Planning for the Future of Retail Discussion Paper

Submission to the Department of Planning and Environment

June 2018

CITY OF SYDNEY

city of villages

City of Sydney
ABN 22 636 550 790
GPO Box 1591 Sydney NSW 2001 Australia

Town Hall House 456 Kent Street Sydney NSW 2000 Australia
Phone +61 2 9265 9333 Fax +61 2 9265 9222 TTY +61 2 9265 9276

council@cityofsydney.nsw.gov.au
www.cityofsydney.nsw.gov.au
TRIM 2018/208073-05

June 2018

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Executive Summary

The Department of Planning and Environment released the Planning for the Future of Retail Discussion Paper for comment in April 2018, outlining a series of directions for how the planning system may facilitate changes in the retail sector.

The City is broadly supportive of efforts to ensure the planning system is not unnecessarily restrictive and facilitates retail in adapting to change with innovation. However, the Discussion Paper takes a narrow approach to preferencing strategic planning for retail, and risks privileging certain types of retail to the detriment of other sectors.

The Directions in the Discussion Paper are inconsistent with the approach in the Greater Sydney Commission's Greater Sydney Region Plan and District Plans, which emphasise the importance of supporting and investing in centres and maximising public investment in infrastructure.

The Directions also seek to enable the encroachment of retail into industrial and employment lands, which is inconsistent with the GSC's objectives of retaining industrial land in the Northern and Eastern districts and protecting nationally significant logistics corridors from additional congestion.

The City would welcome the opportunity to discuss this work with the Department and form part of a stronger discussion on planning for the future of retail.

1.0 Introduction

Retail is an important sector in the City of Sydney, accounting for 10% of employment in NSW and about a third of household consumption. Retail businesses also play an important indirect role in Sydney's prosperity, attracting global businesses and their employees who seek a high quality lifestyle and work environment, and contributing to Sydney's status as a global tourism destination.

The City's Retail Action Plan (launched December 2013) addresses the challenges facing the sector. The focus of the City's actions will be directed to the maintenance and growth of retailers with an on-street presence in central Sydney and in the City's villages. Their economic contribution to the City is significant, as is their input into the liveability of Sydney more generally.

Many of the initiatives the City is focused on through the Action Plan is the development of the places in which retailers operate, ensuring the diversity of Sydney's retail offer, supporting business operators and finding new ways to work together.

Key projects from the Retail Action Plan include the transformation of George Street into a pedestrian, retail and light rail boulevard, linked to major public squares at Circular Quay, Sydney Town Hall and Central. This vital project in conjunction with the NSW Government will help strengthen the retail sector, reduce congestion for pedestrians and provide opportunities for outdoor dining and seating, public art and activation.

It is vital to engage with the sector to encourage closer cooperation between retailers and more efficient interaction with the regulatory processes of government. The City's Retail Advisory Panel brings together the retail industry, the NSW Government and the City to work together on issues of common interest, provide strategic advice to help shape the future of retailing in Sydney and identify and create opportunities for retailing to capitalise on the expansion of major events and tourism campaigns through better integration with Destination NSW and Business Events Sydney.

The City is aware of the challenges and opportunities in the retail sector, with new ways of shopping and changing consumer preferences. The City is supportive of efforts to ensure the planning system supports the sector and does not impose unnecessary restrictions. The Discussion Paper's goal that the sector stay competitive, innovative and adaptable in the face of change is supported.

The City is concerned however that the Discussion Paper takes too narrow an approach to supporting centres, facilitating flexibility and encouraging better strategic planning for retail. The examples used in the Discussion Paper focus heavily on a specific subset of retail activities and the proposed changes to the planning system employ a limited range of solutions that will have impacts not adequately canvassed. What is posed as a general discussion on the future of retail appears to omit important aspects of the retail sector, which may be a result of narrow initial consultation and insufficient data gathering.

The City is also concerned that the Discussion Paper, in considering retail in isolation of other land uses, appears to privilege retail to the detriment of other sectors. While it is acknowledged that retail is the focus of the Discussion Paper, land use planning cannot focus solely on one sector without consideration of impacts on other land uses.

This Discussion Paper and later review provides an opportunity to address key challenges and changes facing the retail sector. Giving Councils the tools and data they need to undertake better strategic planning for retail will deliver well located and suitable retail floor space within mixed use areas. It will also facilitate small scale cultural and creative uses in retail premises and low cost space for innovative retail activities.

2.0 Strengthening new and existing centres

The City's policies, planning controls, programs and initiatives are based on locating and supporting retail in places with a high local resident and worker population, good public transport access and social infrastructure like schools, libraries and parks. This approach provides a high level of foot traffic throughout the day, encourages walking and multi-purpose trips, facilitates retail clustering and economic agglomeration effects, and allows the City to direct public works funding to create a high quality public domain where people feel comfortable spending time. This approach also ensures that housing and jobs are located close to essential retail and services, ensuring equitable access and reducing car dependence.

The City's planning controls ensure the vitality of centres by locating housing and employment nearby and encouraging retail development. Ongoing monitoring and strategic review ensures opportunity for strengthening existing centres and the identification of new centres in urban renewal areas.

Retail in the City is also actively supported with investment in street furniture, paving and "Living Colour" floral displays within centres, and a capital works program to deliver new public squares and public places, traffic calming initiatives, public art and the revitalisation of laneways and fine grain spaces. This allows the City's centres to offer a complete retail "experience", supporting and complementing retailers' efforts to curate an in-store experience and stay competitive.

"Living Colour" floral displays are an example of how the City actively supports retail in its centres.

The Greater Sydney Commission (GSC) also emphasises the importance of actively supporting and investing in established and emerging centres, through objectives in the Greater Sydney Region Plan and planning priorities in the Eastern City District Plan. New housing is to be located close to centres, and centres are to be well-served by public transport, include retail, cultural and creative offerings, co-locate public facilities and social infrastructure, and offer a high standard of public domain. Importantly, the GSC emphasises efficient use of infrastructure funding, aligning land use and infrastructure so that investment is maximised.

The strong economic, liveability and environmental rationale for centres manifests in the local planning framework with zoning, density and height controls that require and/or encourage desirable uses to locate in or near centres. This has the dual benefit of supporting centres while ensuring those other areas of a local government area, that do not have the benefits of access and infrastructure, are not burdened by land uses that require it.

The Discussion Paper is inconsistent with this approach. Instead it advocates for introducing retail activity within land use zones where it may not be currently permitted, largely disregarding the impact on centres as well as the appropriateness of a retail use in certain zones in the local context. This approach would increase car dependence, undermine significant public and private investment in centres, introduce uncertainty in the planning system about where retail is permissible, and cause significant disruption to areas where retail is not compatible with existing land uses.

The Discussion Paper also specifically advocates transitioning existing clusters of bulky goods premises to centres. The City acknowledges that there may be cases where this is appropriate, but that local governments are best placed to identify if this should occur with reference to local context and specific retail needs identified in a local government area. Where it is appropriate, changes to the zone can be pursued through a planning proposal within the current planning system, which will also allow for any negative externalities to be managed.

Within the City of Sydney LGA there are two clusters of bulky goods premises along O'Riordan St in Alexandria and at the Supa Centa in Moore Park. Notwithstanding the sufficient amount of existing and planned retail that studies have identified in the City's south, these clusters are not suitable for transitioning to centres. They lack public transport access and would have unacceptable impacts on an already overburdened road network. Merely upgrading the public realm would not create successful centres in these locations.

Creating new centres out of existing clusters of retail undermines private investment by retail businesses in established centres, while reducing the concentration of foot traffic and patronage across the board. Successfully transitioning existing clusters of retail to centres also requires significant public investment in infrastructure, something acknowledged in the Discussion Paper. This would divert investment from existing centres, resulting in a lower standard of infrastructure for centres overall. Diverting investment from established centres that function well to new, retail-only clusters also reduces the standard of centres that are used by non-retail businesses and residents.

The GSC recommends that new centres in established areas be delivered alongside urban renewal and mixed use development, where an influx of new residents can support a new centre. This is the approach that the City takes in, delivering new housing and centres together and using development contributions to invest in high quality public realm and public services in those new centres.

An example of the City's approach to centres is East Village in Zetland. The urban renewal of the Victoria Park precinct in Green Square delivered new streets, wide footpaths, cycling infrastructure, new parks, ground floor retail along key activity corridors and a high local population. This enabled the development of the East Village shopping centre, which features a major supermarket, restaurants, medical centre and other key services. East Village has in turn enabled the development of supporting retail in nearby ground floor retail spaces in mixed use buildings along Gadigal Avenue. A similar approach is planned for Danks Street South precinct, which is currently in the master planning stage.

East Village is an example of a successful centre within a mixed use development.

Recommendation 1

The Department build on the Region Plan and District Plan and articulate directions that are more consistent with the Plans' objectives to support and invest in centres, and maximise public investment in infrastructure.

3.0 Protecting industrial and employment lands

The Discussion Paper flags opportunities for expanded retail activity in industrial zoned areas and employment lands. It states that strategic planning should identify potential industrial land that may be suitable for retail development, and proposes "open zones" and "innovation in retail" provisions that would introduce retail activity where it is currently prohibited in LEPs.

Traditionally, land use planning has sought to divide uses into zones to minimise operational conflicts and provide cost of land efficiencies. Over time, however, this paradigm has shifted to recognise the positive outcomes that can be achieved by locating a range of activities together. This can be successful so long as the negative externalities generated by one use do not have unreasonable impact on another. These externalities may be:

- environmental, for example, noise impacts or specific operational requirements generated by industrial uses;
- economic, for example, where permitting high value uses such as residential or large scale retail would increase land values to the extent that other employment generating uses become unviable; or
- contextual, meaning that certain uses may not be appropriately supported by utilities, transport infrastructure or social infrastructure.

The Sydney LEP 2012 includes two zones that are "open zones" as described in the Discussion Paper. In B8 – Metropolitan Centre no land uses are prohibited in the land use table, and in B4 – Mixed Use only high impact industrial uses are prohibited. In the City's remaining zones, land uses are prohibited when there are clear environmental, economic or contextual incompatibilities with the objectives of that zone, and their introduction would create negative impacts.

The City does not accept the assertion of the Discussion Paper that the planning system is unnecessarily inflexible, when significant latitude in business activity is permissible in zones that make up a significant portion of the LGA. While generally in favour of a more 'mixed employment' approach, reflected in the large quantity of land in the local government area that is zoned B4 – Mixed Uses, the City's LEP and DCP remains cognisant of these potential conflicts, whilst being responsive to structural economic change.

The City supports actively monitoring the continued suitability of land use zones through the strategic planning process, especially where structural economic changes may result in redundant land that would serve better planning, social and economic outcomes by being repurposed. A recent example of this in the City is the significant parcels of remnant industrial land being transitioned to higher order employment uses and some residential uses. This process involved considerable research to understand the macro- and microeconomic pressures on the land (current and future), the opportunities and risks associated with rezoning, and the required infrastructure support for emerging employment centres.

Through this process the City has also identified essential industrial land that requires protection from higher value uses. For example, the Southern Employment Lands provide crucial services to support the economy of the state, including digital warehousing, goods warehousing and logistics support for the retail sector, due to their proximity to Sydney Airport, Port Botany and central Sydney. This work clearly establishes the environmental and economic risks of allowing higher order uses, such as large scale retail, into a small but strategically critical industrial zone.

Introducing incompatible uses to industrial zones and employment areas, including retail development, can significantly impact their viability. The areas are not well served by public transport and have a low local residential population, so new large scale retail development would only be accessible by motor vehicles. This would increase traffic congestion and degrade the standard of the local road network, which serves trucks and vehicles necessary for industrial uses and logistics. Retail uses can also conflict with the noisier and dirtier activities in industrial zones, making it difficult for existing businesses to continue operating in the area.

Introducing the permissibility of retail uses in industrial zones, even if only by adding “flexibility” to existing land use zones and definitions, will put upward pressure on land values and result in the displacement of strategically important industrial and lower value employment uses. The City strongly objects to amendments to the planning system that result in mandatory, state-wide changes to which uses are permissible in land use zones without consideration to local context, especially where industrial zones are concerned.

The GSC places a high priority on protecting strategically important industrial and urban services land, and freight and logistics corridors across Greater Sydney. Objective 16 in the Region Plan and Planning Priority E9 in the Eastern City District Plan both include substantial detail about managing and protecting industrial areas, trade gateways and intermodal facilities in Port Botany and Sydney Airport. The

Objectives promote retention of industrial lands from encroachment by commercial and non-compatible uses. To protect transport corridors crucial to the viability of logistics operations, Objective 16 also says to "prevent uses that generate additional private vehicle traffic on the roads that service Port Botany and Sydney Airport such as large scale car based retail". Proposals in the Discussion Paper would significantly hamper the ability for local councils, including the City of Sydney, to comply with the Region Plan and District Plan in protecting these nationally significant freight corridors and trade gateways.

The growth of online retail and showroom style retail, and the impetus for retail businesses to make efficient use of space within centres, creates additional importance for well-located warehousing and logistics uses. Allowing the encroachment of retail into industrial areas will stifle the ability for retail businesses to adapt to these changes in the sector, by reducing the supply of well-located warehousing and logistics uses, increasing the land costs of industrial areas, and degrading the quality of logistics corridors in industrial areas. The data centres and internet infrastructure that serve online retail (and, increasingly, in-store retail) are also located in industrial areas. Although some individual retail businesses may be attracted to the low land costs, it is beneficial to the entire sector to prevent encroachment on industrial and employment lands in order to support the "back-end" of the retail industry.

Recommendation 2
The Department not progress initiatives that will further encroach on very limited industrial zoned land in the Northern and Eastern Districts due to its limited supply, as identified in the District Plans.

Recommendation 3
That consistent with the Directions of the Region and District Plans, nationally significant freight corridors across NSW as identified by the GSC are protected by the Department from inappropriate development and uses that will generate additional private vehicle traffic.

Recommendation 4
The Department protect strategically significant industrial areas, recognising their role as the "back end" of the retail industry, being the location of data centres and warehousing and logistics operations.

4.0 Opportunities for the Discussion Paper

The City conducts research to understand the challenges and changes facing all sectors in its LGA, including the retail sector, and would like to see the inclusion of the following topics in a future conversation about the future of retail. Local governments would benefit from guidance from the Department, and potential changes to the planning system, to help support retail businesses in their LGAs in the face of some of the challenges that have been identified.

4.1 Competition from residential development

The City commissioned a review of its retail study in 2016. A key finding of the research is that the major barrier to retail development is the comparatively higher returns for residential development. This finding is echoed by the GSC in the Eastern City District Plan, which references the balance councils must play in providing residential development near centres while ensuring that enough non-residential floor space is secured to serve as a centre and facilitate future economic growth.

In order to secure retail floor space in new mixed use developments (where both residential and retail are permissible), the City uses site specific LEP and DCP controls to enforce a minimum non-residential floor space and ensure they are appropriately located on the site.

As part of a discussion on better strategic planning for retail, the City suggests the Department promote this method and develop ways the planning system can improve the supply of well-located retail space within mixed use centres.

Recommendation 5
That the Department more widely advocates the use of site-specific controls for retail space in mixed use developments, and investigate other ways the planning system can secure the supply of well-located retail space within mixed use zones.

4.2 Suitability of new retail space

The City is currently undertaking research for its Strategic Employment Study, part of which has involved conducting interviews with retail business owners. Initial findings from these interviews indicate that the quality and suitability of retail floor space being delivered with mixed use development is not sufficient for their needs.

The Strategic Employment Study, when complete, will include recommendations about how this issue may be addressed, and the City will update the Department on its findings. However, as part of a discussion on providing more retail space for a growing sector, the City suggests the Department consider its own research on how the planning system can ensure that new retail space being delivered meets the needs of retail businesses. In particular, to ensure that new retail space is flexible and adaptable enough to suit a wide range of business activities, and gives businesses the flexibility needed to meet changing consumer preferences.

Recommendation 6

That the Department undertake research on the suitability of retail space being delivered with mixed use development, and if necessary consider planning controls that will ensure that new retail space is suitable for flexible and adaptive retail activities.

4.3 Better data for retail floor space supply and demand

The GSC commissioned a retail demand and supply study to inform the development of its District Plans. The Eastern City District Plan references this study in stating that 1.8 million square metres of new retail space will need to be provided in the District in the next 20 years. This study relies on the last ABS Census to include retail data (data from 1991/2), cross referencing with more recent data from the Adelaide Retail Database (data from 2007), the Perth Land Use and Employment Survey (data from 2008) and the City of Sydney Floor Space and Employment Survey (FES 2012) in order to extrapolate retail floor space demand to 2031 across Greater Sydney. The methodology of the study shows there is a lack of reliable public data on retail floor space for metropolitan Sydney.

The Discussion Paper argues for expanding the supply of retail floor space state-wide. This case for expansion relies on assertions from the Retail Expert Advisory Committee that there is a shortage, and a mixture of irregular data from a national study on the retail supply pipeline, vacancy rates and rental prices. There is a lack of data by retail sector or region, and no predictions for future retail floor space demand are made. Simply put, there is not enough evidence to support the case for such sweeping changes being proposed by the Discussion Paper.

A key direction in the Discussion Paper is for local councils to improve strategic planning for retail, including undertaking detailed retail strategies to inform local strategic planning statements. Each local area across NSW will have a unique retail supply and demand situation, so retail strategies will need to be informed by locally specific data. While the City's Floor Space And Employment Survey provides a snapshot of all employment floor space in the LGA, not every council will be able to conduct such a comprehensive study. Further, the City has a unique retail sector, so findings from the Floor Space and Employment Survey may be of limited use to other councils.

So that local councils can make informed decisions about strategic planning for retail, and understand the impacts of changes in the retail sector on retail floor space demand in their local area, the City suggests the Department investigate ways to equip councils with better data and data gathering capacity. It should also provide clear guidance about how councils should approach a retail study, with agreed methodology so that collected data may feed into a State database.

Recommendation 7
That the Department provide guidance and capacity building for councils in preparing retail studies, with consistent methodology so that retail floor space data can feed into a state-wide retail database.

4.4 Creative and cultural uses in retail

With its Open and Creative City strategy, the City is investigating changes to its planning controls to enable a wider range of retail businesses to trade later and be involved in small scale cultural events and activities. This review in part flows from identified restrictions in allowing retailers to hold small theatre performances, live music or art exhibitions.

The Discussion Paper emphasises the importance of flexibility in the planning system to allow retail to meet new challenges and opportunities. The flexibility for retailers to include cultural and creative uses is an important way for businesses to respond to changes in the sector, including the growing consumer preference for retail as an experience. As a way to deliver this flexibility, the City would strongly suggest the Department investigate ways the planning system can allow retailers to incorporate small scale cultural and creative uses where the context is appropriate.

Recommendation 8
That the Department investigate ways the planning system can allow retailers to incorporate small scale cultural and creative uses, and provide guidance to councils to assess the appropriateness of this to their local context.

4.5 Low cost space for innovation in retail

The Discussion Paper emphasises that the planning system needs to give retailers the opportunity to be adaptive and innovative in response to changes in the sector. Besides permissible uses in land use tables, there are other factors that limit the ability for businesses to adapt to changes and be innovative.

One way the planning system can facilitate improved flexibility and foster innovation is to provide more retail space that involves low overhead costs, low capital expenditure and reliable foot traffic, such as small scale retail spaces. Such retail space allows businesses to start up, respond to new trends, change their offerings and try new ventures with relatively lower risk.

This retail environment is typified by metropolitan Sydney's village centres, which provide a retail-friendly environment with established public realm, infrastructure, services and transport links. Another advantage is that these retail spaces are under multiple ownerships and have more flexible tenancy agreements and lower ongoing overhead costs. The City suggests the Department investigate ways to facilitate this type of centre to promote these hotbeds of retail innovation state-wide.

Recommendation 9
The Department promote the development of village-style centres that provide retail floor space with low overhead costs and capital expenditure outlays.

5.0 Summary

The City welcomes a discussion on how the planning system can support the retail sector, particularly as it goes through a period of change and faces new opportunities and challenges. However, the City is concerned that the directions presented in the Discussion Paper are heavily focused on expanding retail out of centres, encroaching on land use zones that are potentially unsuited to retail economically, contextually or environmentally, and are in direct conflict with the objectives of the GSC Region Plan and District Plans.

There is a constructive and broad-ranged discussion to be had on the future of retail, and this submission has touched on some of the work the City is doing to understand changes in the sector and how to respond accordingly. We would welcome the opportunity to discuss this work with the Department and form part of a stronger discussion on planning for the future of retail.