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Executive summary

Have your say on the future of retail in the NSW planning system

New South Wales is home to Australia's strongest retail sector. The sector has more than 44,000 businesses that together account for a third of national retail turnover, employ one in every 10 workers, and generate more than 3.3 million trips each weekday. Few industries can boast of being so diverse as retail, with such formative influence on local economic, employment and place outcomes.

However, retail is changing. Globalisation and technology have significantly heightened competitive pressures on local retailers and driven dramatic changes to customer behaviour and expectations. Retailers have responded by increasing their speed to market, engaging their customers across the day and through multiple channels, and innovating their production, supply and distribution networks.

This Discussion Paper describes how the NSW planning system could address the State's increasingly dynamic retail sector. It builds on the work of the Independent Retail Expert Advisory Committee as well as targeted stakeholder consultation undertaken by the NSW Department of Planning and Environment.

It has been developed alongside a suite of immediate actions detailed in *Proposed definition amendments to the Standard Instrument LEP – Better Planning for the NSW retail sector.* This is available at www.planning.nsw.gov.au/Retail

Both the immediate actions and this Discussion Paper are on public exhibition to obtain a wider understanding of how stakeholders believe the NSW planning system can better support a robust, diverse and evolving retail sector that meets the needs of both business and the community.

To provide context, the Discussion Paper details the influence of the retail sector in NSW, particularly the influence the sector has on the productivity and liveability of the various locations where retail uses occur, in both metropolitan and regional areas. It details emerging trends in terms of supply and demand, customer behaviour, new technology and retail channels, the distribution of goods, and how retail uses can revitalise regional areas.

This Discussion Paper puts forward three potential directions that the NSW planning system can take to respond to these trends and create the environment for both retailers and local councils to respond and adapt to future requirements. These directions are:

- better local strategic planning for retail identify the retail narrative for centres to facilitate and plan for a
 retail sector that responds to customer requirements, while also meeting strategic objectives for
 liveability and productivity
- a modern approach to retail development that reflects a range of retail formats in centres understanding the strengths and role of local retail to develop suitable planning outcomes
- providing adaptability and certainty for retail developing a planning system that has the flexibility yet certainty to allow for innovative, contemporary retail solutions that match consumer need, while bringing wider benefits to local areas.

Stakeholders are encouraged to provide feedback on these directions, while also applying their expertise and experience to how the planning system can best respond as the retail sector changes.

Feedback to this Discussion Paper will inform the preparation of a NSW Retail Strategy and implementation of other retail reforms. Once finalised, the NSW Retail Strategy will align with regional and district planning objectives and provide guidelines to inform councils as they develop local strategic planning statements, update or develop local retail strategies, or amend local environmental plans.

This Discussion Paper is on exhibition until 18 May 2018 at 5pm. You can provide feedback at www.planning.nsw.gov.au/Retail



The Corso, Manly

Part 1 – Introduction

A clear case for reform

Changes in customer behaviour and technology, urbanisation and competition from global businesses influence the NSW retail sector, with implications across the State's cities, towns and communities.

In 2017, the Independent Retail Expert Advisory Committee reported to the NSW Government that the NSW planning system does not provide sufficient flexibility to accommodate the dynamic and evolving nature of the retail sector, resulting in ad hoc development, an undersupply of retail floor space and inconsistent land use outcomes. The Independent Retail Expert Advisory Committee recommended a State-wide retail planning policy to reduce barriers, costs and complexity from the planning framework.

In response, the NSW Department of Planning and Environment is developing a NSW Retail Strategy to better support retailers and the supply chain. The Strategy will:

- balance regulatory clarity and certainty with flexibility and adaptability
- facilitate the changing needs of retail planning
- ensure the planning system can promote competition, contribute to jobs growth and meet consumer need.

The Strategy will establish a framework that will focus high frequency retail activity in well-designed, accessible locations, and balance this with flexible approaches so that innovative retail formats and transformative land use proposals can develop in appropriate areas as identified through local strategic planning.

This Discussion Paper is designed to inform the Strategy's development. It sets out the contemporary policy challenges relating to land use, statutory and local planning for retail premises and identifies three potential directions for reform:

- better local strategic planning of retail
- a modern approach to retail development that reflects a range of retail formats in centres
- adaptability and certainty for retail developing a planning system that has the flexibility yet certainty to allow for innovative, contemporary retail solutions that match consumer need while also bringing wider benefits to local areas.

These directions are detailed in Part 3 of this Discussion Paper. The Department encourages feedback on these potential directions; you can find out how to have your say in Part 4 of this Discussion Paper.

Five initial amendments to the Standard Instrument Local Environmental Plan (LEP) land use definitions are proposed to respond to the impediments identified in the Department's analysis of the Independent Retail Expert Advisory Committee report and feedback from stakeholders. These proposed amendments are:

- A new definition for 'artisan premises'
- Amend the current definition for 'garden centre'
- Insert a new definition for 'local distribution premises'
- Insert a new definition for 'neighbourhood supermarket'
- Replace the current definition for 'bulky goods premises' with a new definition 'specialised retail premise'.

These proposed amendments will provide operational certainty ahead of the proposed directions and initiatives outlined in this Discussion Paper.

The Department undertook targeted consultation with metropolitan and regional councils, retailers, retail developers, and planning, property and development peak bodies in early 2018. The consultation explored current challenges and future directions in retail from various stakeholder perspectives.

The Department also undertook customer focus group sessions to better understand customer behaviours, preferences and to determine how the planning system can better meet customer requirements.

These discussions built on the information obtained through the Retail Expert Advisory Committee process and informed the content of this Discussion Paper.

A critical economic sector for NSW

The retail sector sells a diversity of goods and services to every person, household and business in NSW. Of the 706,671 active trading businesses in NSW in 2015, 44,495 were retail businesses.

The sector comprises supermarket and grocery stores; liquor retailing; motor vehicle retailing; fuel retailing; electrical and electronic goods retailing; furniture and homeware retailing; hardware, building and garden supplies retailing and recreational goods retailing; clothing, footwear and personal accessory retailing; and many other conveniences². It includes a range of formats – from 'bricks and mortar' stores to online shopping activity, to premises that provide services direct to customers, such as leisure, entertainment, and hospitality.

While the goods and services provided by retailers are critical to customers, the activity generated by the sector has important wider impacts on the economic and social vibrancy of local places. The sector is a major contributor to the NSW Government's strategic liveability, productivity and sustainability objectives, as established in the long-term infrastructure and land use plans that address forecast population and economic growth over the next 20 to 40 years.

This part sets out why the retail sector is critical for NSW, noting that retail is a major determinant of both economic and liveability outcomes in metropolitan and regional communities. It also identifies the outlook for retail – opportunities for growth, and likelihood of continued global competitive pressure.

Driving jobs and economic activity

The retail sector is an important contributor to the NSW economy, contributing \$95.6 billion in annual retail turnover in NSW, equivalent to 32 per cent of Australia's retail turnover,³ with significant upstream impacts on other sectors, including manufacturing, and logistics and freight.

In 2017, retail was the second largest employing industry in NSW, employing around 420,000 people.⁴ The sector is the third-largest employer in regional areas.⁵ It is also a major contributor of regional tourism employment⁶ and women and young people are heavily represented in the retail workforce. For example, nationally, retail is the largest employer of young people, between the ages of 15-24 years in 2017 (400,000).⁷

Retail has a relatively higher impact on employment than larger sectors of the economy. It has twice the share of jobs than financial and insurance services, while being only a third of its size. The industry comprises 6.3 per cent of the State's total operating businesses, but accounts for one in every 10 workers in NSW.⁸

Table 1: Value add and number of jobs by industry – NSW (2017)9

Industry sector	Value add (%)	Number of jobs (%)
Retail trade	4.5%	10.2%
Manufacturing	5.7%	5.6%
Financial & insurance services	14%	5.2%

Influencing liveability and vibrant places

Retail is a significant trip generator throughout regional and metropolitan NSW, attracting foot traffic to local areas and contributing to the vibrancy and activity of centres and precincts. In NSW, consumers travelling to retail destinations make up more than 3.3 million trips per average working day.¹⁰

Retail is also a contributor of social and cultural infrastructure of a place, providing a focus for events and supporting social interaction. The City of Sydney's *Retail Action Plan* is an example of metropolitan-based efforts to enhance liveability by focusing on shopping experiences in the city centre, and thriving main streets in its villages, as seen in comparable global cities. ¹¹ Social and recreational trips, in addition to shopping, represent 25 per cent of total trips each work day in the greater metropolitan area of Sydney. ¹²

Similarly, regional cities and centres report that a single shop can draw customers from hundreds of kilometres away to the town,¹³ and serve as an anchor for social occasions.

Retail businesses are a major focus for regular trips. Where they locate, and how they co-locate with a diversity of businesses, has a major influence on travel behaviours and ultimately of land use productivity. Retail is often observed to 'activate' a place by attracting people, activity, and contributing social and economic vibrancy to local places.

Most retail businesses benefit from agglomeration. This occurs where clusters of related economic activity thrive by being closer to each other, and closer to suppliers, employees and customers. Despite higher rents or increased congestion, these clusters enhance productivity and give retailers a larger market of customers who are drawn to vibrant places with a broad tenant mix. Customers also benefit from the convenience of these businesses being near each other and supporting infrastructure.

The retail outlook for NSW

Strong economic conditions, and forecast economic and population growth, will continue to make NSW the leading market for retail. However, globalisation and technology have heightened competitive pressures on local retailers, as evidenced by signs of vitality and changes to the retail property market. Additionally, land prices have continued to rise with added pressure and competition for land from higher order land uses.

Continued strong demand

The NSW economy has the biggest impact on national retail conditions. NSW residents represent almost a third of the country's total population, ¹⁴ and enjoy above-average weekly incomes, and the highest average net worth (\$1,091,200), followed by Victoria (\$868,600). ¹⁵

NSW leads other states and territories in retail spending, accounting for over one-third of total retail spending. In 2017 (2nd quarter), metropolitan residents in NSW had the highest average monthly spend (\$2,099), and regional residents had the second highest average monthly spend (\$1,955) in the country. ¹⁶

Projected population growth, the pipeline of infrastructure and housing development, and above-trend forecast economic growth make it clear that this strong demand will continue.

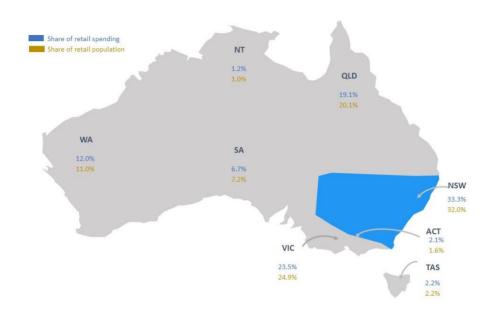


Figure 1: Share of retail spending and population by State¹⁷

A global investment destination

Greater Sydney is Australia's financial capital and a gateway for international tourists. In the year to June 2016, 3.4 million international overnight visitors came to NSW, an increase of almost 10 per cent on the year prior. In 2016, tourism consumption contributed \$38.1 billion to the NSW economy, a third of which was on retail.¹⁸

Retail property transactions are relatively strong, with 32 retail transactions above \$200 million between 2012 and 2016. Well-developed retail and supply chain infrastructure, including major shopping centres, distribution facilities and logistical support in metropolitan and regional areas, is another reason for confidence in the NSW retail segment.

A survey by Savills (see Figure 2 and Figure 3) found that NSW has the largest supply pipeline of retail space among all the states surveyed, with a high proportion at development application stage, particularly in Sydney CBD, residential growth corridors and in the large-format retail sector.

Ahead of future supply being delivered, retail rents are increasing, with prime CBD premises achieving higher rates of rental growth, and large formats delivering higher yield partially due to relatively lower rental growth (large format sites have an average rental growth index: 150, in comparison to a rental growth of 200 for prime CBD²⁰).

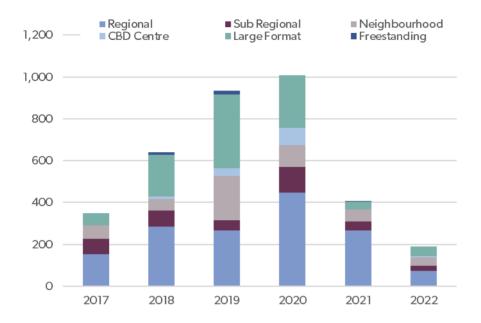


Figure 2: National supply pipeline by retail type (sq m)²¹

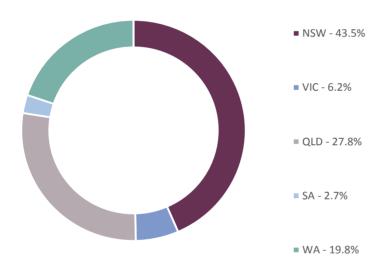


Figure 3: National supply pipeline by state share (%)²²

Source: Cordell/Savills Research (Year to Dec 17); pipeline data includes new/additions/redevelopment/refurbishment projects under construction, committed or in planning

Growing competitive pressure

Despite the positive outlook, vacancy rates in NSW are rising. According to a survey issued by NAB to property developers in NSW, an increase in vacancy space is forecast from 6.6 per cent to 7.2 per cent in the 2nd quarter of 2019. A factor behind this rise is retailer consolidation of store networks.

High profile closures of local retailers, including Dick Smith, Payless and David Lawrence, have fuelled perceptions of higher than average levels of market turnover.

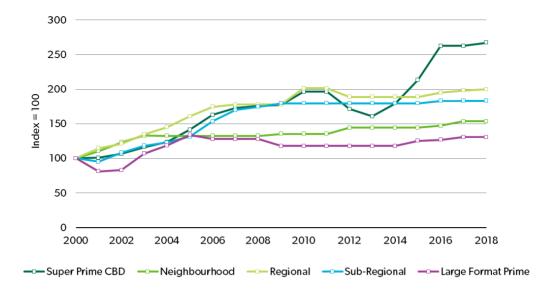


Figure 4: Average National Rental Growth Index²³

In fact, the total number of retailers that have gone into administration has decreased on previous reporting periods. Australian Securities and Investment Commission data indicates that the number of retailers that went into external administration for the first time decreased from 270 in 2013-14 to 177 in 2016-17. In contrast, there have also been notable new entrants to the market including global chains such as Zara, Topshop, H&M and UNIQLO, with sophisticated global distribution that enables them to respond quickly to seasonality and demand. However, there has been a steady decline overall of the total number of retail businesses, with the 2015 figure of 44,495 businesses representing an eight per cent decline on 2010 figures. ²⁴

Customer focus groups identified that today's customers have noticed newcomers to the local retail market – and, while welcoming its impacts on competition, remain concerned about the longevity of independent retailers.

Data also points to local retailers facing significant competition and cost pressure. NAB data shown below reveals that while rents and wages have been generally increasing, and other costs fluctuating such as exchange rates, there has been limited flow through to prices, with retail CPI remaining consistently around zero per cent year on year. The implication, therefore, is that price competition has led to price fluctuations and increases often being absorbed by retailers and their supply chains.

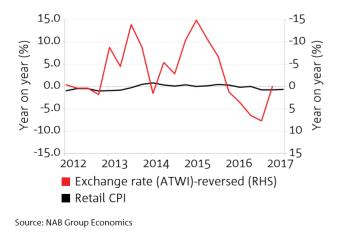


Figure 5: The limited pass through to retail price²⁵

Part 2 – Planning for modern retail that meets customer needs

A planning system that responds to changing customer need

The retail sector today is undergoing significant change. Globalisation and technology have significantly heightened competitive pressures on local retailers and driven dramatic changes to customer behaviour and expectations. This cycle of significant change is set to continue. New technology will enter the market and will continue to shift the way retail responds to meet customer wants. The capacity of the planning system to allow these shifts in the way retail occurs, and how it shapes places, will need to be accommodated.

Retail has always been subject to evolution and innovation. People once regularly shopped on main streets in the heart of their major town or city; others purchased from door-to-door salespeople or from mail order catalogues. While main street retail still plays a role in many communities, consumers now shop in large shopping malls that may also include lifestyle offerings such as cinemas; many shop online and complete day-to-day retail services close to public transport hubs as part of the daily commute or in high density mixed-use locations, health or education precincts. The changing nature of customer trends highlights the ongoing evolution of retail.

By shopping online, customers can shop anywhere and at any time of day, compare product ranges and prices across countries, order online then collect in person, or receive a delivery at home. When customers do visit a store or outlet, they often do so to confirm their online product research, or they expect a personalised or responsive service.

These changing customer behaviours and expectations are driving competition and innovation across the retail supply chain, leading to new store concepts and formats. Retailers today have responded by increasing their speed to market. They are more agile, can engage customers across multiple channels, and compete by offering better value for money or unique in-store experiences. In turn, these new formats have driven the development of different land uses, leading to shifts in where jobs and economic activity occur.

In 2017, the Independent Retail Expert Advisory Committee recommended the development of a retail planning policy for NSW that provides greater flexibility for the evolving retail sector, aimed at avoiding ad hoc development, 'right-sizing' supply of retail floor space, and ensuring better land use outcomes.

Greater flexibility will enable the retail sector to respond to changing customers' needs and innovate their offering for local communities and markets, while still achieving important productivity and place outcomes in local retail areas.

This part sets out five outcomes that will serve the needs of the contemporary retail sector and today's customers:

- **clustering of retail will provide easy, multipurpose, frequent shopping** meeting the needs of empowered customers who require immediacy, choice and convenience.
- **orderly development of new retail formats** catering to customers choosing to shop in places that offer specific or unique experiences
- strategic planning and zoning flexibility responding to new and innovative retail formats
- **better planning for last mile distribution and innovative supply chains** enabling convenient delivery models with less congestion impacts on local communities
- **strategic planning that revitalises regional centres** supporting regional communities and customers who welcome investment and want to protect their main streets

Clustering of retail will provide easy, multipurpose, frequent shopping

Empowered customers want immediacy, choice and convenience

Customers today are more discerning, value conscious, and less brand loyal. A quarter indicate they would not place an order if one-day delivery were not available ²⁶ and 94 per cent of Australian customers indicate they have researched a product or service online in the last year, with 35 per cent often researching a product online while in store. ²⁷

In the United States, where online and catalogue sales are growing at five times the rate of overall sales, it is predicted that 10 per cent of all retail space will be renegotiated or converted to other uses by 2022.²⁸ However, Australian retailers are responding with omni-channel strategies that include physical stores as well as direct-to-customer delivery models, often providing a variety of store formats in different markets and locations. For example, 42 per cent of Australian retailers now offer click and collect, up from 24 per cent in 2015, and 38 per cent allow customers to return their online purchases in-store.²⁹

At the same time, retailers are providing more personalised, curated local selections. For example, the recently re-furbished Woolworths store in Marrickville has a curated range to meet customer preference for local goods, while David Jones will open its first mini-supermarket in South Yarra (Victoria) next year. Overseas, US Target is using data analytics to tailor each store's product range to local customers. This trend is backed up by evidence that 68 per cent of Australians want more opportunities to shop for locally made products and 19 per cent of Australians aged 20 to 34 regularly promote local suppliers on social media.³⁰

"While online may go ahead, and of course it will go ahead, people still want to connect [with people]"

86% of retailers say they can no longer rely on traditional sales channels to drive growth

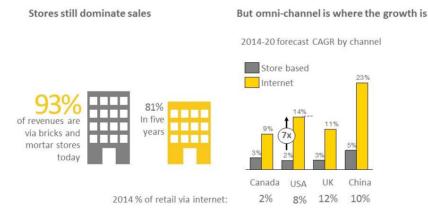


Figure 6: Percentage of global sales generated from bricks-and-mortar stores (left) and 2014-20 Forecast Compound Annual Growth Rate (CAGR) by channel (right). Source: EY, Re-engineering the supply chain for the omni-channel of tomorrow, February 2015

Retailers are increasingly innovating in terms of small-scale store concepts, using bricks and mortar stores as part of a multichannel offer. This will lead to smaller formats such as virtual retail walls and more intensive use of larger centre-based sites such as supermarkets that double as distribution centres for online deliveries. Allowing smaller format supermarkets provides convenient daily shopping for consumers and works well when collocated with transport hubs or higher density residential. One of the initial strategic amendments proposed and currently on exhibition is a new definition for neighbourhood supermarket as permissible with consent in the B1 Neighbourhood Centre zone.

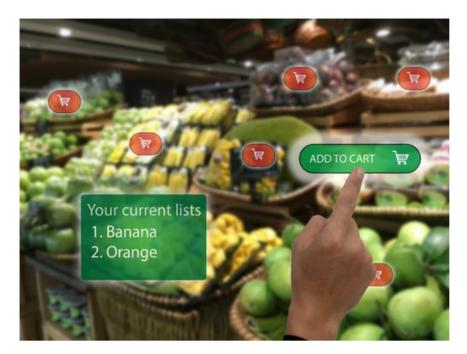


Figure 7: Virtual retail – using augmented reality to create a virtual supermarket wall

Customer focus groups highlighted that retail is an increasingly 'local' phenomenon. Customers perceived that between areas, there was a somewhat homogenised offer, minimising the need for travel to other locations unless for very specialised products.

This, combined with population growth and increased densities (especially in Greater Sydney), makes centre-based retail within walking distance of transport hubs critical for convenience and high frequency shopping, and well suited to smaller, more regular or multipurpose trips. These well-located shopping precincts also provide better accessibility to retail employment and are better suited to retail formats with higher workforce needs.

Orderly development of new retail formats

Today's customers are choosing experiences over products – and this determines where they shop

Time-poor shoppers increasingly want 'frictionless' shopping for essentials, with in-home services, same-day delivery, auto-renewals and one-tap purchases, while reserving in-store visits for experiential shopping and entertainment. For instance, not all shoppers want to go into major shopping centres for groceries.

This shift has seen food retailing become one of the best performing sub-sectors of retail, with growing retail-as-a-service models, specialty stores and curated and sustainable selections. Today, recreation and culture take up a greater share of household spending than 20 years ago, and consumption on both essential and discretionary services is growing at a faster rate than consumption of essential and discretionary goods.

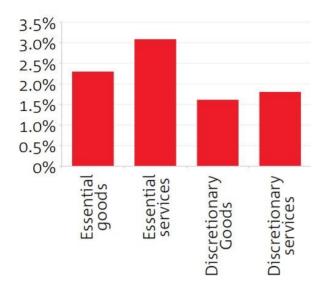


Figure 8: Household consumption volumes (5-year average annual growth)

Source: ABS data as cited in 'The future of retail', NAB September 2017

In response, shopping centre owners are moving towards store-as-destination shopping, offering a more diverse range of products and experiences to enhance customer dwell time. Shopping centres are expanding essential services and entertainment offerings; main streets are being renewed through public domain improvements and social and cultural attractions including improvements to the night-time economy; large-format retailers are diversifying specialised product ranges to provide wider experiences and complementary products; and regional centres are regenerating with thriving new food and beverage offerings even as some anchor retail tenants depart.

Table 2: Examples of international experience shopping

Retail store	Description
MM.LaFleur	MM.LaFleur creates luxury apparel and accessories with the same detail as a high-end fashion house. A "Bento box" is hand-selected for customers based on their style and fit preferences. Shipping is offered free for both ways.
Bonobos	A guide is allocated to each customer to walk through the Bonobos assortment and find the right fit. The guide then places the order for the customer to be delivered to their home or office. A guide will also assist with any exchanges or returns free of charge.
UNIQLO	In 2015, UNIQLO rolled out its first-ever neuroscience fashion campaign in Australia matching clothing selection to consumer's moods. Customers wore the UMood technology on their forehead before being shown a series of still images and videos. Their neurological reactions provided a brainwave reading, allowing UNIQLO to score this against an algorithm before suggesting a t-shirt from the retailer's range to match the consumer's state of mind. These include feeling 'adventurous', 'calm' or 'stressed.'

The most important implication of this trend is that retail precincts attract a broad range of uses, similar to a typical town centre, as they grow - and ultimately, should be planned so that development is commensurate with infrastructure improvements.

Comparison of 2011 and 2016 Census data shows significant increases in employment in large-format corridors and precincts, which even in well-located areas face higher rates of private vehicle travel. Figure 10 below shows significant growth in the Sydney CBD to Airport corridor, within the Eastern City District. This growth in retail employment over the five-year period can be seen within many industrial and business zones within Alexandria and Tempe in particular.

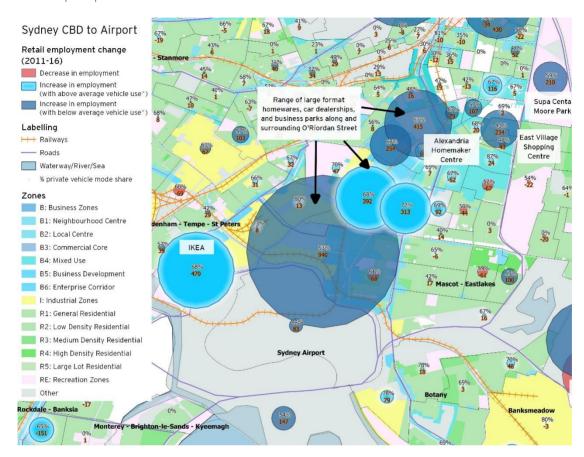


Figure 9: Retail jobs growth in the Sydney CBD to Airport corridor (2011-16) and % private vehicle travel to work. Source: EY analysis using ABS Census Tablebuilder, using QGIS mapping

These increases correspond largely with recent growth in large format retail including IKEA, homemaker centres, and a range of other homewares stores and growth within business parks. Many large growth areas have higher than average share of private vehicle trips to work by retail workers. In areas where there is more dependence on private vehicle travel commensurate infrastructure improvements to support growth should be considered.

"There needs to be a change in the perception of what a centre is from being a shopping centre to being a place where you're entertained and derive some enjoyment"

Strategic planning for innovative retail formats

Customers are embracing new retail formats and innovative retailers

Disruption is occurring globally in retail sectors. In the US, for example, Amazon.com is taking a growing share of online sales, despite the success of omni-channel retailers to date.³¹ To compete with online and global retailers, local retailers are improving the flexibility and speed with which merchandise is produced, transported, displayed, and delivered and paid for. Hybrid models are blurring the lines between retail and warehousing. For example, warehouses that are located close to customers may have a store onsite, or 'dark stores' that also allow

customers to collect online orders. Supermarkets that serve as distribution and consolidation centres need better on-site infrastructure for truck pick-ups.

New retail models are emerging that challenge how the planning system will provide consistent and certain land use outcomes. For example:

- Large-format retail is developing show rooms on former industrial sites when they cannot secure space in centres. According to Colliers International, the large-format retail sector is evolving, with a greater focus on the mix of tenants within homemaker centres. These developments seek to combine elements of main street, large-format and other complementary retail uses.
- Ancillary retail is being established to support primary manufacturing, industrial, or warehousing use to not only service workers in the area, but to attract a wider customer base, and shorten supply and distribution chains (for example, for factory outlets or microbreweries).
- Creative production techniques such as 3D printing are blurring the distinction between manufacturing and retailing.
- Pop-ups are temporarily filling vacancies. According to Ben Tremellen, Colliers International director of retail leasing Victoria, on average, 20 per cent of retail stores on high streets in Sydney and Melbourne are pop-ups.
- Supermarkets are operating after their typical opening hours to fulfil online grocery orders. While customers may not be accessing the store after hours, supermarket staff and delivery vehicles will be.

The Standard Instrument LEP uses a standard format, zones, definitions and clauses to guide councils as they develop LEPs for a local government area. It aims for all local plans to use a common planning language so that communities understand plans for their areas, and the development industry saves time and money.

Councils are now required to review and update their local environmental plans every five years, this provides an opportunity to align these plans with the regional and district plans, local strategic planning statements and when finalised, the NSW Retail Strategy.

Planning for last mile distribution and innovative supply chains

Customers want immediate, convenient delivery and communities want less congestion

Competition and a culture of immediacy are giving rise to retail giants and global supply chains. Today, 0.1 per cent of retailers in Europe account for 39 per cent of retail employment, and almost half of all retail turnover. 32 According to RetailX's list of top-50 Australian ecommerce and multichannel retailers, one in four retailers on the list is a global brand.

The result of this is a rapid increase in the number of direct-to-customer, last-mile deliveries, requiring greater public investment and planning of distribution channels, such as retail lockers at rail stations or shared consolidation centres where multiple retailers work with suppliers for effective order fulfilment. In Europe, smaller retailers are being assisted to create small and medium enterprise (SME) e-commerce platforms on which to sell their products online.³³

Retailers want to remain innovative and adapt to ensure future expansion; however, they are challenged by the degree of flexibility within the current planning framework.

"I think we know we that we need to adapt and there will become structural things that we need to put into our stores ... that's where the planning system doesn't allow for that flexibility"

Strategic planning that revitalises regional centres

Regional customers and communities want to attract new investment and protect the vibrancy of main streets and centres

Customer focus groups indicated that customers in regional areas increasingly shop online, are dissatisfied with the choice on offer locally, and want to see retail activity return to their main streets. The focus groups also reported that out-of-centre retail development can have a more pronounced negative impact as they draw social, cultural and economic activity away from established shopping strips.

Regional councils and retailers have provided feedback that regional centres are more sensitive to change from the arrival or departure of significant retail or anchor retail tenant such as a department store or supermarket.

Often, towns do not have the critical mass of population and lack frequent public transport to sustain dispersed activity levels.

Greater distances also mean that people in regional communities are more likely to undertake 'one big shop'. In 2008, the Australian Competition and Consumer Commission found that of the people who lived 10 kilometres or more from their regular supermarket only 10 per cent took small trips, while 54 per cent shopped once a week. This message was reiterated during the customer focus groups, where regional consumers expressed their satisfaction for less frequent, quarterly shopping trips to larger areas, where multiple items can be purchased in one trip.

"It's much more complex and a lot harder equation to deal in regional markets than it is in metro markets"



Herbert St, Gulgong Credit: Amber Hooper

Centres and main streets provide community interaction, convenience and are often easily accessible by car. Unique retail experiences, such as historic main streets and festivals showcasing local produce, attract tourism revenue, boost the local economy and support other businesses. Being located at junctions of major roads can increase the potential for customers at a reasonable cost and is a growing trend in regional areas. The narrative provided in a Local Strategic Planning Statement will articulate the priorities of a regional community.

"My vision would be a real diverse CBD. So you want to go there because you'd have a beer and a sandwich or you can do your vehicle rego or whatever, you can do it all, but it's still a place to go."

Regional consultation indicates that regional centres are more sensitive to change from the arrival or departure of a significant or anchor retail tenant such as a department store or supermarket. For example, Figure 10 shows the change in retail employment over the five years from 2011 to 2016 in Orange, NSW.



Figure 10: Retail jobs change in Orange (2011-2016). Source: EY analysis using ABS Census Tablebuilder, using QGIS mapping. Images sourced from Central Western Daily online.

While some growth can be seen around the town centre, the majority of growth is attributed to the North Orange region, where a supermarket and hardware have both opened. This has meant that residents to the north of Orange have had less incentive to visit the town centre, where impacts are already beginning to be felt by local customers. The loss of Myer in January 2017, for example, is seen as a recent event which has had a major impact on retail within the city.

"Since Myer moved out at the start of last year, you really notice it in town."

Part 3 – Potential directions for retail planning

Three directions for better retail planning

The NSW planning system needs to enable the retail sector to adapt innovatively while encouraging activity in the right places. This will require a careful balance: on one hand, allowing flexibility for innovation and emerging retail formats; on the other, ensuring good place outcomes that maximise employment density, transport access, and optimise existing public infrastructure. The planning system also needs to provide retailers with a clear and consistent set of rules.

In balancing these objectives, this part proposes three directions aimed at modernising the retail planning framework and achieving the right balance of customer and community amenity:

- Direction 1: better local strategic planning of retail
- Direction 2: orderly development of new retail formats in centres
- Direction 3: adaptability and certainty for retail

Further detail on each of these directions is outlined below.

Direction 1: Better local strategic planning for retail

Retail planning will place greater emphasis on strategic planning and local place-based outcomes to guide retail land use objectives and decisions. In practice, this could mean:

- establishing long-term place-based outcomes for retail at the local level consistent with local strategic planning statements
- updating local retail strategies to reflect current and future trends in the retail sector and the implications these have for floor space requirements and other planning considerations such as accessibility
- Aligning strategic narrative and statutory planning controls.

The retail sector contributes to local productivity, place-making, and the vibrancy of local communities. Place-based planning for retail should remain the hallmark of a flexible planning system in NSW. These approaches are locally responsive, giving power to local communities to shape the future of their local areas while providing consistency and certainty for businesses.

However, better local strategic planning of retail will ensure that changing land uses, growth and development are properly managed to improve the amenity and liveability of places.

Retail planning should also be aligned to the economic, social and environmental objectives of NSW Government's district and regional plans. The *Greater Sydney Region Plan* identifies a range of land use implications for retail, including the need to maintain strategic and local centres, transition some industrial zones and business parks, protect important industrial lands, and preserve land for urban services.

Likewise, the *Riverina Murray Regional Plan* and the *Central West and Orana Regional Plan* include actions to accommodate future commercial and retail activity in existing commercial centres unless there is a demonstrated need and positive social and economic benefits for the community. These plans also require new retail

developments to demonstrate how they respond to retail demand, suitability to public and community infrastructure and ways in which they enhance the public domain.

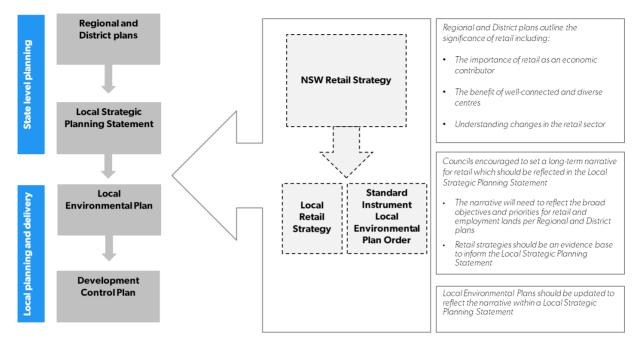


Figure 11: NSW strategic planning response for retail

This strategic direction will require councils to define long term strategic retail outcomes for their area, that are informed by up to date retail strategies, and which align to NSW Government plans and are then implemented through local planning controls.

Establish long-term place-based outcomes for retail

The introduction of local strategic planning statements from the second half of 2019 will provide a consultative, narrative for the future development of retail in a local government area, with clear links to regional and district plans. Councils will work with their communities to develop the statements as a 20-year vision for their areas that shape zoning, objectives and development controls in LEPs.

Retail and related services are usually unique to their area and are an important part of centres and place-making. If a council views retail as a priority a local strategic planning statement should consider how best to accommodate new retail formats, with reference to local impacts on existing public infrastructure, access to jobs and transport, and contribution to centres and vibrancy. Local strategic planning should also strategically assess the longer-term appropriateness of retail in employment, manufacturing, industrial and service areas.

In this regard, local strategic planning statements can allow councils to tailor their narrative for retail to local circumstances. For example, in inner city areas, some emerging types of retail uses in industrial areas may warrant formal identification of an emerging centre; in other places, this may not be appropriate. In other areas retail may be a means of renewing an area. Importantly, councils and their communities will make these decisions based on their understanding of local places.

Update local retail strategies

Many councils have prepared retail strategies for their local government areas as part of their Community Strategic Plan. Local strategic planning statements will also identify the need for these retail strategies. Given the changing nature of retail, strategic planning frameworks will need to consider the future of retailing to respond to global, national and state trends as they relate at the local level.

These strategies are typically underpinned by retail demand studies. However, traditional demand studies assume that retailing models will be the same in the future as they are today. Evidence indicates that this is not accurate and that a broader understanding of retail need that considers the implications global and national trends will have demand for floorspace requirements over time is required. This broader understanding would also help to identify other planning and infrastructure requirements such as accessibility and logistical requirements and how these might change over time.

Using the Standard Instrument LEP, LEPs can impose limitations on floor space for specific retail types, despite the permissibility of that activity within the zoning (for example, a local provision setting a cap on retail premises in industrial zones). These restrictions reflect broader strategic planning objectives to protect industrial and urban services land. However, these restrictions may need to be reviewed where there is significant disconnect between demand for retail floor space and availability of suitable zoned land and/or with the retail narrative for the area.

The Department will continue to provide guidance on retail issues such as new, emerging and renewing centres and prepare supporting toolkits and data to help councils review retail trends in their area.

Align strategic narrative and planning controls

Retail planning must balance the flexibility to accommodate innovation and trends with certainty and clarity in the development process. This tension was repeatedly raised as an issue by Independent Retail Expert Advisory Committee. The emphasis on strategic, place-based planning will help to provide this certainty and flexibility. The shift to a more outcomes-focused planning system can give greater credence to the retail narrative and objectives for local areas than prescriptive controls.

Once a retail narrative is articulated in a local strategic planning statement, LEPs can demonstrate how they give effect to this narrative. This process will provide a clear logic for zoning and other development controls. Over time, the local strategic planning statement will be reflected in zoning, zone objectives and development standards, providing clarity for individual planning outcomes or decisions and moving away from prescriptive statutory planning mechanisms. Figure 11 shows how the statements fit within strategic planning and local level statutory planning.



Dandaloo Street, Narromine

Direction 2: A modern approach to retail development that reflects a range of retail formats in centres

While most retail will remain well-suited to traditional centre-based development, retail is an important activity in other locations. The emergence of retail clusters in some locations will require an appropriate strategic planning and infrastructure response. In practice this could mean:

- transitioning clusters of retail into an emerging centre in accordance principles of planning for centre development
- ensuring appropriate levels of investment in infrastructure, accessibility and amenity are commensurate with the development of an emerging centre
- renewing main streets through greater coordination and targeting of investment in social and cultural infrastructure to help support local place-making, tourism and cohesion, particularly for regional towns
- providing guidance to support councils in planning for retail

Most retail land uses in NSW are situated in centres. Centre-based retail development supports broader productivity, employment and accessibility outcomes - such the NSW Government's 30-minute city objective - and optimises public transport investment. Retail areas with high levels of mixed use generate frequent smaller shopping trips and are therefore suited to centres. Centres are also well suited to investments in community building and public domain improvements that enhance places and support vibrant, walkable neighbourhoods.

The Greater Sydney Region Plan establishes a three-level hierarchy of centres (see Figure 12):

- **Metropolitan centres** the economic focus of Greater Sydney, fundamental to growing its global competitiveness and where government actions and investment, including transport, will be focused. The intent of these centres is to deliver very high levels of development and amenity.
- **Strategic centres** varying in size, location and mix of activities, they enable access to a range of goods, services and jobs. High levels of private sector investment will enable strategic centres to grow and evolve.
- **Local centres** important for day-to-day access to goods and services, with a strong sense of place for the local community. Local centres include collections of shops with health, civic or commercial services, or larger local centres, such as those anchored by a supermarket, that form the focus of a neighbourhood. Supermarket-based centres also provide local jobs. Local centres are planned for at a local level and are informed by place-based strategic planning processes.

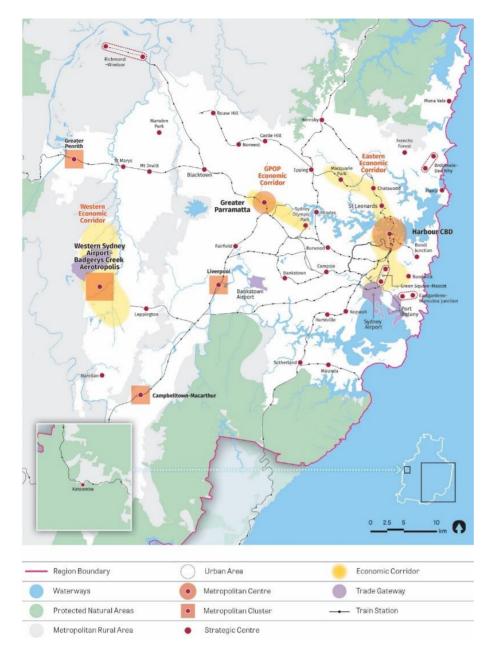


Figure 12: Metropolitan and strategic centres (Source: Greater Sydney Region Plan)

This hierarchy helps to differentiate the qualities of retail precincts between established centres. The *Greater Sydney Region Plan* acknowledges that to meet forecast population growth as well as productivity, liveability and sustainability objectives, planning should aim to:

- grow existing centres, particularly strategic centres and supermarket-based local centres
- plan for and grow new centres across Greater Sydney, including for clusters of large-format retail
- monitor development and activity trends and changes in centres.

Regional plans covering the remainder of NSW also identify:

• **Regional cities** – Places that have the largest commercial component of any location in the region and that provide a full range of higher-order services, including hospitals and tertiary education services.



Maitland Street, Narrabri

However, there is an increasing trend toward the establishment of large-format sites with diversified offerings, and other changing land uses which may warrant nurturing of sites into emerging centres outside of the traditional centres hierarchy. Examples include:

- **Clusters of large-format retail:** Large-format retail is emerging as a separate and popular retail category in Australia, with the sector now comprising 22 per cent of all retail sales.³⁴ Within Sydney, the large-format sector currently comprises 30 per cent of all retail space in Sydney, and provides 142,700 full time equivalent direct and in-direct jobs.³⁵ Large-format retailers tend to locate in precincts, either within homemaker centres or in other emerging centres on industrial land.
- **Greater types of retail within homemaker centres:** The large-format retail sector is also shifting from a traditional furniture and bedding mix to a more hybrid model including serviced-based retail, gymnasiums, children's play centres, learn to swim schools, pet retailers, baby goods retailers and sport and recreation uses, which drive the popularity of these centres.³⁶
- **Co-located retail and manufacturing uses:** This is relevant for factory outlets, artisan retailers including microbreweries, or retailers using innovative technologies including 3D printing.
- **Expanding companion uses:** Some retailers seek an increased range and ratio of additional, individual non-associated retailers to co-locate which can support the primary business, essentially creating a small centre.

Managing the growth of retail clusters such as those in the examples above with greater consistency and certainty would clarify when these precincts are an emerging centre and would help to distinguish them from single standalone retail developments that may be permissible under local planning controls and where there has been an identified need for such development.

Plan for new retail

Longer established large-format retail sites have tended to grow and diversify their offerings over time. Where there is increasing employment density, clustering and mix of uses, circumstances may warrant transitioning these sites into emerging centres.

Proposals to transition these areas into emerging centres should be treated in accordance with the principles of planning for centre development, as outlined in the *Greater Sydney Region Plan*:

Clusters of large-format retail should be treated as part of the retail network, and planning for new clusters of large-format retail should be done in the same way other new centres are planned. This includes ensuring centres are places that can grow and evolve over time and have adequate access to transport services and quality public domain.

This means that an appropriate level of investment in infrastructure, accessibility and amenity should be considered in the planning for new retail clusters. Funding through development contributions can support the delivery of infrastructure to achieve good amenity and liveability outcomes.

These principles for emerging centres are especially relevant to regional NSW, where a slower rate of development can lock in suboptimal planning outcomes. For example, the *Illawarra-Shoalhaven Regional Plan* acknowledges that retail activity should be focused in centres and outlines the following criteria for considering new retail centres:

Proposals for new retail centres (including retail proposals) will be assessed against the region's network of centres. These proposals should demonstrate how they:

- respond to retail supply and demand;
- respond to innovations in the retail sector;
- maximise the use of existing infrastructure (including public transport and community facilities) commensurate with the scale of the proposal; and
- enhance the value of the public realm.

The net community benefit should be a factor when assessing these proposals.

Determining a new centre

The *Greater Sydney Region Plan* identifies how the determination of a new centre could be informed by a net community benefit test supported by a strategic review of centres (which identifies the need for the centre) and an industrial land review (which identifies that the loss of industrial activity can be managed) for the local government area. These reviews would be prepared by councils, and, in Greater Sydney, endorsed by the Greater Sydney Commission.

In such cases, the centre should be:

- located where public transport services are commensurate with the scale of the centre
- directly opposite a residential catchment accessible by a controlled pedestrian crossing
- more than a standalone supermarket
- of quality urban design with amenity, informed by a master plan
- supported by planned and funded infrastructure commensurate with the needs of the centre.

Renew main streets

Investing in the public domain in centres and main streets supports effective access and well-designed spaces that attract people, economic activity and vibrancy, particularly in regional centres, where main streets can be the focal point for community interaction.

The decline of main streets has often been driven by changes in local retail conditions, particularly in regional areas, with flow on impacts for local communities. Greater coordination and targeting of investment in social and cultural infrastructure for main streets may support local place-making, tourism and cohesion.

Providing guidance to support councils in planning for retail

The Department will provide guidance such as toolkits and workshops, to help with analysing the future direction of retail, what is distinct about each local government area's retail activities, and the retail trends that will influence their area. This will allow councils to review their zonings, objectives and permissible uses to ensure a best fit.

Direction 3: Adaptability and certainty for retail

A greater emphasis on strategic planning for controlling retail land use outcomes will need to be matched with changes to the current suite of statutory controls, many of which are complicated and burdensome. In practice, this could mean:

- controlling permissibility by setting open zones
- establishing a retail innovation provision to allow a proposal that involves an undefined or prohibited
 use to be evaluated and potentially permitted
- In the longer term, introducing a strategic plan aligned zoning framework as part of a comprehensive review of all zones

The Standard Instrument LEP was introduced in 2006 as a means of standardising and streamlining the development of local LEPs. As retail and other land uses have evolved over time, the Department has recognised the need to ensure that the Standard Instrument LEP is reviewed and updated to ensure that it reflects the needs of a contemporary retail sector.

At present, local LEPs contain highly prescriptive definitions and variable permitted and prohibited uses that may create burdensome regulatory mechanisms. In practice, the application of rigid permissibilities are often used to control for scale or local character but can adversely impact feasibility and competition. Definitions and permissibilities are sometimes used as 'gates' to stop types of retail businesses from submitting a development application.

There is a high degree of variation across LEPs in terms of permissible uses in certain zones. For example, while each LEP establishes zones by setting objectives and identifying a defined list of permitted and prohibited activities, there is variation between whether selected uses are permitted or not.

As councils plan for centres and retail, zones will be updated to reflect the future vision for an area, giving longevity to the LEP, as the future growth or change of an area will be envisaged when objectives and permissible uses are established.

As an immediate initiative to align existing definitions with contemporary retail practices, a suite of targeted amendments is proposed to address existing shortfalls where planning is not serving retail adequately. These proposed amendments are described in *Proposed definition amendments to the Standard Instrument LEP – Better Planning for the NSW retail sector* available at www.planning.nsw.gov.au/retail

Over the long term, the Department may consider a new zoning framework that councils can apply as they review their LEPs. A summary of proposed amendments to the statutory planning mechanisms is provided at Figure 13. These proposals have been considered in the context of retail only. The broader implications of this approach need to be considered for other land uses such as residential.



Rouse Hill Town Centre

Introducing flexible, open zones

Currently each zone in a LEP's land use table classifies uses as either:

- "Permitted without consent"
- "Permitted with consent"
- "Prohibited".

Councils establish land use permissibility in three different ways. Some LEPs provide an exhaustive list of uses, some treat anything not listed as 'permitted with consent' to be prohibited (closed zones) and some treat anything not listed as 'prohibited' to be permitted with consent (open zones). These different approaches can create confusion and differing degrees of flexibility.

Neither of these approaches capture evolving retail uses as an identified land use term and automatically treats them as a prohibited use. There is also a trend towards co-located activities, such as a café with a bicycle mechanic and a physiotherapist. In these cases, the proponent needs to ensure each proposed use is permissible within the zone even though the combination of these uses may not have an additional adverse impact and provides commercial affordability. The more complex the combination of uses is, the greater the likelihood that one of the uses will be prohibited and will not be able to proceed, even if there is no amenity impact.

Councils should consider using the strategic planning framework to confirm a centre's strategic intent provides an opportunity to look at controlling permissibility by setting open zones. Development control plans can align with this intent by setting place-based controls.

Introducing open zones would:

- provide greater flexibility and enable a proposal to be assessed on its merits
- allow for new types of retail uses to emerge and be assessed, without the need to periodically update the list of permitted uses
- reduce the instances of a site-specific planning proposal being required where a proposal is captured as prohibited because it was not included in a permitted list (closed zone).

The Department will also explore opportunities to streamline definitions for retail to better reflect contemporary retail practices and business models. In the short term, updates to definitions could address the issue of retail that does not fit within any definition. This issue can cause delays in gaining approvals or even failure to enter the planning system.

Early stakeholder feedback identified several opportunities to tailor retail definitions to modern business practices. These amendments are described in *Proposed definition amendments to the Standard Instrument LEP – Better Planning for the NSW retail sector* available at www.planning.nsw.gov.au/retail

Establish an 'innovation in retail' provision

The Department is suggesting that greater use of open zones would increase flexibility for permitted land uses particularly for evolving retail formats. The open zone solution, however, is reliant on LEPs being remade which will take time. As an interim measure, an "innovation in retail" provision could be considered within the Standard Instrument LEP. This would allow a proposal that involves an undefined use to be evaluated and potentially permitted where it can clearly demonstrate alignment to the retail narrative and strategic planning objectives and no adverse impacts on the environment and/or neighbouring land uses.

A recent example of a land use that may have benefitted from an innovation clause is microbreweries. The growing popularity in the creative industries, including craft brewing has not kept pace with land use terms within the Standard Instrument LEPs. The ability for a proponent to seek planning permission for a microbrewery would have been assisted by an innovation in retail clause similar to this proposal.

The Department is seeking feedback on whether, with suitable safeguards and established criteria, a test could be put in place against which the value of a proposed unanticipated, undefined or prohibited because of a closed zone use, could be evaluated.

Introduce a strategic plan aligned zoning framework

In the longer term, as local strategic planning statements are developed, the planning system may be better served by a zoning framework that reflects the future narrative of a centre or place.

A strategic plan aligned zoning framework would signal the scale, traits and purpose of a centre by applying a zone that accords to the strategic place-making purpose, including for retail. If developed a new zoning framework would be implemented through a staged roll out as LEPs are reviewed.

It is acknowledged that zoning for retail would be hard to fix without looking strategically at opportunities to consolidate zones. There are 13 land uses zones pertaining to retail but 35 land use zones in total. This longer-term reform would therefore need to be undertaken as part of a comprehensive review of all zones within the Standard Instrument LEP.

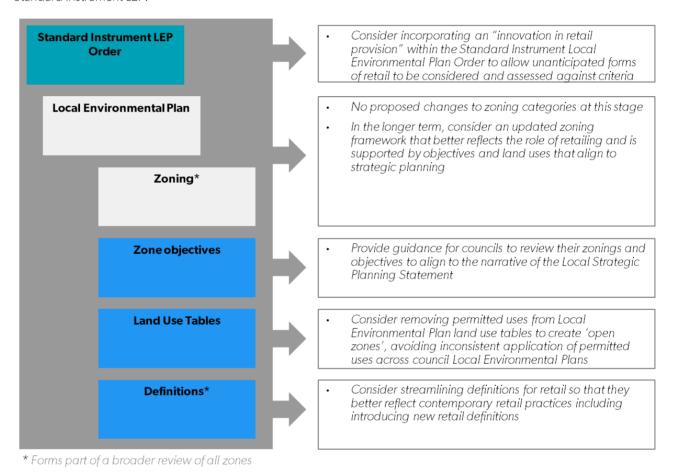


Figure 13: Summary of proposed amendments to statutory planning mechanisms

Next steps

Have your say

This Discussion Paper identifies the ways in which customer trends are shaping retail today, and proposes new initiatives aimed at modernising the retail planning framework and achieving balance between customer and retailer needs and productivity and liveability of places and centres in metropolitan and regional areas.

The potential directions and initiatives for retail planning summarised below represent possible approaches for supporting retailing with implementation by local councils and the Department of Planning and Environment.

Direction 1: better local strategic planning for retail

- Establish long-term place outcomes for retail
- Update local retail strategies
- Align strategic narrative and planning controls

Direction 2: a modern approach to retail development that reflects a range of retail formats in centres

- Plan for new retail
- Renew main streets
- Centres guidance

Direction 3: adaptability and certainty for retail

- Increase flexible open zones
- Establish an "Innovation in retail" provision
- Introduce a strategic plan aligned zoning framework

Feedback on the directions and initiatives outlined in the Discussion Paper are sought from all stakeholders including community, council, property owners and retailers.

This feedback will inform the NSW Retail Strategy which will set the direction for retailing across the State and establish staged implementation for the retail reforms. The reforms will enable councils to give effect to their local strategic plans. Where needed, the Department will provide guidance, logistical and trend-data support to empower councils to plan for the future of retail.

Submissions on this Discussion Paper will close on **Friday 18 May 2018 at 5pm**.

Make a submission

- Online at planning.nsw.gov.au/retail
- At a Service NSW Centre located near you
- Mail to the Director, Employment Policy and Systems, GPO Box 39, Sydney, NSW 2001

All submissions will be made public in line with the Department's objective to promote an open and transparent planning system. If you do not want your name published, please state this clearly at the top of your submission. Before making a submission, please read our privacy statement at: planning.nsw.gov.au/privacy

Find out more

- Call our Information Centre on 1300 305 695
- If English isn't your first language, you can call 131 450 and ask for an interpreter in your language and then request to be connected to our Information Centre on 1300 305 695
- Email retail@planning.nsw.gov.au

Glossary

Dark stores usually a warehouse that resembles a conventional supermarket or other store but is not open to the public, housing goods used to fulfil orders placed online.

e-shopping digital retailing which allows shoppers to buy goods or services from a seller over the Internet.

Margin the difference between a product or service's selling price and its cost of production or to the ratio between a company's revenues and expenses.

Margin pressure the effect that various internal or market forces have on a company's profit share.

Omni-channel an integrated approach to sales that seeks to provide the customer with a seamless shopping experience whether the customer is shopping online from a desktop or mobile device, by telephone or in a bricks and mortar store. Customers tend to be looking for information in the physical store and, at the same time, they are getting additional information from their mobile devices about offers and possibly better prices.

SME e-commerce platforms software applications that allow small and medium-sized online enterprises to manage their website, sales, and operations

Tele-shopping shoppers purchase goods using the telephone usually advertised on television as 'infomercials'

Virtual retail walls shoppers scan products on a virtual shelf, purchase the products using a QR code and the products are then delivered to them

Endnotes

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