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25 March 2013

Department of Planning and Infrastructure
GPO Box 39
SYDNEY NSW 2001

Attention: Manager Centres and Urban Renewal

Dear Sir/Madam

SUBMISSION TO DRAFT NEWCASTLE URBAN RENEWAL STRATEGY 2012

This submission has been prepared by JBA Planning on behalf of Costco Wholesale Australia Pty Ltd (Costco) who is investigating the possibility of establishing a retail outlet in the Lower Hunter Region of New South Wales. JBA is a member of the Hunter Business Chamber, which we understand has secured an extension for submissions on the draft Newcastle Urban Renewal Strategy beyond the March 17 2013 date originally proposed by the government, and appreciate the opportunity to make this submission on behalf of Costco.

Costco is investigating a number of potential sites in the Lower Hunter Region and has held meetings with Newcastle City Council and Wyong Shire Council to discuss investment opportunities. The level of investment associated with any Costco outlet in Australia equates to an injection of approximately \$35 million into the local economy through the construction of the development, the creation of approximately 80 construction jobs over a 6-8 month construction period, plus a further 350 employment positions, which is the equivalent of 250 estimated full time (EFT) positions. The operation of an outlet will also create approximately 130 indirect or flow-on jobs elsewhere in the local economy.

This level of investment requires planning certainty. However, it has become apparent that the draft Urban Renewal Strategy for Newcastle, supported by economic analysis prepared by Hill PDA, encourages new retail uses into the city centre. More specifically, the Strategy and supporting economic analysis suggest that bulky good retailing and showrooms are an appropriate use toward the west end of Hunter Street on the basis that there is a supply of accessible and favourably located large sites, albeit as an interim use given the longer-term intention of this precinct to become the new CBD of the city. The draft Strategy also encourages the limitation of out-of-centre retail in other parts of Newcastle to help strengthen the city centre as a retail destination.

This policy position being advocated by the draft Urban Renewal Strategy presents significant implications for a Costco outlet in the Lower Hunter Region, particularly if it is to be located within the Newcastle LGA. Currently, the sites being considered by Costco in Newcastle LGA are located outside of the Urban Renewal Area identified by the draft Strategy. Accordingly, we would like to take the opportunity to inform the Department of the concerns of Costco should it ultimately pursue the intent of the draft Urban Renewal Strategy for Newcastle to locate bulky goods and showrooms in the west end of the Newcastle CBD.

Background to Costco

Costco Wholesale (Australia) Pty Ltd is part of the Costco Companies Incorporated, which operates from over 600 locations worldwide, including the USA and Puerto Rico, Canada, Mexico, United Kingdom, Korea, Taiwan, Japan and Australia.

Costco offers a new and unique form of retailing, previously not experienced in NSW or Australia until the opening of the first Costco store in Melbourne in August 2009. The first Costco in NSW opened in Auburn in July 2011. The third Australian store, opened in Canberra in July 2011.

The underlying principle supporting the Costco approach is membership. This entitles the member, which can be either in the form of a 'Business Member' (\$55 per year) available to licensed businesses or 'Gold-Star Members' available to individual members of the public (\$60 per year) to shop at any Costco store worldwide.

Costco has particular site requirements for each outlet with respect to the mix of uses that need to be accommodated and matters such as land use permissibility, site size and location, vehicle parking and access provisions, accessibility to a regional catchment and urban design considerations. All of these factors influence the investment decisions that are made by Costco and the locations that they ultimately choose to locate.

We have included an Addendum to this submission to fully inform the Department about the site specific requirements of Costco and how the outcomes sought by the Newcastle Urban Renewal Strategy may have implications for site selection in the Lower Hunter Region.

Draft Newcastle Urban Renewal Strategy

Broadly speaking, the draft Urban Renewal Strategy encourages a more compact, dense urban form and a vital city centre for the Newcastle CBD. To achieve this, the strategy and its initiatives seek to ensure that:

- *the strength of the city centre is recognised and reinforced, relative to other centres within the local government area*
- *the city centre is a vibrant, viable and attractive destination for businesses, residents and visitors, and minimise the need to travel to outlying centres*
- *the city centre provides accessible and suitable employment opportunities as well as a mix of retail and service facilities for the community*
- *the city centre's retail and employment lands are attractive for investment by local, national and international businesses, both now and in the future*
- *the city centre is permeable, all parts well-connected and easy to access¹*

Source: Newcastle Urban Renewal Strategy 2012 pg. 61

More specifically, in terms of encouraging new retail and employment-generating uses into the city, the Guiding Principles that have been applied to the strategic planning for Newcastle's Urban Renewal in support of the initiatives and proposed implementation actions include:

- *Identify and monitor sites and areas suitable for large-scale retail and commercial development.*
- *Promote flexibility to accommodate emerging trends in retailing and other uses where they improve the city centre.*
- *Recognising the regional demand for bulky goods retailing and encouraging its location within or surrounding the city centre will help ensure its viability, while protecting existing industrial land within the LGA.*
- *Employment-zoned land that can accommodate relatively large floor plates should be preserved, so that the city centre is the primary location for commercial office,*

entertainment and community uses. This is a priority in meeting the future needs of both the city and the wider region.

Source: Newcastle Urban Renewal Strategy 2012 pg. 62-63

Costco Response

As outlined above, the policy position identified by the draft Strategy has potential significant implications for the preferred location of a Costco outlet within the Newcastle LGA.

The Costco site requirements outlined in the Addendum to this submission do not lend themselves to locating within the west end of the city centre, or on surrounding, nearby land, for the following reasons:

- Costco outlets require large sites with an area of around 5ha, which do not exist within or in close proximity to the city centre. This creates the need to consolidate sites to create a parcel of land of sufficient size to accommodate a Costco outlet, which is considered to be cost prohibitive and could therefore discourage investment by Costco in the Newcastle LGA. The broader economic benefits of a Costco outlet to the Newcastle LGA and the Lower Hunter Region are considered likely to outweigh the shorter-term benefits of locating a large format retail outlet in the west end of the city on an interim basis.
- The draft Urban Renewal Strategy identifies that the west end of the city is ideally suited to become the long-term commercial core. Large format retail uses such as bulky goods and showrooms are deemed to be suitable to occupy larger sites in the interim, and are intended ultimately to be replaced by buildings with a vertical mix of uses in the shorter term, and ultimately being converted to commercial uses in the future. The level of investment anticipated by a Costco outlet cannot be justified anywhere on an interim basis only. Investment of this scale requires certainty into the longer-term and this is not provided under the current draft Strategy for the west end activity node should the Department, or Council, maintain this policy position in relation to any future Costco outlet in the Newcastle LGA.
- Costco outlets require good access to strategic road transport links. In addition, Costco, by its very nature, is reliant on private motor vehicles as the primary form of transport used by its customers, as are bulky goods and large format retail premises in general. Studies have shown that a proposed Costco development generates in the order of 518 vehicles per hour (vph) during the weekday morning peak, 549 vph during the weekday evening peak and 1,014 vph during the weekend mid-day peak period. The transport-related initiatives in the draft Urban Renewal Strategy encourage an increased and more concentrated resident and employment population in the city centre, without a concurrent increase in traffic congestion. Obviously, a Costco outlet in the city centre, drawing from a regional catchment that extends south to the Central Coast, west to the upper Hunter and north to Great Lakes, will not support transport-related initiatives identified in the draft Strategy in relation improving the efficiency of the road network in the city and a reduction in private vehicle use.
- A core element of the draft Urban Renewal Strategy revolves around place-based initiatives, including the positioning of the west end as the city's future CBD. These initiatives are underpinned by key implementation actions related to public domain improvements, special area controls regarding building heights, land uses and densities which promote design excellence, and specific design controls in relation to establishing a built form that reinforces street wall heights and promotes appropriate responses to heritage elements. The design outcomes of Costco outlets throughout the world are predominantly based on a large, warehouse-style format (13,000-15,000 of GFA) and the requirement for a large number of car parking spaces (700+), preferably provided at grade. This type of format will not achieve the place-based design outcomes being sought under the draft Urban Renewal Strategy for the west end of the Newcastle CBD.
- By virtue of its intentions to concentrate bulky goods retailing within or surrounding the city centre, discourage out-of-centre retailing in other parts of the city and protecting industrial

land within the Newcastle LGA, the draft Strategy may actually discourage the use of more suitable sites for large format retailing elsewhere in Newcastle. No analysis appears to have been provided within the draft Strategy to justify what industrial land is required into the future and the degree to which it must be protected from alternative land uses such as large format retail. This policy position, if adopted, could discourage significant investment opportunities in the city by major retail operators such as Costco, particularly if land in Newcastle that meets the particular site suitability criteria of Costco is zoned for industrial purposes and is therefore quarantined from alternative future development options.

We thank the Department for the opportunity to make a submission regarding the Newcastle Urban Renewal Strategy. The concerns raised above in regard to a potential Costco outlet for the Lower Hunter Region are not in any way meant to undermine or inhibit the successful implementation of the draft Strategy, which is considered to be vitally important to the future of the city of Newcastle. Rather, they are intended to highlight the impracticalities of establishing a Costco outlet in the Newcastle CBD and the potential loss of a significant investment opportunity for the Lower Hunter Region should the policy position taken by the NSW government impede its development in a more suitable location away from the city centre.

Should you have any queries about this matter, please do not hesitate to contact me on 02 4927 0980 or sbrown@jbaplanning.com.au.

Yours faithfully



Scot Brown
Associate

Addendum to Costco Submission on the Newcastle Urban Renewal Strategy 2012

Costco Warehouse

Costco typically operates from traditional purpose built retail warehouse buildings. These generally comprise large retail floor plates and 700+ on site car spaces. The Costco Warehouse model also generally comprises a number of ancillary uses/ services within its premises. These include:

- Small cafe - this is referred to as a 'food court' within the Costco model, however it generally involves an indoor seating area and sells a small range of convenience fast food, i.e. pizza, hot dogs, salads and cold beverages for consumption on the premises.
- Tyre centre - this comprises a drive-in tyre fittings and balancing facility;
- Optometrists - this involves the provision of a reception kiosk and examination rooms;
- Photo processing; and
- Hearing aid service/ sales.

With the exception of the three stores in operation already in Australia, the Costco Business model also typically includes a service station, which is also only for use by Costco members. It is intended that the site identified in the Newcastle LGA will also include a service station use.



Figure 1 – Perspective Image of Costco - Liverpool (proposed)

Product Range

Costco offers a mix of high quality local and international brand name products. The product range is extremely wide, covering both food and non-food items and products are generally packaged in large bulk sizes. The total number of products carried within a typical store is approximately 4,000 as opposed to a traditional supermarket which carries approximately 30,000+ products. Therefore, whilst there is a wide range of product categories, the selection of products is limited compared to more traditional supermarket offerings.

Products are generally received on pre-packed pallets, which are then transported to the specific product areas within the store, where they are displayed.

The general product range comprises:

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| ▪ groceries (including butchery and bakery) | ▪ jewellery |
| ▪ liquor | ▪ watches |
| ▪ appliances | ▪ cameras |
| ▪ televisions and media | ▪ books |
| ▪ automotive supplies | ▪ homewares |
| ▪ toys | ▪ apparel |
| ▪ hardware | ▪ health and beauty aids |
| ▪ sporting goods | ▪ furniture |
| ▪ office supplies and office equipment | |

Use Definition

The Costco business model is that of a 'retail warehouse' which is not recognised as an individual form of land use/development under the standard definitions within the NSW planning system. A Costco Wholesale and Retail Warehouse development would be defined as a mix of uses, comprising '*bulky goods premises*'¹, '*retail premises*'², '*business premises*'³, '*vehicle repair station*'⁴ and '*service station*'⁵.

¹ **bulky goods premises** means a building or place the principal purpose of which is the sale, hire or display of bulky goods, being goods that are of such size or weight as to require:

- (a) a large area for handling, display or storage, and
 - (b) direct vehicular access to the site of the building or place by members of the public for the purpose of loading or unloading such goods into or from their vehicles after purchase or hire,
- and including goods such as floor and window supplies, furniture, household electrical goods, equestrian supplies and swimming pools, but does not include a building or place used for the sale of foodstuffs or clothing unless their sale is ancillary to the sale or hire or display of bulky goods.

² **retail premises** means a building or place used for the purpose of selling items by retail, or for hiring or displaying items for the purpose of selling them by retail or hiring them out, whether the items are goods or materials (or whether also sold by wholesale).

³ **business premises** means a building or place at or on which:

- (a) an occupation, profession or trade (other than an industry) is carried out on for the provision of services directly to members of the public on a regular basis, or
- (b) a service is provided directly to members of the public on a regular basis.

⁴ **vehicle repair station** means a building or place for the purpose of carrying out repairs or the selling of, and fitting of accessories to, vehicles or agricultural machinery, but does not include a vehicle body repair workshop.

⁵ **service station** means a building or place for the sale by retail of fuels and lubricants for motor vehicles, whether or not the building or place is also used for any one or more of the following:

Costco Site Requirements

Costco is a retail operation with particular site requirements that are characteristic for large destination retailers. These criteria relate to factors such as the size of the land and its configuration, the ability to accommodate a preferred warehouse design, the potential cost of development, the exposure of the site to the regional catchment and the potential access arrangements that can be achieved, whether the site has any planning constraints that need to be overcome (e.g. heritage controls, flood-prone, etc), and the potential to resolve urban design issues such as the interface with adjoining uses, among others.

Of particular importance from a retail-economic perspective is whether the site is consistent with the Costco business model, in which retail shoppers and business customers are drawn from very large geographic catchments. This is important not just to ensure that each Costco store is viable in itself, but also viable in the context of planning for a network of Costco stores. Each Costco store must have sufficient exposure and 'destinational appeal' to attract people from at least a 30 minute drive time catchment. Potential sites must therefore have very good transport access, preferably with frontage to major roads or highways that provide access from the wider region.

In addition, Costco retail stores also often co-locate with non-traditional retail services, including service stations (similar to Woolworths Petrol Plus and Coles Express), tyre repair and sales outlets, and audio (hearing) and optometry consulting services and retail sales. This obviously raises issues around the permissibility of a broad range of uses within the distinct set of zones that are contained within any Local Environmental Plan prepared under the NSW planning system.

In this context, a summary of the main locational criteria relevant to planning a new Costco store in the Lower Hunter Region is provided below.

Development Opportunity

- *Availability:* Sites can only be developed where they are available for sale or lease. Importantly, where consolidation is required (refer below in the context of size requirements), site development is more difficult and more costly.
- *Purchase cost:* The Costco model of delivering low prices to members depends on a number of factors, including the ability to secure favourable supply contracts, ensuring very efficient operating costs, and attracting large numbers of members. At the development level, Costco also have certain requirements in terms of land purchase costs, although these of course vary according to the potential market opportunity and subsequent store performance in each location. Of relevance is the fact that land prices are typically higher for sites located within centres, and as a general rule are even higher where consolidation of a number of properties is required. Another important factor is that the cost of the site is higher if existing 'economic' buildings are present on the site; alternatively, vacant sites can be purchased at much lower cost.
- *Development cost:* Construction and other costs can be significantly higher for sites that are difficult to develop, for example where there is sloping land or where there are difficult interface issues to address, or where existing buildings need to be demolished or modified.

Site and Location Suitability

- *Size:* This is a very important criterion having regard for the typical size of the Costco building (usually in the range of 13,000-15,000m²) and the requirement for a large number of car parking

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- (a) the ancillary sale by retail of spare parts and accessories for motor vehicles,
 - (b) the cleaning of motor vehicles,
 - (c) installation of accessories,
 - (d) inspecting, repairing and servicing of motor vehicles (other than body building, panel beating, spray painting, or chassis restoration),
 - (e) the ancillary retail selling or hiring of general merchandise or services or both.

spaces (preferably provided at grade). The minimum site area is approximately 5ha in most locations. Critically, the site for a Costco needs to have a minimum depth in order to accommodate the normal requirements for customer and supplier access, store configuration, and provision of accessible car parking.

- *Strategic road access:* In order to serve a large regional trade area, Costco stores need to be easily accessible from major highways and arterial roads. Preferably, the connections need to be strong radially around the site so that a large regional catchment can be served.
- *Public transport:* This is not normally a significant priority, as the nature of Costco (as a location for bulk purchases) means customers mainly use private vehicles to shop at the store. However, public transport can be beneficial to allow convenient travel for store employees.

Market Opportunity

- *Accessibility from regional catchment:* As noted above, Costco stores need to have very good access from a large surrounding regional catchment in order to generate sufficient trade. In the context of the Hunter Region, potential sites need to be able to serve a region that extends south to the Central Coast, west to the upper Hunter and north to Great Lakes. Therefore, good access from the Pacific Highway, F3 Freeway and New England Highway are particularly attractive.
- *Synergy with existing destination uses:* Costco is a destination retailer; that is, the store attracts people to undertake shopping visits to the local area. Where a number of destination retailers can co-locate, a critical mass can be achieved, thereby making the precinct well known as a shopping location and potentially extending the catchment it serves.

Planning Issues

- *Permissible uses:* Clearly, where a retail use is permissible development the town planning process is much easier, leading to quicker development timeframes and lower holding costs. However, given that NSW does not separately recognise the large for warehouse model in a planning sense, Costco must rely upon finding land on which 'retail premises' are permissible (or can be made permissible through rezoning/LEP amendment).
- *Planning constraints:* Projects can also face planning constraints associated with factors such as heritage controls, flood prone land and other controls that either make planning approval unlikely or make development more costly.
- *Potential linkages/synergies with existing uses:* Sites are attractive where they have a good 'fit' in terms of the surrounding land uses. Similar uses help to establish the precinct as a known destination for particular types of retail services. Moreover, the introduction of Costco can be beneficial for other types of retail traders, due to the large number of visitors attracted to the store.
- *Urban design considerations:* Because of its large format, a Costco store can be an inappropriate development for some locations. For example, it is a difficult use to accommodate in a centre characterised by small-scale shops and a dense urban fabric. It is more suitable to locations that already have larger-scale uses. In very rare cases (such as Manhattan in New York), inner city sites have been developed as integrated developments, but this is not likely to be the case in Australia because of the smaller scale of the market opportunity.
- *Ability to resolve interface issues:* The large store format often means that interface issues can arise. These can be difficult to manage where adjoining land uses which are sensitive (for example sites abutting residential areas). Issues are more manageable if adjoining land uses are similar in nature (retail, bulky goods, industrial), or where the site adjoins roads or other features (e.g. a creek or water course, open space, etc).

Traffic Generation

Estimations based on the traffic generation surveys of the Costco Wholesale and Retail Warehouse in Auburn and a North American Study into Costco's Service Stations have found that a proposed Costco development will generate in the region of 518 vehicles per hour (vph) during the weekday morning

peak, 549 vph during the weekday evening peak and 1,014 vph during the weekend mid-day peak period. Good road networks are required to accommodate a Costco store.

Community Benefits

A Costco development is considered to generate a number of social and economic benefits. These comprise:

- provision of a new form of retailing to the Lower Hunter Region and surrounding suburbs which offers high quality merchandise for approximately 25% less than the price of the same products purchased from competing retailers;
- ability for small businesses to purchase wholesale goods at low prices, with sufficient opportunity to resell those goods at prices which are competitive with supermarkets;
- an increase in choice and competition in the broader retail and wholesale markets which will in turn provide benefits in the form of price savings, and the ability to purchase products in bulk packaging;
- generation of approximately 350 employment positions which is the equivalent of 250 estimated full time (EFT) positions;
- a further 225 indirect or flow-on jobs are expected to be created through the employment multiplier effect within Sydney, other parts of NSW and interstate; and
- an injection of approximately \$35 million into the local economy through the construction of the development and the creation of approximately 80 construction jobs over a 6-8 month construction phase, plus a further 130 indirect or flow-on jobs elsewhere in the economy.