Appendix 5
Economic Impact Assessment
Response to Issues Raised

Pitney Bowes Business Insights

Peter Andrews + Associates Pty Ltd
paa.design architecture planning urban design

South Orange DPI Site

EIA - response to issues raised

May 2010

Pitney Bowes
Business Insight

Pitney Bowes Business Insight
SYDNEY
Level 7, 1 Elizabeth Plaza
North Sydney NSW 2060
(02) 9437 6255

MELBOURNE
Level 20, 40 City Road (HWT)
Southbank VIC 3006
(03) 9694 3300

Prepared for: New South Wales State Property Authority

Pitney Bowes Business Insight staff responsible for this report:

Tony Dimasi, Managing Director, Strategy & Analytics

Jessica Commins, Client Services Manager

Channa de Silva, Consultant

Table of contents

Introduction

In October 2009, Pitney Bowes Business Insight (PBBI) completed an Economic Impact Assessment (EIA) of a proposed retail development on lands owned by the Department of Primary Industries, in South Orange. Orange City Council subsequently commissioned Leyshon Consulting (Leyshon) to review that report. Leyshon raised a series of queries in relation to the October 2009 EIA, responses to which now form the basis of this report.

The report is presented in two (2) sections as follows:

- **Section 1** considers in turn five topics raised by Leyshon, including the extent of the trade area likely to be served by the proposed development; the optimal timing of the proposed development; the longer term potential for retail development in South Orange; the sales potential for the proposed development; and a consideration of the cumulative impact of the proposed development upon the Orange CBD, assuming a proposed supermarket development in North Orange also proceeds.

- **Section 2** comprises a suite of supporting maps and tables to accompany the analysis in section 1.

This document should be read in conjunction with our October 2009 EIA. Where no material changes in circumstances have occurred, the data and analysis presented in that document form the basis of this response.

Section 1: Responses to issues raised

1. Trade area definition

i. Leyshon Consulting has expressed the view that the trade area for the proposed retail development, as defined in our 2009 EIA, seems optimistic. In particular, concern was expressed at the inclusion of the suburbs of Glenroi and Summer Hill, at the north-eastern extent of the defined main trade area.

ii. In our opinion, while road access from Glenroi and Summer Hill to the existing supermarket facilities within the Orange CBD may be less circuitous than that to the proposed South Orange development, at least a portion of residents in these areas could reasonably be expected to frequent the proposed development. The proposed retail facilities at South Orange will offer a quicker, more convenient and less congested shopping experience for residents, than that currently provided by the supermarket offer in the CBD.

iii. Nevertheless, even absent the potential custom of residents of Glenroi and Summer Hill, we believe the proposed South Orange retail development would be supportable on the basis of the remaining trade area population, and expected future population growth. Map 1 in Section 2 of this report reproduces the previously defined trade area for the proposed development. Superimposed upon the trade area are the 2009 estimated resident populations (ERPs) of each Census Collector District (CCD). The CCDs encompassing Glenroi and Summer Hill contain a combined ERP of 1,425 persons (663+762). Adjusting our current and future population estimates for the reduced trade area suggest a current population of 5,565 persons (previously 6,990), growing to 5,865 persons by 2012 (assumed to be the first full year of trade of the proposed development) and 7,415 by 2021.

iv. As noted in the October 2009 EIA, there are many examples of towns across Australia with a catchment population significantly lower than the 8,000-9,000 persons typically required to sustain a major full line supermarket, of say 3,000 sq.m in size. Such examples include Mudgee (population 8,619, but with 3 supermarkets - Woolworths, Coles and Aldi); Young (population 7,392, with Woolworths, Supa IGA and Aldi supermarkets); and Yass (population 5,612, with Woolworths and Franklins supermarkets). While a reduction in the trade area likely to be served by the proposed development would place the South Orange trade area population at the lower end of this spectrum, the proposed supermarket would still nonetheless be sustainable.

v. As also noted previously, developments within and in the vicinity of the trade area including the Cadia Mine expansion, and Orange Bloomfield and Orange Private hospitals, will create additional employment opportunities in the near future. This future workforce could reasonably be expected to direct a substantial amount of its spending to conveniently located supermarket facilities at South Orange.

2. Timing of the proposed development

i. Leyshon Consulting has also queried the optimal timing of the proposed South Orange development.

ii. The key determinants of the viability of the proposed development include an adequate resident population, and the timing of the relevant employment-generating projects (as discussed above).

iii. Our population forecasts assume that the residential land bank at Bloomfield (adjacent to the proposed retail development that is the subject of this report) will ultimately yield around 550 new lots. This land is expected to be developed progressively. Discussions with council suggest development is likely to commence in the next 2-3 years, which underpins our assumption that the proposed retail development could commence trading in 2012. In the event that residential development is delayed, the optimal timing of the proposed retail development would be commensurately delayed.

iv. The Cadia Mine expansion is expected to create around 440 new jobs in the region, by 2012.

v. The redevelopment of Orange Bloomfield hospital is currently under way, with completion expected within the next 12 months. Construction of the proposed Orange Private Hospital is likely to commence in the second half of 2010, and be completed by the end of 2013.

vi. Each of these factors suggests that the optimal timing of the proposed retail development at South Orange will be in the 2012-2013 period.

3. Longer term potential for trade area retail development

i. The question has also been raised as to whether the proposed South Orange retail development would preclude further retail development(s) elsewhere in the catchment in the longer term.

ii. The factors that determine the strength and attraction of any particular centre, and its role within a retail hierarchy, are primarily its scale and composition; its layout and ambience; and carparking, including access and ease of use.

iii. South Orange would no doubt benefit from the development of a master plan to guide residential and retail development, such as that which has been developed for North Orange. However, in our preliminary assessment, retail development at the proposed South Orange site would not jeopardise the longer term planning goals of the region.

iv. Forest Road, upon which the proposed site is located, is the major north-south arterial road in the region, and as such is an obvious choice for retail development. Forest Road provides access from the Orange CBD to the Cadia Mine, and further south to the town of Blaney.

v. In addition, the proposed site is located in close proximity to a growing hospital and education precinct, comprising the Rural Skills centre of the Orange TAFE college, the Orange Agricultural Institute and the previously discussed Orange Bloomfield and Private Hospitals. These existing and proposed developments will provide a level of critical mass to commercial development in South Orange. As contributing drivers of demand for any proposed retail developments in the region, it makes sense to co-locate any retail development with these facilities. Such retail development would in turn add greatly to the amenity of the locale for the surrounding workforce.

4. Supermarket sales forecast

i. Table 1, in Section 2, following, reproduces our forecasts sales, by tenant, for the proposed South Orange retail development in 2011/12 (expressed in constant 2008/09 dollars and including GST). As shown, the sales generated by the proposed 2,500 sq.m supermarket are projected at $14.9 million, or $5,949 per sq.m.

ii. Leyshon Consulting has expressed the concern that this level of trading is insufficient to ensure the viability of the proposed facility.

iii. Our forecast sales density is indeed below the average typically achieved in modern supermarkets across Australia, of $7,000-$8,000 per sq.m. However, we note that this average is just that, an average comprising many supermarkets that trade successfully both above and below these levels.

iv. In the course of completing similar studies across Australia for both large and small retail developments, we have observed many successful supermarkets (both national chains and independent operators) understood to be achieving trading densities in the range of $5,500 - $6,500. Such stores can still operate profitably, and supermarkets are 40-50 year investments, which do not always return a profit from Year 1.

v. We note further that new retail facilities typically do not achieve their ultimate trading potential in their first year of trading, with sales levels consolidating and growing over a period of time after establishment. This is expected to be especially true of the proposed South Orange retail development, with the centre benefiting from future population growth in the area associated with the proposed residential development at Bloomfield.

5. Cumulative impact of proposed development

i. The final concern raised by Leyshon relates to the cumulative impact of the proposed South Orange development, along with a proposed supermarket development in North Orange, upon the Orange CBD.

ii. In Table 2, in Section 2 following, we reproduce our assessment of the likely trading impacts the proposed South Orange retail development is expected to have upon the existing retail provision in the Orange CBD. As shown, the levels of impact projected will not threaten the ongoing viability of existing retail centres or precincts throughout Orange, or the future expansion of retail facilities in the region.

iii. These figures do not take into consideration the potential impact upon the Orange CBD of a proposed supermarket in North Orange, which is planned to comprise a Woolworths supermarket of some 3,200 sq.m, and 1,500 sq.m of retail specialty floor space.

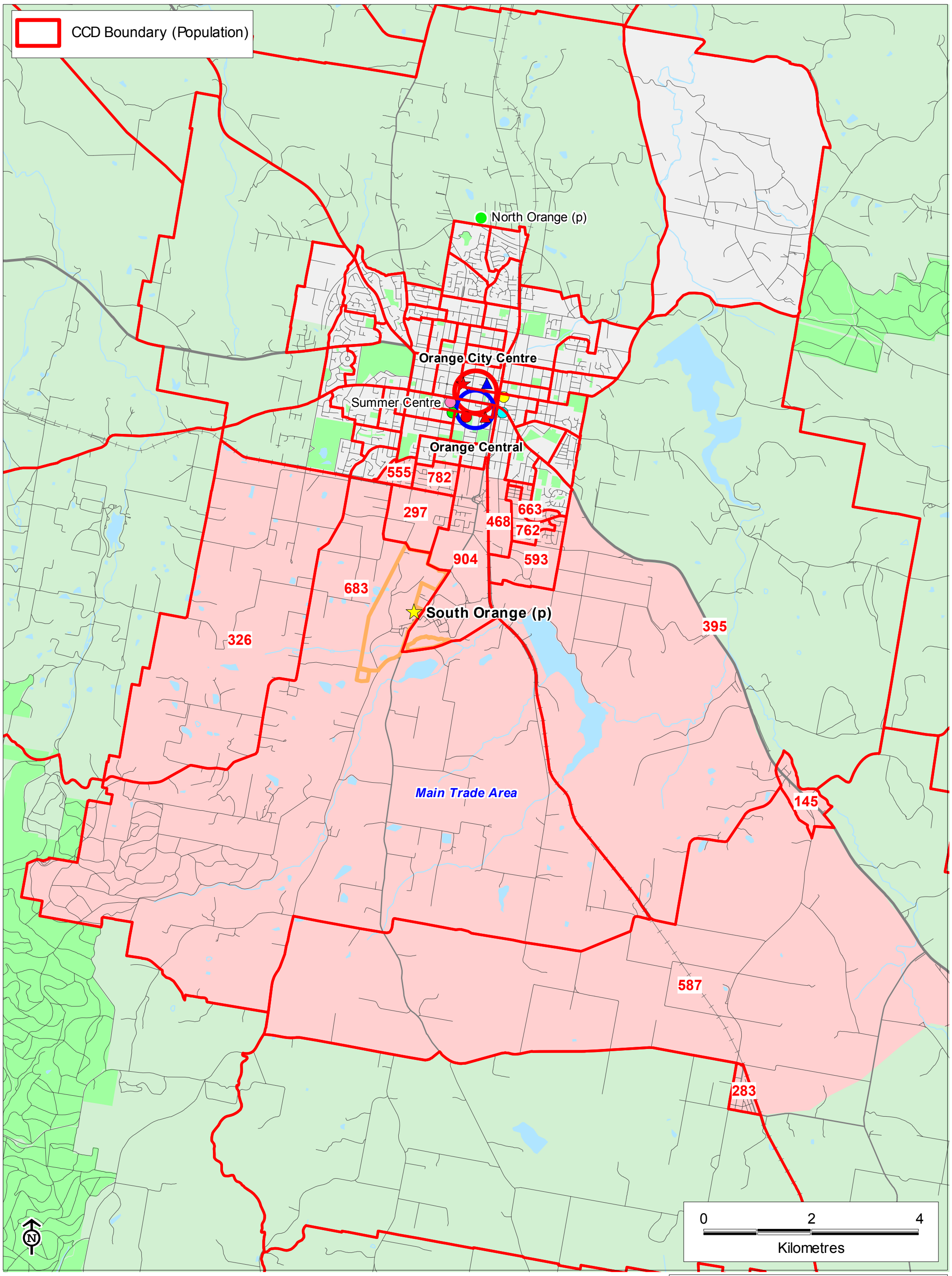
iv. In our opinion the proposed North Orange development is of no competitive relevance to the future retail development at South Orange, as it will serve a completely separate and distinct trade area to the north of the Orange CBD.

v. Clearly, as for the proposed South Orange development, a supermarket facility in North Orange would be expected to have some trading impact upon existing facilities in the Orange CBD. However,

   a. As mentioned in our previous EIA, impacted stores and centres have a number of possible actions (such as store expansions and improvements) they may take to mitigate the extent of any impact generated by competitive developments.

b. Various studies prepared by Leyshon Consulting have established the demand for a supermarket facility in North Orange, potentially as early as 2011, to serve future population growth in that region.

c. It is highly unlikely that the two proposed developments (in North and South Orange) would be completed at exactly the same time. This suggests that the relatively minor CBD impacts expected from each, would, in the normal course of competitive business, be progressively absorbed over time.



Map 1: South Orange

Trade Area & Competition

** Halo object indicates proposed store*

Sub-regional SC	Woolw orths
Sub-regional SC	Coles
Myer	IGA
Big W	Independent
Kmart	
Target	

Table 1

South Orange - Forecast Sales by Tenant, 2011/12*

Tenant/ Category	GLA (sq.m)	South Orange Forecast Sales ($'000)	($/sq.m)
Majors			
Supermarket	2,500	14,872	5,949
Total Majors	2,500	14,872	5,949
Retail Specialties			
Food & Liquor	200	1,150	5,750
Food Catering	250	1,413	5,650
Apparel	0	0	0
Household Goods	0	0	0
Leisure	150	953	6,350
General Retail	250	1,938	7,750
Retail Services	100	450	4,500
Total Retail Spec.	950	5,903	6,213
Total Retail	**3,450**	**20,774**	**6,021**

**Constant 2008/09 dollars & including GST*
Source : Pitney Bowes Business Insight

Table 2

South Orange - Trading Impact Assessment, 2011/12*

Centre	Unit	Estimated 2009	Projected 2012 Pre Dev't	Projected 2012 Post Dev't	Impact 2012 $M	Impact 2012 %
South Orange	*$M*	*0.0*	*0.0*	*20.8*	*20.8*	n.a
Orange CBA						
Orange City Centre	$M	74.6	76.9	76.9	0.0	0.0%
Orange Central	$M	86.7	89.4	83.6	-5.8	-6.5%
Summer Centre **	$M	15.1	35.9	34.2	-1.7	-4.6%
Remainder of CBA ***	$M	156.5	161.3	150.1	-11.1	-6.9%
Total Orange	$M	333.0	363.4	344.9	-18.6	-5.1%

**Constant 2008/09 dollars & including GST*

***Assumed to undergo redevelopment including addition of lge format liquor store in 2012*

**** Incl. Woolworths, Aldi and IGA supermarkets, and main street specialty stores.*

Source: Pitney Bowes Business Insight