

18 May 2018

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Carolyn McNally
Secretary
Department of Planning and Environment
320 Pitt Street
Sydney NSW 2000

Dear Ms McNally,

RE: COSTCO WHOLESALE (AUSTRALIA) PTY LTD SUBMISSION ON THE PLANNING FOR THE FUTURE OF RETAIL DISCUSSION PAPER

On behalf of Costco Wholesale (Australia) Pty Ltd (Costco), Ethos Urban have prepared this submission regarding the Department of Planning and Environment's (DP&E) Discussion Paper '*Planning for the Future of Retail*'. We acknowledge that the release of this paper is a positive step towards the realisation of much needed planning reform in NSW with regards to the retail sector.

Costco operates an international chain of membership retail warehouses from over 740 locations, including nine stores in Australia, with further stores opening in Western Australia, Queensland and Victoria over the next 12 months.

In 2006 Costco established a permanent presence in Australia. Over the last 10 years challenges with the existing NSW planning framework has meant that Costco has only been to gain development approval for three stores and is yet to find their next site, which means that the injection of investment within the State is being delayed.

Costco is seeking to rollout another 6 stores throughout NSW, which represents approximately \$250 million of investment into the NSW economy and the creation of 1500 full time equivalent direct positions and 1,500 indirect or flow-on jobs in total.

As a member of the Large Format Retail Association (LFRA), our interest in the Discussion Paper is to reiterate the need for the large format retail sector to be recognised within any new retail policy. Individual councils should be mandated to plan for the large format retail sector within both Local Retail Strategies and Local Environmental Plans.

Specifically, Costco would like to outline its support for the proposed flexible open zones and 'innovation in retail' provisions. As will be outlined in this submission, Costco faced a lot of planning barriers in NSW upon entry into the Australian market. Such provisions being available at the time would have been highly beneficial in allowing Costco's unique form of development a more flexible, efficient and cost-effective approvals process.

The proposed amendments to the Standard Instrument Local Environmental Plan (LEP) in relation to retail land use definitions should also be acknowledged. We strongly support these proposed amendments. These amendments, combined with the findings of the Discussion Paper have revealed a more in-depth understanding of the evolving and diverse retail sector, and how the NSW planning system can evolve to better meet the needs of the sector, retailers and the community.

Within this submission, we take the opportunity to share our experience in relation to the challenges that Costco has faced in developing sites in metropolitan Sydney and NSW generally and Costco's response to the directions identified in the Discussion Paper.

1.0 Costco Business Model

The Costco business model is based upon a membership system. Memberships are purchased by either licensed businesses - 'Business member' for \$55 per year, or individual members of the general public - 'Gold-Star Members' for \$60 per year. A membership then entitles a member to shop at any Costco store and service station word wide.

1.1 Costco Warehouse Model

Costco is a large format retailer, that typically operates from a site of at least 2-3 hectares in area, which is adjacent to or in close proximity to the major arterial road network and is able to accommodate a purpose built retail warehouse (approximately 13,000 m² gross floor area (GFA), approximately 700+ car spaces and a service station. The warehouse building generally comprises a single level retail trading floor and a number of ancillary uses/ services such as:

- a food court - which generally involves an indoor seating area and a kiosk which sells a small range of convenience fast food, i.e. pizza, hot dogs, salads and cold beverages for consumption on the premises;
- tyre centre - a drive in fitting and balancing facility;
- optometrists;
- photo processing; and
- hearing aid service/ sales.

1.2 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. Approximately 60% of products are packaged in large bulk sizes or are of institutional quality. Most products are generally received and displayed on pre-packed pallets.

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 the range is wide, the selection is limited within each category. The general product range comprises groceries, liquor, appliances, televisions, media, automotive supplies, toys, hardware, jewellery, watches, cameras, books, homewares, apparel, sporting goods, office supplies and equipment, health and beauty aids and furniture.

1.3 Community Benefit

Through significant analysis, the delivery of a Costco store is recognised as having great community benefit in that:

- the provision of high quality merchandise is sold for approximately 25% less than the price of the same products purchased from competing retailers;
- small businesses can purchase wholesale goods at low prices, with sufficient opportunity to resell those goods at prices which are competitive with supermarkets. Approximately 30% of Costco's member base is business;
- the introduction of a Costco to an area, generally assists in the establishment of or, as in the case of Crossroads, the revitalisation of the large format/ bulky goods cluster;
- the roll out of additional Costco stores contributes to choice and competition in the broader retail and wholesale markets;
- new jobs are generated, including various skilled jobs such as butchers, bakers, optometrists, audiologists and automotive mechanics;
- Costco provides a significant injection of investment; and
- a Costco store typically has a very small average impact on surrounding existing centres, and smaller market share (approximately 1.5%), which is considerably less than the impacts of 10% and 15% that the Land & Environment Court of NSW has in the past noted as being significant enough to cause decline to the viability and range of services offered in nearby centres.

2.0 Costco's Experience with NSW Planning

Costco has had a permanent presence in Australia since early 2006 when it commenced evaluating the Australian market and looking for appropriate sites.

In 2006 Costco's Country Manager, Patrick Noone, met with senior managers of the NSW DP&E and also the Victoria Department of Planning and Community Development (DPCD) to discuss Costco's planning needs.

The attached timeline provides a summary of the delivery of the Costco stores in Victoria and New South Wales. It shows that in comparison with the Victorian planning system, the NSW planning system led to Costco experiencing significant time delay and uncertainty over the last 10 years. Therefore, it has not facilitated the entry of Costco's form of retailing into the Australian market.

Development consent for the first Costco store at Auburn was sought via a Concept Plan and Project Application pursuant to Part 3A of the *Environmental Planning & Assessment Act 1979* (EP&A Act), on a site within a B6 - Enterprise Corridor zone. Overall it took 4 years from the establishment of the Costco presence in Australia to gain approval of the Auburn Part 3A Concept Plan and Project Application. In comparison it took just 2 years under the Victorian system for the first development consent within Victoria to be issued from Costco's arrival in Australia.

Since the repeal of Part 3A of the EP&A Act, the Costco projects at both Crossroads and Marsden Park have required site specific amendments to the relevant environmental planning instruments to enable the Costco business model, (being a mix of retail premises, business premises, service station and vehicle repair station uses) to be permissible with development consent.

From the date of lodgement of the planning proposal applications, the Crossroads LEP amendment took 18 months to be gazetted and the Marsden Park SEPP amendment took in excess of 2 years.

Given that Costco is guided towards land within the B5 - Mixed Use Development and B6 - Enterprise Corridor zones (where bulky goods are permissible) at present Costco is required to undertake an LEP amendment process for every site they are looking to develop a new store. This generates significant uncertainty, expense and extended timescales in the process of delivering a Costco store.

3.0 Response to the Planning for the Future of Retail Discussion Paper

The Discussion Paper proposes three new directions that the NSW planning system can take to respond to emerging retail trends. Costco has provided commentary to the DP&E on each key issue below.

3.1 Better local strategic planning for retail

Costco agrees with the LFRA that the Greater Sydney Commission (GSC) has failed to recognise existing Large Format Retailers (or those proposed to be categorised as 'Specialised Retail Premises') in the Centres hierarchy and the role that these retailers play as a major employer in NSW. The Regional Plan and District Plans recognise the importance of employment and jobs but focuses growth in economic corridors, strategic centres and the like. These plans do not acknowledge the jobs and growth Large Format Retail (or Specialised Retail Premises) provide, typically in locations outside existing centres. These Plans should proactively plan for the growth of the retail sector by introducing policy directions to clearly identify where new Large Format Retail or Specialised Retail Premises are suitable and the criteria to determine this.

Accordingly, we believe that the Discussion Paper will not achieve good outcomes for the Large Format Retail sector if it solely responds to the deficient District and Regional Plans.

3.2 A modern approach to retail development that reflects a range of retail formats in centres

As discussed above, the continued focus for planning for retail within centres does not fit the Costco business model. We agree with the Discussion Paper's recognition of the increasing trend of large format sites with varied offerings and changing land uses needing further support outside traditional hierarchies. The Large Format Retail sector is an evolving and often dynamic sector with new entrants seeking to enter the NSW market.

3.3 Adaptability and certainty for retail

As discussed in **Section 2.0**, Costco faced significant barriers from the NSW Planning System when seeking to establish new stores that were outside of the traditional land use definitions. In their experience, the method of treating anything not listed as ‘permitted with consent’ in a LEP as prohibited (i.e. closed zones) required costly and time-consuming planning proposals, rather than a development application being considered on its planning merits.

In this regard, Costco strongly supports the introduction of flexible, open zones. It would allow Costco to evolve its offering to meet and exceed customer expectations as per its overall business model. It would also allow any new entrant into the market with a similar disruptive model relative ease of approval process in comparison to the existing system. Costco strongly recommends that open zones are implemented in LEPs without delay.

Whilst recognising that such a process to amend LEPs will take time, Costco is in strong support of an interim measure of an ‘innovation in retail’ provision.

4.0 Conclusion

Retail is a constant changing dynamic, new ways to bring goods and services to market are constantly evolving. A vibrant world class retail environment encourages a vibrant dynamic manufacturing section. Manufacturers who create world class goods generally export to the worldwide market and emerging retail formats provide an important role in selling, promoting and establishing competition and innovation in the retail market.

Entrepreneurs and small businesses employ more people and create new dynamic ways to bring a variety of goods and services to market, all of which bring benefits to consumers and manufacturers.

It is Costco’s experience to date that the current planning system in NSW entrenches limited types of retail uses which:

- discourages competition by limiting the opportunity for new entrants into the market by way of restricted land zoning and by limiting the number of retail outlets in a given area;
- creates distortions in pricing from the farm gate to the consumer;
- does not promote speculative investment and growth by retailers and retail manufactures; and
- does not promote dynamic change or competition.

Given the above experience, Costco wishes to acknowledge that the release of the *Planning for the Future of Retail Discussion Paper* is a positive step forward in reducing some of the barriers to entry which Costco faced in attempting to establish stores in NSW. Ultimately, Costco would like to see a planning system where new entrants such as their unique business model can be permissible and assessed on merits.

This submission highlights the underrepresentation of the Large Format Retail sector within the GSC’s Regional and District Plans. Contrary to these plans, large format retail and large format retail clusters should not be treated as identical or planned in the same way as other retail centres, without a deeper understanding of their individual functions. These functions sometimes are not compatible with the centres envisioned by the GSC. The absence of this level of strategic planning reiterates the need for the DP&E to proactively plan for the delivery of large format retail floorspace in any future retail policy.

Consistent with the view of the LFRA, Costco believes any future retail policy needs to provide a set of guidelines for local Councils, directing them on how to provide sufficient large format and retail floorspace more broadly.

Should you require to discuss this matter further, please do not hesitate to contact Chris or Andrew at the details below.

Yours sincerely,



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Costco has permanent presence in Australia and starts to evaluate sites in VIC and NSW.		March 2006
	May 2006	Costco establishes link with Victorian trade representative in San Francisco. Costco allocated senior contacts in DPCD & Business Development which becomes “one stop” for all enquiries and questions.
Issue of “permissible land use” recognised. Matter raised with “one stop” senior officers. Way forward confirmed and issue resolved. Costco suitably confident to purchase appropriate site.	August 2006	Issue of “permissible land use” recognised. Matter raised with “one stop” senior officers. Way forward confirmed and issue resolved. Costco suitably confident to purchase appropriate site.
	March 2007	Appropriate sites identified, land contacts agreed and designs developed.
Costco meets within Minister for Planning and identifies investment program in NSW. Costco directed to areas where there is an established cluster of bulky goods retailers.	October 2007	
Initial meeting with DoP and DSRD staff. Issue of permissible land uses identified.	February 2008	Pre-Application discussions held with DPCD, VICUrban and Costco.
Senior contact established at DSRD. DSRD work hard to facilitate meetings and promote investment in NSW.	March 2008	
Costco identify preferred location along Parramatta Road, Auburn. Council work hard to facilitate appropriate development.	April 2008	
Costco meet DoP Policy Team. Zoning issues identified.	May 2008	
Costco meet DoP Policy Team. Rezoning route indicative timeframe identified at 12 months.	June 2008	
Costco met DoP Policy Team. Rezoning route continue to be refined.	September 2008	
Meetings held with Minister MacDonald and senior DoP Staff	October 2008	
Meeting with senior DoP staff. Opportunity of alternative approach tabled (Part 3A). Costco suitably confident to purchase the site.	November 2008	
	December 2008	Costco Application approved at Docklands, Melbourne.
Meeting with Minister MacDonald. Meeting with DSRD. Meeting with senior DoP staff. Council to continue to work hard to facilitate appropriate development by way of rezoning.	February 2009	
Application lodged with DoP to seek determination that the proposed development of a Costco store at Auburn is a major Project under Part 3A of the EP&A Act.	May 2009	
	August 2009	Costco opens at Docklands, Melbourne. Costco identify further sites across Victoria.
Combined Part 3A Concept Plan and Project Application lodged for Test of Adequacy at DoP.	September 2009	
Final Part 3A Concept Plan and Project Application Environmental Assessment Report lodged for public exhibition.	October 2009	
Preferred Project Application lodged.	February 2010	
Part 3A application approved by the PAC.	April 2010	
First Costco in NSW opens in Auburn. Planning proposal submitted to Liverpool City Council to seek a rezoning of a site at Crossroads, Casula.	July 2011	
Planning proposal endorsed by Liverpool Council at their Council meeting.	September 2011	
Gateway Determination issued by Department of Planning & Infrastructure (DPI) for Crossroads Planning Proposal.	November 2011	
	December 2011	Development application lodged for store in Ringwood.
	February 2012	Ringwood Delevlopment Application approved.
Development Application for a proposed Costco store at Crossroads, Casula was lodged at Liverpool City Council.	April 2012	
Public Exhibition of the Crossroads Planning Proposal and DA (Note: The Planning Proposal was publicly exhibited 8 months after the date of the Gateway Determination).	July 2012	
Crossroads Planning Proposal reported to Council and then referred to the DPI to be made.	November 2012	
Amendment to Liverpool LEP (i.e. Crossroads Planning Proposal) gazetted (18-month process).	January 2013	
Crossroads Development Application Approved.	March 2013	
Planning proposal submitted to Blacktown City Council to seek rezoning of a site at Marsden Park Industrial Precinct.	May 2013	Development application lodged for store in Epping.
Crossroads Store opens.	November 2013	
Gateway Determination issued by Department of Planning & Environment (DP&E) for Marsden Park Planning Proposal.	May 2014	
Marsden Park Planning Proposal on public exhibition for 4 weeks.	June 2014	
Marsden Park Development Application lodged at Blacktown City Council.	July 2014	Epping Delevlopment Application approved.
Marsden Park Planning Proposal reported to Blacktown City Council. Councillors unanimously carried a motion to proceed with the making of the draft amendment to Appendix 1 - Schedule 1 of SEPP Sydney Region Growth Centres) 2006.	November 2014	
Marsden Park Planning Proposal issued to DP&E to be made.	December 2014	
Amendment to SEPP Sydney Region Growth Centres (i.e. Marsden Park Planning Proposal) gazetted.	May 2015	
Marsden Park Development Application approved by the JRPP.	August 2015	