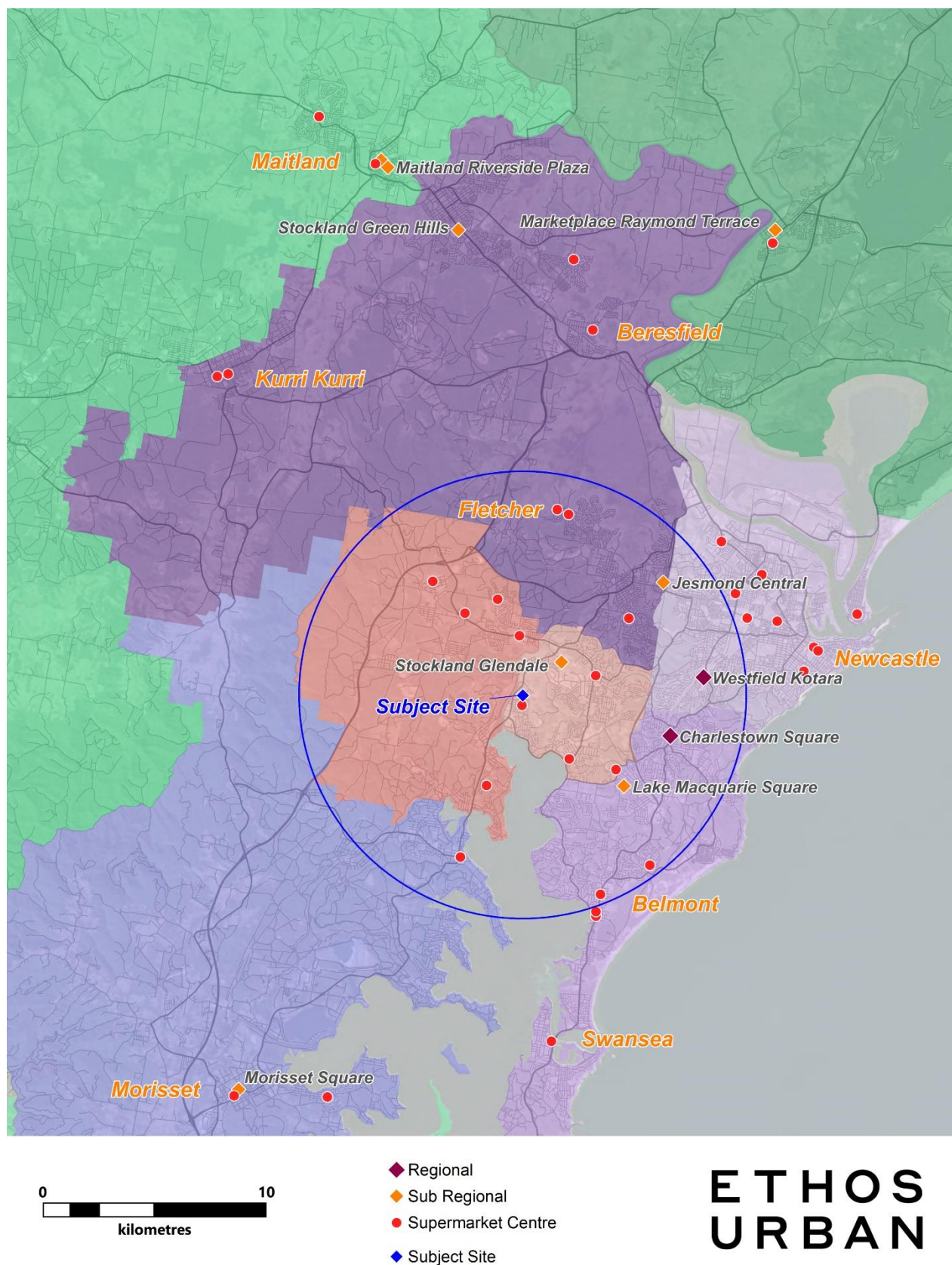
5.2.3 Supermarket centres

Within the PTA, there are a number of supermarket-based centres, or freestanding supermarkets which serve the food and grocery needs of local residents. These centres include:

- IGA Boolaroo: located around 1km south of the Subject Site within the Boolaroo town centre.
- Cardiff: located 5.5km north from the Boolaroo site, the precinct is anchored by a full-line Woolworths supermarket as well as ALDI.
- Warners Bay: situated 6km from the site and includes a full line Coles, as well as an ALDI supermarket and other specialities.
- Mount Hutton ALDI: located 9km from the Subject Site and in close proximity to Lake Macquarie Square.
- Edgeworth: the suburb located some 5km from Boolaroo, includes Edgeworth Town Square anchored by a full-line Coles supermarket, with an ALDI supermarket also provided.
- Woodrising SC: located 5.5km south of the Subject Site and includes an IGA supermarket estimated at 1,300m².
- Cameron Park: Includes a recently opened full-line Woolworths supermarket and supporting retail speciality stores (several of which are yet to open). An IGA is also located in Cameron Park at Northlakes Estate. Cameron Park is located 7.5km north of the Subject Site.

There are a range of supermarket based centres and individual supermarkets located outside of the PTA. These centres are considered of less relevance for this analysis due to the negligible trading impacts that would unlikely occur as a result of the opening of Costco at the Boolaroo site, but are however shown in **Figure 9** below.

Figure 9 – Main Trade Area and Competitive Centres



5.2.4 Proposed developments

In addition to the above, a range of retail projects are currently underway or planned within the surrounding region. The majority of projects are located some distance away from the Boolaroo site and as such, will be of limited competitive relevance. Several projects are, however, likely to impact on the surrounding retail network to some extent including:

- Stockland Glendale, located to the north of the proposed site, is planned to include a new Dan Murphy's and also has approval for an expansion of 7,680m². The redeveloped centre is planned to include an expanded Coles, additional specialty floorspace, a new food court and new main street linking the cinema with the main shopping centre through the existing carpark. For the purposes of this analysis, the expanded centre is assumed to be trading by 2022.
- Westfield Tuggerah, located immediately beyond the defined TTA to the south, is planned for redevelopment which may include the closure of David Jones, with the box to the backfilled with a Kmart discount department store. Reflecting the existing approval, this development is assumed to be complete by 2023. Previous plans at the centre have included a new Myer department store, additional food catering facilities and repurposing of retail specialty facilities.
- A Coles supermarket and shops are planned at Mayfield Shopping Centre, located in the Secondary North East sector. Reflecting the distance from Boolaroo, this centre will predominately serve the immediate surrounding population.
- Additional supermarket projects are planned throughout the trade area including refurbishments and new small stores, however, these developments will be of limited competitive relevance to the proposed Costco at Boolaroo.

The selected list of major centres serving the TTA have a total retail floorspace provision estimated at approximately 560,000m², as shown in **Table 11**.

Table 11 Selected Competing Centres

| Centre | Estimated GLA (m2) | Department Stores | Discount Department Stores | Supermarkets | Distance from Site (km – by road) |
|------------------------------------|--------------------|-------------------|----------------------------|-------------------------|-----------------------------------|
| <u>Primary East</u> | | | | | |
| Boolaroo | 900 | | | IGA | 1km |
| Stockland Glendale | 55,400 | | Kmart, Target | Woolworths, Coles | 2.5km |
| <u>Cardiff</u> | | | | | <u>5.5km</u> |
| • Cardiff SC | 6,020 | | | Woolworths | |
| • Other | 1,000 | | | ALDI | |
| Warners Bay Village | 5,100 | | | Coles, ALDI | 6km |
| Mount Hutton | 1,350 | | | ALDI | 9km |
| <u>Primary West</u> | | | | | |
| <u>Edgeworth</u> | | | | | <u>5km</u> |
| • Edgeworth Town Square | 7,300 | | | Coles | |
| • Other | 1,600 | | | ALDI | |
| Woodrising SC | 1,300 | | | IGA | 5.5km |
| <u>Cameron Park</u> | | | | | <u>7.5km</u> |
| • Cameron Park Plaza | 7,500 | | | Woolworths | |
| • Northlakes Estate | 750 | | | IGA | |
| <u>Secondary North East</u> | | | | | |
| Westfield Kotara | 82,450 | David Jones | Kmart, Target | Coles, Woolworths | 11km |
| Waratah Village | 16,000 | | Kmart | Coles | 13km |
| Marketown SC | 26,300 | | Big W | Woolworths | 17km |
| <u>Secondary South East</u> | | | | | |
| Lake Macquarie Square | 23,550 | | Big W | Woolworths, Coles | 9.5km |
| Charlestown Square | 94,900 | Myer | Big W, Target | Coles, Woolworths, ALDI | 12km |
| <u>Secondary South West</u> | | | | | |
| Morisset Square | 9,130 | | Target | Coles | 27km |
| <u>Secondary North West</u> | | | | | |
| Jesmond Central | 20,350 | | Big W | Woolworths | 9km |
| Stockland Green Hills | 72,860 | | Big W, Kmart | Woolworths, Coles, ALDI | 27km |
| <u>Tertiary North</u> | | | | | |
| Marketplace Raymond Terrace | 15,000 | | Big W | Woolworths | 29km |
| Salamander Bay Square | 23,960 | | Kmart, Target | Coles, Woolworths, ALDI | 64km |
| <u>Tertiary South</u> | | | | | |
| Lake Haven SC | 43,200 | | Kmart | Coles, Woolworths, ALDI | 47km |
| <u>Tertiary West</u> | | | | | |
| Maitland Riverside Plaza | 11,700 | | Kmart | ALDI | 32km |
| Cessnock City Centre | 8,700 | | Big W, Target | Coles, Woolworths, ALDI | 41km |
| Singleton Square | 20,700 | | Big W | Woolworths, Coles | 69km |

Source: PCA, Ethos Urban

5.3 Potential trading impacts

Detailed calculations of current (2020) turnover performance for these centres are shown in **Table 12**, and are based on published data, where available, and where data is not available, on the application of typical average retail performance. Sales have been annualised where required. According to these estimates, the identified major centres serving the TTA have combined annual sales turnover of approximately \$3,800m in 2020.

The estimated share of total centre turnover that would be derived from TTA residents is also estimated and is based on an understanding of likely trading patterns.

Approximately 95% of all turnover achieved by the selected centres can be attributable to spending by residents in the TTA. Having regard for the level of available retail spending in the TTA (\$10,607m in 2020), this turnover for selected centres represents an aggregate market share of 34% of TTA retail spending.

A proportion of retail spending is likely to be directed to facilities including the Newcastle City Centre which forms the main education, health and commercial destination for the Hunter Region. However, the centre also includes a number of retail facilities primarily with a food catering/dining focus, including along Hunter Street.

The remaining spending is directed to other, mostly smaller, retail facilities, major bulky goods precincts not identified in the assessment, to individual stores located throughout the TTA, and to major shopping destinations outside the trade area. A share of sales will also be internet-only retail spending, that is, sales via the internet that do not have a local 'bricks and mortar' component. Small foodstores of less than 500m² have been excluded, along with supermarkets beyond the PTA which are more than 10km from the proposed site and as such, will primarily serve their local catchment areas.

The most significant individual centres in terms of market share are the larger regional and sub-regional shopping centres which act as the key retail destinations within the region, including Stockland Glendale, Westfield Kotara, Charlestown Square and Stockland Green Hills. Note that the likely market shares for all selected centres remain low in absolute terms.

An estimate of the likely impact that the introduction of Costco would have on existing retailers has been undertaken by applying the following approach:

- 1 Calculate likely TTA market share performance of each centre in 2020 in the absence of the Costco development.
- 2 Use the market shares as a basis for distributing the trading impacts arising from the Costco development, with appropriate adjustments to reflect likely differentiations in the eventual trading impacts. For example, centres located closer to the proposed development are likely to experience higher impacts than those located further away.
- 3 Apply the adjusted market shares (reflecting an expected distribution of impact) to the estimated retail turnover at Costco that is attributable to the household sector (\$91.4m as shown in **Table 9**).
- 4 Present these calculations of expected loss of turnover at existing centres in 2020 as a proportional loss of turnover when compared against the turnover performance that would otherwise have been achieved in the absence of the Costco development.

This analysis has considered a robust assessment of competitive impacts that are fully reflecting potential trade impacts on selected centres. In reality, the impacts may be lower and spread much more widely than is currently considered, taking into account the extensive retail network and environment within the surrounding area (including multiple town and city centres (such as the Newcastle CBD), bulky goods, strip retailing, and smaller convenience based facilities not currently represented).

Even taking the above into account the analysis in **Table 12** shows that the introduction of Costco Boolaroo would have the effect of reducing centre turnover by a small margin across a wide range of competing centres, when compared against the turnover that these centres would have achieved in the absence of Costco.

Of the 25 competing centres identified, the total trading impact is estimated at approximately -\$58.0 million. The balance of trading impacts will be on a range of other centres and individual retailers.

The centres with the overall greatest trading impact are expected to be Charlestown Square (-\$13.1 million), Westfield Kotara (-\$11.5 million) and Stockland Glendale (-\$10.8 million), although in percentage terms the impacts are minor at between -2.3% to -3.0%.

Among the centres located closest to the proposed Costco Boolaroo, trading impacts are expected to be -3.0% at IGA Boolaroo and between -0.5% to -1.5% at Edgeworth, Cardiff and Warners Bay.

As previously noted in Chapter 1, Costco – with a membership model and an emphasis on bulk purchases – does not undermine the role of neighbourhood-level retail centres in providing the basic goods and services that local residents need to satisfy their weekly shopping requirements.

The results of this retail trading impact analysis indicate that the introduction of Costco Boolaroo will not generate any significant disruption in the operation of the retail hierarchy serving the region. This leads to the reasonable expectation that the proposed Costco will not lead to the closure of major traders, or impact negatively on the range and quality of retail provision in surrounding centres.

Table 12 Estimated Retail Trading Impacts on Selected Centres, 2022

| Centre | Total Sales in 2020 (\$m) | Total Sales in 2022 (No Costco) | Distribution of Costco Impact (\$m) | Total Sales in 2022 (With Costco) | Costco Impact on 2022 Sales (%) |
|------------------------------------|---------------------------|---------------------------------|-------------------------------------|-----------------------------------|---------------------------------|
| <u>Primary East</u> | | | | | |
| Boolaroo | 7 | 7 | -0.2 | 7 | -3.0% |
| Stockland Glendale | 320 | 348 | -10.8 | 348 | -3.0% |
| <u>Cardiff</u> | | | | | |
| • Cardiff SC | 50 | 51 | -0.8 | 51 | -1.5% |
| • Other | 15 | 15 | -0.1 | 15 | -0.5% |
| Warners Bay Village | 63 | 64 | -1.0 | 64 | -1.5% |
| Mount Hutton | 15 | 15 | -0.1 | 15 | -0.5% |
| <u>Primary West</u> | | | | | |
| <u>Edgeworth</u> | | | | | |
| • Edgeworth Town Square | 75 | 76 | -1.2 | 76 | -1.5% |
| • Other | 15 | 15 | -0.1 | 15 | -0.5% |
| Woodrising SC | 20 | 20 | -0.3 | 20 | -1.5% |
| <u>Cameron Park</u> | | | | | |
| • Cameron Park Plaza | 55* | 66 | -1.0 | 66 | -1.5% |
| • Northlakes Estate | 8 | 8 | 0.0 | 8 | -0.5% |
| <u>Secondary North East</u> | | | | | |
| Westfield Kotara | 495 | 501 | -11.5 | 501 | -2.3% |
| Waratah Village | 100 | 103 | -0.5 | 103 | -0.5% |
| Marketown SC | 187 | 192 | -1.9 | 192 | -1.0% |
| <u>Secondary South East</u> | | | | | |
| Lake Macquarie Square | 165 | 167 | -3.4 | 167 | -2.0% |
| Charlestown Square | 562 | 569 | -13.1 | 569 | -2.3% |
| <u>Secondary South West</u> | | | | | |
| Morriset Square | 63 | 65 | -0.3 | 65 | -0.5% |
| <u>Secondary North West</u> | | | | | |
| Jesmond Central | 159 | 163 | -1.6 | 163 | -1.0% |
| Stockland Green Hills | 526 | 539 | -5.4 | 539 | -1.0% |
| <u>Tertiary North</u> | | | | | |
| Marketplace Raymond Terrace | 90 | 93 | -0.5 | 93 | -0.5% |
| Salamander Bay Square | 212 | 218 | -1.1 | 218 | -0.5% |
| <u>Tertiary South</u> | | | | | |
| Lake Haven SC | 299 | 308 | -1.5 | 308 | -0.5% |
| <u>Tertiary West</u> | | | | | |
| Maitland Riverside Plaza | 65 | 67 | -0.3 | 67 | -0.5% |
| Cessnock City Centre | 76 | 78 | -0.4 | 78 | -0.5% |
| Singleton Square | 151 | 155 | -0.8 | 155 | -0.5% |
| Total Selected Centres | 3,793 | 3,963 | -58.0 | 3,905 | -1.5% |

Source: PCA, SCN, Ethos Urban

6.0 Economic Overview

This Chapter presents an assessment of the effect of the proposed Costco Boolaroo with regards to net community benefit.

Key findings

- The proposed Costco Boolaroo store will activate an underutilised site within a growing precinct and help to support the continued growth and development of the Cockle Creek precinct.
- Provide competition benefits in the form of additional choice, improved range and price competition that would appeal to the local family orientated population. The store would also service local businesses.
- Generate an estimated 213 FTE jobs (direct and indirect) during the construction stage of the project, and a further 250 FTE jobs on an ongoing basis once the store is complete and operational. These additional jobs would stimulate additional economic activity.
- Any trading impacts likely to result from the proposed development are projected to be very limited, reflecting the regional appeal and unique Costco offer that would not directly compete with any existing facility or centre within the region (with the nearest Costco located over 140km away in metropolitan Sydney). As such, the project will not impact on the ongoing operation or viability of existing or proposed facilities in the surrounding area. Rather, the project will result in an overall net community benefit.

6.1 Contribution to local community

A Costco store at Boolaroo will contribute to the activation and continued development of the precinct, unlocking an underutilised site that is well positioned for retail uses and employment activities. A store at the 2A Main Rd site is well suited for wholesaling activities, given the surrounding large format retail uses including Bunnings, and accessibility to the Subject Site. Importantly, the site is strategically located within proximity to existing and future residents, and accordingly, will satisfy the demand for employment and retail goods over the coming years as the population in the immediate area continues to grow.

Within the Costco Boolaroo TTA, there are a number of businesses that stand to benefit from the highly competitive prices offered by Costco through access to cheaper supplies. The provision of low cost business supplies has potential to also generate benefits for end consumers, as small businesses can on-sell their goods or services at lower prices. This is particularly applicable to the substantial number of accommodation and food services businesses operating within the TTA. Similarly, other businesses including food catering business and professional businesses may also benefit from cheaper supplies.

The establishment of a Costco store at 2A Main Rd Boolaroo will enhance and activate the local area for both existing and future residents and businesses. By providing a modern wholesale store, Costco Boolaroo will help to attract new businesses and investment activity within the emerging Cockle Creek precinct.

The provision of a modern Costco store will satisfy the growing community demand for additional food and grocery facilities within the local area. Currently, the nearest Costco store is located more than 140km away in Sydney and as such, the proposed development is likely to result in considerable improvement to amenity for local and regional residents.

6.2 Competition benefits

Costco Boolaroo will provide a new retail format to Lake Macquarie and the broader Newcastle and Hunter region which will improve consumer choice and provide customers, including businesses, with a wide range of products at highly competitive prices.

The Costco format emphasises high-quality branded goods at the lowest prices, with sales margins much lower than typically applied in the retail industry.

The introduction of Costco Boolaroo will contribute to the availability of choice and competition in the broader retail and wholesale markets, with benefits derived from these price savings, coupled with the ability to purchase products in bulk packaging. Costco also offer one-off sales for particular merchandise lines, and further discounts are attached to these sales.

Importantly, the price savings from the introduction of Costco represent a tangible indication of the potential community benefits associated with increased retail competition.

Inclusion of a petrol canopy at Costco Boolaroo will also generate competition benefits for the fuel retailing industry within the TTA.

6.3 Employment generation

Jobs supported by development of the project will accrue through direct and indirect employment generated during the construction phase; and ongoing employment through the operation of the store.

6.3.1 Construction employment

Direct employment in the *construction industry* is expressed as FTE job years. A 'job year' is a full-time job for one year.

Indirect or flow on employment will also be supported in other industries, for example, suppliers of materials and financial and legal services. Employment estimates in the wider economy are derived from ABS national account input-output analysis, specifically, employment multipliers.

Direct employment in the construction industry depends on the nature of the building, in particular the capital intensity of the project. It is estimated 1.96 FTE direct construction industry job years per \$1 million of expenditure (or 1.0 FTE job year per \$510,000) will be generated by the construction activity, based on research and the type of work expected to be undertaken in the construction phase of the site.

In addition, these direct construction industry jobs lead to demand for employment in supplier industries in the wider economy. The ABS construction multiplier is 2.6 - that is, for every single FTE job in the construction industry a further 1.6 FTE jobs are supported elsewhere in the economy.

Total construction costs for the redevelopment of Costco Boolaroo will be in order of \$42 million. At this level, the construction stage of the project would support 82 jobs *in the construction industry* and support a further 131 jobs *in related (supplier) industries* over the development period which is estimated to occur over one (1) year.

Local businesses, workers and jobseekers are likely to benefit from increased employment and contracts afforded by the construction phase of the project. There are an estimated 5,323 workers, or 9.2% of the overall workforce in Lake Macquarie, who are employed in construction related industries and are therefore well positioned to benefit from the development.

Table 13 Jobs created during construction

| Metric | Value |
|------------------------------------|---------------------------------|
| Direct Jobs | |
| Construction estimate | \$42 million |
| Estimated direct jobs | 82 FTE Jobs over 1 year |
| Indirect Jobs | |
| Indirect jobs per construction job | Approximately 1.6 |
| Estimated indirect jobs | 131 FTE jobs over 1 year |
| Total FTE Construction Jobs | 213 FTE jobs over 1 year |

Source: ABS 2016, Ethos Urban

6.3.2 Ongoing employment

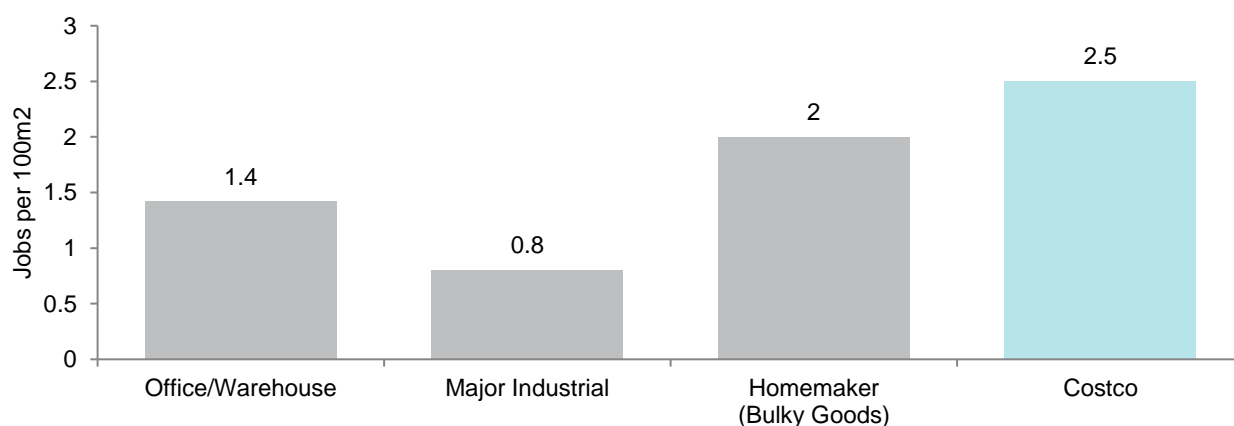
Once complete and fully operational, it is estimated that the proposed Costco Boolaroo store will support a total of 330 jobs (including part-time and casual positions). This reflects 250 full-time equivalent (FTE) positions.

Most of these jobs would be filled by people living within a 15-minute drive time, and this tendency for the take-up of jobs by people living in the general area is observed universally in the retail sector.

In addition to the 250 FTE direct jobs at Costco, a further 225 indirect jobs (or flow-on jobs) would be created indirectly through the employment multiplier effect.

In essence, the employment multiplier for the retail sector shows that for every 'direct' job created, another 'indirect' (or flow-on) job is created in the wider economy. In this case, the employment multiplier has a value of 1.9 (ABS Input-Output data).

A further consideration is that 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 10**.

Figure 10 Comparison of Employment Densities

Source: Ethos Urban

Local employment stimulus will be critical in the coming years as the economy looks to rebuild following the COVID-19 pandemic. In particular, jobs created by Costco Boolaroo will be important for both the local and regional economy for the following reasons:

- Retail and construction industries are among the top 5 largest industries of employment for the local Lake Macquarie labour force and there is a need to continually generate local jobs in these industries.

- Typically, jobs accommodated by Costco will be filled by people living within a 15 minute drive-time. Importantly, the development will align with the strategic direction of Lake Macquarie LSPS, which aims to accommodate a greater number of jobs close to where people live.
- The proposed development will support some 250 direct and 225 indirect FTE jobs once complete and operational, and therefore will contribute to the strategic direction of the Lake Macquarie Community Strategic Plan to generate around 12,000 new jobs by 2036.

6.4 Increased economic output

In addition to employment benefits, the ongoing workforce at the proposed Costco Boolaroo will also generate additional economic activity on an ongoing basis, that will further support the local and regional economy.

Value added by industry is an indicator of business productivity. It shows the net economic uplift by excluding the value of production inputs. Value added from the 250 FTE workers is estimated at around **\$12.9 million pa** (2019 dollars) at completion (refer to **Table 14**).

Table 14 Costco Boolaroo – Estimated Economic Output at Full Occupancy

| Activity | Retail |
|----------------------------|------------------------------------|
| <i>Economy.id category</i> | <i>Other store-based retailing</i> |
| Employment (jobs) | 250 Direct FTE |
| Value added per job | \$51,576 |
| Value Added Total | \$12,900,000 |

Source: *Economy.id; Ethos Urban*

The above analysis has been sourced from economy.id (based on modelling by the National Institute of Economic and Industry Research) for the Central Coast LGA with 'best fit' industry sectors applied to likely economic activities at the new development. The results of the analysis assume no substitution effects from outside the regional economy, rather, the activities undertaken at the new asset represent increased net demand associated with population, labour force, and industry growth

6.5 Trading impacts

Analysis presented in this report shows that the Costco development would not be expected to have an adverse trading impact on existing retail facilities or shopping centres in the TTA.

The limited trading impact arising from the introduction of Costco is principally because Costco – as a destination retailer – draws customers from a very extensive regional catchment, and thus the store achieves only a very small share of all available retail spending by TTA residents. The analysis in this report shows that Costco would attract just 0.7% of the available spending of TTA residents, and the trading impact would be equivalent to a reduction of just 1.5% of sales captured by a range of existing centres.

An important consideration is that the limited offer at a Costco store (4,500 SKUs) means that Costco cannot, and does not, compete on a daily basis for household or business spending that is otherwise directed to supermarkets, department stores, discount department stores, specialty shops and other retail formats.

Costco Boolaroo will result in an overall community benefit, rejuvenating an underutilised site and supporting the growth of the Cockle Creek precinct and providing a modern retail facility well suited to cater to the surrounding community, including providing additional choice, range and price competition. This is particularly important for a growing family orientated population.