

# SHOPPING CENTRE

COUNCIL OF AUSTRALIA

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Dear Michael

## **Costco MP09\_012 and MP09\_184 Concept Plan and Project Plan Applications**

### **Overview**

The Shopping Centre Council of Australia (SCCA) welcomes the arrival of Costco in Australia as a significant new operator in the Australian retail market place. The introduction of Costco will inevitably bring with it additional retail competition which will ultimately benefit value driven consumers through lower prices of various conventional retail goods.

Unfortunately the choice of this location for Costco's entry into the Sydney (and NSW) market limits the broader economic benefits that could otherwise accrue to the State. The opportunity would be lost, for example, to revitalise a flagging activity centre in Sydney. Melbourne intelligently used Costco as a major magnet to boost visitor traffic to its Docklands development and establish the critical mass necessary for the viability of Docklands. Indeed, not only will the choice of this Auburn site not bring with it broader economic and development benefits for NSW, it is likely to impose significant economic costs on Sydney, in the form of additional traffic congestion along a major Sydney transport corridor. If the proposal is approved, it will also lead to a significant and unfortunate planning precedent, which has the potential to damage the viability of existing and emerging activity centres.

The proposed location of the Auburn Costco development poses a number of significant concerns regarding activity centres planning in NSW. These include:

- The proposed location of Costco at the 15-21 Parramatta Road site is inconsistent with the draft Activity Centres Policy;
- The extent and quality of the information contained within the Environmental Assessment (EA) is insufficient to enable a thorough assessment of the potential impacts of the proposed development;
- Costco is essentially a large standalone shop in both operational and definitional terms. The precedent posed by allowing such a development to occur in an out-of-centre location raises the potential to significantly undermine long-standing retail policy and lead to a series of unintended consequences.

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- For this reason there should not be a single '**Costco**' **retail planning policy**. A competitive retail sector requires a 'level playing field' in terms of planning policy. A policy outcome resulting in favourable locational opportunities for a specific retailer would be anti-competitive.

In many respects this proposal represents a significant threshold issue for retail planning and activity centres policy in NSW. Over the years, many new retail formats have emerged such as factory outlets, big box retail formats and the like. Consistently, it has been NSW Government policy to encourage the establishment of these activities in or adjacent to established activity centres.

The activity centres policy approach to metropolitan planning has served Sydney and NSW well. It has been the cornerstone of metropolitan planning in Sydney since the County of Cumberland Planning Scheme in 1951, and was reinforced in the Sydney Region Outline Plan (SROP) in 1968, which set down the major blueprint for Sydney's projected growth. It is now the basis of planning for all Australian metropolitan areas.

The push for a watering down of the activity centres policy approach to allow the development of cheaper land outside activity centres, to accommodate 'emerging retail formats', is not a new refrain. It is simply a reminder that claims for special treatment (whether they come from bulky goods operators, retail outlet centres, supermarket operators or Costco) should be treated with scepticism by planning authorities.

Bulky goods has been the retail format that has been permitted to establish in out-of-centre locations based on the argument for larger and cheaper land holdings and accessible parking. The nature of genuine bulky goods has arguably been diluted over time by the growing diversity of the retail goods sold as well as diminishing retail tenancy sizes. However, the one key and constant factor that has always distinguished bulky goods from conventional or general retailing is the exclusion of the sale of food and groceries and apparel. The Costco proposal challenges this paradigm.

It has only just come to our attention that Auburn Council adopted the *Draft Auburn LEP 2000 (Amendment No. 22)* at its 18 November 2009 meeting and resolved to submit to the Department of Planning ("immediately") to progress. We have significant concerns with this Draft LEP, particularly given the Council report's outrageous claims (on page 203) that it is consistent with key planning policies including the *City of Cities Metropolitan Strategy*, the *Draft West Central Subregional Strategy*, the *Draft Centres Policy*. Nothing could be further from the truth. Despite such claims, the report then highlights that the Draft LEP is inconsistent with *Ministerial (s.177) Direction 3.4 – Integrating Land Use and Transport*. We intend to raise our concerns on LEP No. 22 separately to this submission.

### **What is Costco?**

Much has been made of the notion that Costco offers a "new and unique form of retailing, previously not experienced in NSW or indeed Australia until the opening of the Costco store in Melbourne<sup>1</sup>".

In fact, Costco's operations are barely distinguishable from that of any other supermarket or discount department store (DDS). The range of goods sold includes many that can be found in any large supermarket or shop in Australia including:

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<sup>1</sup> *Environmental Assessment Report –Costco Auburn , JBA Urban Planning Consultants*

- Groceries;
- Liquor;
- Appliances;
- Sporting goods;
- Jewellery;
- Watches;
- Cameras;
- Books;
- Homewares;
- Apparel; and
- Health and beauty aides.

There is therefore no distinction between the goods sold at Costco or at any other 'shop' within Australia.

Whilst the selection within each product range sold at Costco may be more limited to that provided at conventional supermarkets such as Coles or Woolworths, the value proposition offered by the way in which goods are packaged (notably in the food and grocery section) is such that Costco is likely to encourage shoppers to make multiple visits during the course of a year for everyday household items and groceries. Moreover, the fact that shoppers must purchase a membership card before entering obviously provides a further incentive for repeat visits in order for customers to feel like they have achieved value for money in offsetting the initial membership outlay. Whilst it is unlikely that Costco will encourage daily or weekly convenience shopping trips, it is likely to encourage monthly or bi-monthly bulk buying trips from a wide trade area.

Because of the typical size of its premises, Costco is often referred to as 'big box' retailing. The NSW draft Activity Centres Policy notes that 'big box' formats are classified as 'shops' and should be accommodated in Local Centre, Commercial Core or Mixed use Zones.

These issues are important because they establish that whilst Costco is a new entrant to the NSW market, it does not offer a markedly different retail offer or unique form of retailing. Costco's business model allows it to provide price discounts on certain items by buying in bulk, selling in a 'no-frills environment' and through its ability to develop stores in out of centre locations with lower land values.

Every business faces competition, and every business would like to have lower establishment costs and lower operational costs. But in retailing, as in other businesses, there needs to be a level playing field where all operators are treated equally. To provide one retailer with access to cheap land, while another has to consolidate expensive commercial-zoned land, is inequitable and provides financial benefit to one at the expense of the other. It is not fair competition.

### **The Costco Auburn Proposal is Inconsistent with the draft Activity Centres Policy**

The proposed development of a Costco store at 15-21 Parramatta Road is inconsistent with the NSW draft Activity Centres Policy.

The first principle of the draft policy states:

*Retail and commercial activity should be located in centres to ensure the most efficient use of transport and other infrastructure, proximity to labour markets, and to improve the amenity and liveability of those centres.*

Put simply, the proposal is not located within an activity centre, which is essential for such a significant retail use to be consistent with this fundamental policy principle.

In summary, the proposal is not consistent with the draft Activity Centres Policy for the following reasons:

- The draft policy states that 'big box' formats are classified as 'shops' and should be accommodated in Local Centre, Commercial Core or Mixed use Zones.
- The subject site is not recognised either as a strategic centre or a local centre at a planning policy level.
- Whilst the draft Activity Centres Policy notes that corridors, as well as centres, can offer opportunities for development, it recognises that "*the planning system should balance the need to increase the opportunities for retail development with the impact of traffic flows*". The proposed development does not address this balance as:
  - it fails to demonstrate a clear need for big box retailing within the trade area, rather it merely identifies a market opportunity;
  - Costco would be developed as a stand alone shop at Auburn serving a large car-based catchment with poor access to public transport in a major road corridor where key intersections are already at capacity. We note that the RTA has objected to the draft LEP amendment running concurrently with the major project application and has requested that a comprehensive Traffic Management and Accessibility Plan (TMAP) be prepared to address the impact on the entire Parramatta Road Retail Precinct.
- The building design fails to achieve any of the place making or urban design techniques that would help to create a new and sustainable emerging activity centre. The proposed design is an elemental 'big box' store format surrounded by 771 car parking spaces. It offers no real opportunity for integration with an existing centre.

These are significant matters which should be carefully considered in the assessment process. We do not believe that the NSW Government should encourage development that is clearly at variance with its own draft Activity Centres Policy, as well as the current policy *The Right Place for Business and Services*.

### **The Inadequacy of the Environmental Assessment**

The current Environmental Assessment (EA) provided with the Concept Plan fails to provide adequate justification for the proposed development. In particular:

- The draft Activity Centres Policy recommends that a development of this size should have a detailed Cost Benefit Assessment (CBA). The current Net Community Benefit test provided in the EA is not comprehensive and should include a CBA to model a range of scenarios pertaining to the economic impact of Costco on surrounding activity centres to consider what would occur in the event that the value proposition of its discounting has a higher than usual trade draw within the trade area.

- The costs of potential traffic congestion and the environmental impacts of developing such a car dependent retail premises should also be factored into the CBA, especially in light of the RTA's objection to the draft LEP for the subject land.
- The proposed development would result in the loss of Category 1 Employment Lands which the Metropolitan Strategy identifies as being:
 

*"land that is of strategic importance and [which] should be retained for industrial purposes". The draft Centres Policy states that "only if Category 3 industrial lands are not suitable, or additional centre locations are needed and all another options have been explored, should councils consider Category 1 or Category 2 industrial lands. Where Category 1 and 2 industrial lands do need to be considered ... the council should undertake a thorough analysis of both the impact on the long term supply of industrial land and the economic, social and environmental impacts of retaining the land as employment lands versus zoning it as a new centre".*
- The Costco EA understates the significance of the loss of Category 1 Employment Lands. It refers to the Auburn Employment Lands Study which recommends that the site be rezoned to B5 Business Development in future to include a limited range of additional permissible items including bulky goods and neighbourhood shops. The Employment Lands Study does not however make any suggestion that shops or big box retailing should be permissible on the site in future, and indeed permitting such uses within the B5 zone would be inconsistent with the draft Centres Policy.
- As Costco has a proposed employment density that is broadly similar to manufacturing uses there is no economic imperative for giving the land up for retail use. The EA should therefore provide further justification to support the loss of Category 1 employment lands which is inconsistent with NSW state government policy.
- The EA offers no solution to addressing traffic congestion on Silverwater Road junction, despite drawing cars based custom from a broad catchment.

In view of these significant omissions and variations from NSW Planning Policy, and to ensure transparency in State Government decision making, it is considered essential that the EA should be revisited to consider these issues in more detail and should be exhibited again for public comment thereafter.

### **Precedent for More Out of Centre Retailing**

As noted above, Costco's operations are barely distinguishable from that of any other supermarket or DDS. Its predominant range of products for sale are not 'bulky' items but are typical household items currently sold elsewhere in shopping centre locations, albeit that the quantities offered for sale are greater than in a conventional supermarket format. Costco is clearly not a "bulky goods" retailer, a point that is recognised in the EA.

Planning controls for various retail use formats have traditionally followed a "product lines" approach. That is, core items such as food and clothing have always been identified as general retail uses that should be provided within centres. This is now often the only distinguishing element between general retailing and bulky goods retailing. If Costco is treated as a bulky goods retailer (based on the need for a large land area and building size for the display and sale of its products, together with easily accessible parking), this will further blur the line or more likely will completely eliminate any tangible difference between the different formats.

Therefore, the Costco application places the draft Activity Centres Policy and the metropolitan Centres hierarchy at a *'tipping point'*. If Costco is allowed to locate in out-of-centre Category 1 employment lands, there is no logical reason why other combined supermarket / DDS formats could not similarly be allowed to do so – especially if marketed as an 'emerging retail format'.

The Costco 'precedent' opens the door for major 'non-bulky goods' retailing in out-of-centre locations with significant implications for the centres hierarchy in the Metropolitan and Sub Regional Strategies and the draft Activity Centres Policy.

If approved, the Costco development will encourage other supermarket and DDS operators to seek to develop sites outside of activity centres and on industrial corridor sites. Indeed, we are aware of plans by one of the major supermarket/DDS operators to do just that if the proposed Costco project is approved.

Corridors are by nature out-of-centre locations and therefore they should not be seen as de facto retail destinations. They are, by definition, adjacent to main road networks and often will make effective use of land that may act as a buffer to the residential hinterland or as an entrance to a centre. Conversely, the thrust of the activity centres policy correctly focuses on clustering retail activity (and other commercial activities) in activity centres that are easily accessible by public transport, which can be clearly distinguished from the role and function of corridors.

While there is a limited role for retail use within corridor zones, it is SCCA's view that this needs to be carefully controlled and limited so as to avoid the ad hoc emergence of retail formats that should be within centre locations. The types of retail uses that are considered appropriate within corridor zones should be limited to large scale hardware, garden supplies, neighbourhood shops and food and drink premises to serve the daily needs of workers. The 'peppering' of bulky goods uses or big box retailing in enterprise corridors should be avoided. Clustering development around strategically located centres is the optimal way of ensuring that traffic generation for bulky goods is minimised, given that car visits predominate.

The provision of the public transport is critical to the success of any network of centres. If new centres are to be created in areas of population growth they will need to be provided with adequate public transport services. There is no evidence provided with the Auburn proposal to indicate that this precinct will be provided with adequate public transport services.

**There should be no 'Costco' retail planning policy.**

At face value, the NSW Government's preparedness to consider this Major Project application and authorise a concept plan (in effect authorising a prohibited use) suggests an intent to 'change the rules of the game' specifically to allow Costco to enter the NSW market. Whilst the SCCA welcomes the added benefits to consumers from the arrival of Costco there must be no **'Costco' retail planning policy**.

Furthermore, it would be short-sighted to anticipate that the implications of this proposal may be limited to 4-5 sites within the metropolitan region. Retailing is a highly dynamic industry and continues to evolve and change to address competitive forces and the needs of consumers. It must be reasonably expected that others may follow the Costco approach and therefore there could be many more similar formats all putting the case for out-of-centre locations. The difficulty is that there can't simply be a Costco Retail Policy and accordingly the potential wide ranging consequences of the proposal need to be considered.