

15 June, 2012

Peter Cameron
Port Macquarie Hastings Council
By email: Peter.Cameron@pmhc.nsw.gov.au

Dear Peter,

Re: Thrumster (Area 13) Town Centre

As per your instructions I have reviewed the LEP provisions in relation to Area 13 Town Centre and its impacts on the retail hierarchy. The current LEP provisions were introduced prior to completion of the standard instrument based LEP for the Port Macquarie-Hastings LGA. These provisions remain in force as a deferred matter in the Port Macquarie Hastings standard instrument LEP due to concerns raised by the NSW Department of Planning and Infrastructure (DoPI). The main concern is that the standard instrument LEP does not include caps on floor areas. The purpose of the cap in the current LEP is to protect the retail hierarchy – to ensure that development of the Thrumster Town Centre is of a scale that does not undermine the role of Port Macquarie CBD as being a major centre in the mid-north coast region.

Council has been in consultation with representatives of Sovereign Hills Project Pty Ltd (SHP) in relation to a possible amendment to zones and zone boundaries in lieu of the current retail floor space limit. SHP has submitted a suggested amendment to zone boundaries.

Council engaged Hill PDA to review the current situation and provide advice on whether the proposed draft LEP amendments would provide an effective limitation on retail floor space in the Thrumster Town Centre, so that there is not an adverse impact on the hierarchy of retail centres in accordance with previous advice from Hill PDA and the provisions of the Port Macquarie-Hastings Urban Growth Management Strategy.

Background

In 2007 SHP sought to have approval for a centre with 12,500sqm of lettable retail floor space and submitted a report to Council from consultants Dimasi in support of the amendment. Hill PDA were critical of several aspects of the report including:

- It wasn't entirely appropriate to compare Area 13 with Wauchope and Laurieton. The latter two are separate towns and are not part of the Port Macquarie urban area;
- The capture rates used by Dimasi were too high for a centre serving a trade area of around 10,000 to 12,000 people; and
- Dimasi's benchmark floor area rates per capita were considered too high.

Hill PDA provided a list of 30 stand-alone neighbourhood centres in NSW listed in the Property Council of Australia's Shopping Centre directory. All but 3 of these were anchored by a single supermarket. The average number of shops per centre was 26 and the average size of centres was 5,285sqm. At that time it was an appropriate benchmark to use for a centre with a trade area of around 8,000 to 11,000 people.

What is an Appropriate Size for the Centre?

There are approximately 2.1sqm to 2.2sqm of occupied retail space per capita in Australia. The rate was 1.8sqm in NSW in 1991 (ABS Retail Census) with the increase due to growing affluence. Average real spend per capita has increased around 1.2% per annum since 1986.

Demand for retail space is dependent upon the socio-demographics of the area and in particular income levels. Port Macquarie has very similar expenditure levels to non-metropolitan NSW (Marketinfo 2009) and so for the purpose of this assessment the national benchmarks are appropriate.

11,000 people would therefore demand around 24,000sqm (NLA) of retail space. However, not all this demand will be met by space in the immediate locality, as some of this demand will be met by higher order centres. Slightly more than 20% of retail space is in bulky goods and out-of-centre localities and as much as 30% is in the regional centres (generally defined as major centres by DoPI). Hence no more than half is distributed in other centres.

Regional centres are typically 80,000sqm or more and have department stores and a very wide range of specialties including fashion. These are the centres where shoppers spend time comparing goods. Village centres (5,000sqm to 15,000sqm) on the other hand largely serve the "chore" shopping role – predominantly selling food and grocery items.

Regional centres of course have wide trade areas of 100,000 people or more whereas village centres are around 5,000 to 15,000 people.

Given the size of the trade area (forecast of 11,000 people) Area 13 is only large enough to accommodate a village centre – no more than around 30% of total retail floor space demanded. Floor area required may be calculated using the following formula:

$$11,000 \text{ people} \times 2.15 \text{sqm GLA per capita} \times 30\% \text{ being directed to the village centre} = 7,100 \text{sqm (NLA)}.$$

This refers to occupied lettable retail space and includes cafes and restaurants and selected personal services (based on the ANZIC code this includes optometry, hair and beauty, alterations, shoe repair and video hire). It excludes non-retail shop front uses and vacancies.

Typically in a village centre anchored by a large supermarket, the supermarket would comprise half the floor area and around 15% to 20% of the specialty shops would be occupied by non-retail users such as banks, medical services, travel agents, real estate agents and the like. It's also desirable to have one or two vacancies at any one time. Hence the above figure of 7,100sqm could be escalated by say 12% to around 8,000sqm to reflect demand for total shop front space.

Please note that village centres make up no more than 30% of total retail floor space but they capture possibly as much as half of total household expenditure on retail goods and services. This is because the turnover levels of supermarkets and specialty food stores are considerably higher than department stores, bulky goods stores and other non-food retailers.

Hence with a centre of around 8,000sqm of shop front space, we would expect around half of household expenditure generated by Area 13 residents to be captured by the new village centre, 25% to 30% to be captured by Port Macquarie CBD and the remainder to be captured by other centres, "out-of-centre" retailers and "tourism-out" expenditure.

Can Area 13 support more retail floor space?

If Area 13 had as much as say 12,000sqm of shop front space it is likely that the intention is to either capture a little more than half the household expenditure generated by residents in Area 13 or capture additional expenditure from beyond the trade area. Either way it's likely that it will result in some redirection of expenditure from Port Macquarie CBD.

Nevertheless some expenditure from the trade area will continue to be captured by Port Macquarie CBD – only that the percentage captured is likely to be a little less. The CBD will have the department stores as well as many of the specialty stores selling comparative goods that can't be found in Area 13. All else being equal the CBD will continue to enjoy some growth in trade with new residents in Area 13 – which will minimise the long term impact of retail provision at Area 13.

To put in other terms 11,000 new residents in Thurmster will still spend some of their dollars in Port Macquarie CBD requiring a further 8,000sqm more shop front space (11,000 people X 2.15sqm per capita X 30% being captured by the major centre plus some allowance for non-retail uses). And existing residents outside Thurmster will continue to spend dollars in the CBD. Hence the CBD will continue to enjoy some growth in capture of expenditure under the scenario of Thurmster Town Centre having 12,000sqm of retail floor space.

Can Area 13 support a discount department store?

A discount department store (DDS) is defined as a large format retail store selling a range of products including apparel, some food items, cosmetics, kitchenware, dinner ware, stationary, cleaning products and other personal and household goods and a limited range of electrical goods and furniture, sports, toys, books, DVDs and other recreational goods, hardware items, etc. Typical store size is between 4,000sqm and 8,500sqm and the vast majority are on a single level providing trolleys. The vast majority are operated by one of three operators – Big W, Kmart and Target. Target country is a smaller format store with more limited range of products and are usually between 1,000sqm and 2,000sqm.

With DDS it's likely the total floor area of the centre would be around 15,000sqm to 20,000sqm. This represents a significant increase. Some expenditure generated by Area 13 residents would continue to be captured by Port Macquarie CBD. However depending on the retail mix in Area 13, there will be increased expenditure being redirected from the CBD – particularly from department stores and some of the mini-majors and specialties. A DDS requires a trade area of at least 30,000 people. Hence a DDS centre in Area 13 is clearly targeting a larger

trade area – and this can only be at the expense of Port Macquarie CBD. It's likely the trade area being targeted would include Major Innes Road to Wauchope. With the rural north area, the trade area would have a population of only 20,000 people by 2016. The population in this area is not expected to reach 30,000 people until 2026.

In summary the optimal size for Area 13 when fully developed is 8,000sqm of lettable shop front space. Up to 12,000sqm is tolerable without undermining the retail hierarchy. 15,000sqm or more is the size of a town centre (or sub-regional centre as defined by the Property Council of Australia) which is likely to have a discount department store and is likely to impact the retail hierarchy.

What is an appropriate size of zone for the centre?

A single storey development with 8,000sqm of lettable shop front space would require a building of approximately 10,000 to 10,500sqm. This is to include a loading dock (say 600sqm), say 1,000 to 1,400sqm of internal area, toilets and manager's office, 100sqm for plant rooms and say 400sqm for storage.

A centre of this size would require approximately 355 car spaces (based on 4.5 spaces per 100sqm of lettable floor area). This is equivalent to an at grade outdoor car park of around 1.03 hectares (29sqm per car space). Allowing for some landscaping and heavy vehicle separation suggests a site area of at least 2.5ha and up to 3ha to allow for design inefficiencies.

Larger centres, say 15,000sqm to 20,000sqm lettable, can be accommodated on a site of this size but it would require some vertical separation. One method is car parking below the retail level or on the roof top. However this adds considerably to construction cost. Each car space is likely to cost around \$17,000 to \$20,000 as opposed to say \$4,000 for at grade parking. As a result, the feasibility or probability of this option is reduced.

The vast majority of shopping centres outside the Sydney metropolitan area are single storey but there are a few double storey examples including Port Central, Karabar Shopping Centre in Queanbeyan, Centro Lismore, Wyong Plaza, Westfield Warrawong, Muswellbrook Marketplace, Palms in Coffs Harbour, Stockland Batemans Bay and Stockland Jesmond. Height restrictions are one method to ensure the centre is single storey.

The latest proposal suggested by the applicant provides an area for retail (B2 zone) of around 6ha which is twice the area required to support an 8,000sqm centre. Whilst the amount of zoned area could be reduced the disadvantage is reduced flexibility of design. Alternative methods include:

- FSR and height restrictions;
- Floor space caps in a DCP; and/or
- Voluntary planning agreement.

The other danger is the ability to put the shopping centre car park on land adjacent to the B2 zone thereby increasing the floor area on the B2 land. Council could control this by necessitating the shopping centre car park to be on-site. The alternative is to use a different zone for the carpark but this may not accord with the standard instrument and it would undermine the flexibility of development options.

Council's Proposed Zoning

To address the concerns raised by Hill PDA and having regard to the approved development and conceptual layout for adjoining development, a revised proposal was developed by Council and is shown attached.

Key features are:

- B2 zone over the 3.26ha lot containing the approved retail development
- B2 over land fronting the Main Street aligning with buildings shown in the concept layout in the approved development
- B4 over the fringing lots surrounding the approved retail development and to the east of the Main Street strip of B2
- An increase in SP3 zone

These zones are combined with the following controls,

- a floor space ratio limit for retail premises of 0.25:1 for the B2 and B4 zones generally
- for development practicality, a floor space ratio of 0.5:1 for the B2 east of Main Street and south of John Oxley Drive, with 0.25:1 over the "Town Green" area
- a floor space ratio of 0.5:1 for the B5,
- maximum floor area for retail premises in Zone B4 of 150sqm as previously indicated.

The effects of the controls are:

- the B2 zone west of Main Street has an area of 3.5ha, with a FSR of 0.25:1 allowing for 8,750sqm of gross floor area, which could potentially cater for a supermarket and a mini-major store, but no opportunity for a DDS other than say a Target Country with an area less than 3,000sqm.
- the remaining B2 zone east of Main Street and south of John Oxley Drive, with a total area of 10,400sqm excluding roads and a potential GFA of 4,845sqm. There may be potential to fit mini-majors in these strips as they have a width of 37 to 40m.
- the B4 zone has a total area of 110,400sqm, and theoretically could provide 27,600sqm GFA of specialty shops,
- However, with the maximum floor area of 150sqm for retail premises in the B4 zone and the limit on the scale of the DDS and supermarket the retail yield is unlikely to be achieved,
- the B5 zone, excluding proposed roads, has an area of 16,878sqm allowing up to 8,439sqm of bulky goods retail.

In my view development of a sub-regional shopping centre (PCA definition) with a DDS is unlikely in accordance with these controls. The most important anchor is the supermarket and this will not be sacrificed even with the benefit of gaining a DDS. Supermarkets capture the highest retail sales per square metre (say \$9,000 to \$9,500) which is considerably more than DDSs (at around \$3,000 to \$4,000). 31% of total household expenditure is

captured by supermarkets compared to 9% captured by department stores (including the National stores like Myer and David Jones).

The revised draft controls could accommodate as much as 30,000sqm of specialty stores. This is an "excessive" level – well above the appropriate level of 4,000sqm. It is unlikely that SHP will provide as much as 30,000sqm simply because it will oversupply the market and is likely to result in considerable vacancies. With no further anchor retailers this is an unlikely scenario. Even under a "provide the most we can" scenario the most probable use (or scenario of development) that would accord with these controls is a centre of around 10,000sqm (12,000sqm maximum) lettable area. Retail mix would be 4,000sqm supermarket, possibly a 2,000sqm Target Country (questionable), one or two mini-majors totalling 1,000sqm, 30 specialty retail stores averaging 100sqm each and 5-10 non-retail specialty stores averaging 120sqm each.

Bulky Goods

The current LEP allows up to 5,000sqm of bulky goods retailing. Council's proposed zoning will allow up to around 8,439sqm. The population of the trade area will require around 4,700sqm of bulky goods retailing using the following formula:

$$11,000 \text{ people} \times 2.15 \text{sqm retail GLA per capita} \times 20\% \text{ to bulky goods} = 4,700 \text{sqm (NLA)}.$$

Bulky goods stores generally have large floor areas – 400sqm to 2,000sqm or more. A Harvey Norman department store is typically 5,000sqm to 10,000sqm. Hence within 5,000sqm you will not have the range of stores to make it into a "destination" centre. Typically a destination home maker centre requires a floor area of 20,000sqm or more. It would have a trade area as wide as a regional or major centre – at least 50,000 if not 100,000 people.

Nevertheless if the 5,000sqm or 8,439sqm under Council's proposed zoning is used entirely for bulky goods retailing then there will be minimal impact on centres and on the retail hierarchy. The danger is that if bulky goods do not fill the spaces then there may be temptation for the land owner to investigate alternative forms of retail.

Under the Standard Instrument (Local Environmental Plans) Order 2006 bulky goods:

"means a building or place used primarily for the sale by retail, wholesale or auction of (or for the hire or display of) bulky goods, being goods that are of such size or weight as to require:

(a) a large area for handling, display or storage, or

(b) direct vehicular access to the site of the building or place by members of the public for the purpose of loading or unloading such goods into or from their vehicles after purchase or hire,

but does not include a building or place used for the sale of foodstuffs or clothing unless their sale is ancillary to the sale or hire or display of bulky goods."

The Retail Strategy Review by Leyshon Consulting in 2004 went into some detail about options for controlling bulky goods retailing in out of centre locations. The recommendations or suggestions in the review were made to reduce the risk of "inappropriate" out-of-centre retail development which could result in unacceptable impacts

on the existing centres. To date however there hasn't been any strong evidence that the LEP definition or the Standard Template definition is failing, or will fail, in its role to protect the viability of existing centres.

The main reason why out-of-centre bulky goods retailing has not, or does not, strongly impact the viability of existing centres is because bulky goods retailing is not prevalent in the existing centres.

Also the NSW Land & Environment Court has judged some retailers as not being bulky goods including The Warehouse Group and DFO. This precedence should give Council some comfort. There are some "grey" areas or examples of retailers that have established themselves in homemaker centres including Spotlight, Lincraft, Pillow Talk, Pet Barn, Mothercare, Rebel, EB Games, Sam's Warehouse, Toys R Us, Pharmacy 4 Less, Rivers and Dan Murphy's. Some of these stores may not meet the above definitions. Rivers would certainly be excluded since it predominantly sells clothing and Dan Murphy's would be excluded because it predominantly sells liquor and food. Given the judgements against The Warehouse Group, I believe Sam's Warehouse (discount variety store), EB Games and Pharmacy 4 Less would all fail the above test.

Note also that some of these stores such as Mothercare, Rebel and Toys R Us are found in regional shopping centres such as Westfield as well as in homemaker centres in the industrial areas.

State Policies

NSW Draft Centres Policy (2009)

Recently there has been a growing awareness and investigation of barriers to competition in Australia, particularly in the retail industry. As a result of these investigations the Australian Government directed state governments and planning authorities to review the flexibility of planning regulations and policies regarding retail development. In response the NSW Department of Planning (as was, now the Department of Planning and Infrastructure or DoP&I) released the draft Centres Policy in April 2009.

The Draft Centres Policy focuses around six key principles. The principles relate to:

1. The need to reinforce the importance of centres and clustering business activities;
2. The need to ensure the planning system is flexible, allows centres to grow and new centres to form;
3. The market is best placed to determine need. The planning system should accommodate this need whilst regulating its location and scale.
4. Councils should zone sufficient land to accommodate demand including larger retail formats;
5. Centres should have a mix of retail types that encourage competition; and
6. Centres should be well designed to encourage people to visit and stay longer.

Whilst the Draft Centres Policy indicates that the preferred location for new retail and commercial development is in centres, it recognises that there may be exceptions to this approach.

With regard to bulky goods for example, the draft Centres Policy recognises that such outlets often require large areas for the handling, display or storage of goods, or direct vehicular access by members of the public to the site to load or unload goods. Bulky goods operators are therefore attracted to locations that offer lower site costs offsetting lower retail turnovers relative to floor area.

The Draft Policy was publicly exhibited. The DP&I is presently reviewing public submissions and aims to amend the policy in response, where appropriate. The six key principles are discussed in more detail below.

Principle 1: Retail and Commercial Activity should be Located within Centres

The first principle of the Draft Centres Policy reinforces the longstanding strategy to concentrate the predominant share of retail and business floor space within town centres. The clustering of uses within centres is justified for environmental and economic reasons. By way of example, focusing uses within centres makes efficient use of existing infrastructure, can improve business efficiency and productivity and allow for a range of uses to be provided meeting consumer needs.

Principle 2: Centres should be able to Grow and New Centres Form

The Draft Centres Policy identifies that areas experiencing significant increases in population and real income must be dynamic and respond to "prevailing market demands" through the extension of existing centres or the growth of new ones.

Principle 2 of the Draft Centres Policy recommends the rezoning of land in appropriate centre locations or locations adjacent to centres in order to facilitate business expansion and to enable new businesses to enter the market.

Principle 3: Market Determines Need for Development, Planning Regulates Location and Scale

The third principle of the Draft Centres Policy identifies that the market is best placed to determine demand for retail and commercial development. Accordingly, the role of the planning system is not to assess the appropriateness of development on the basis of demand, but rather to make an assessment as to the external costs and benefits.

Principle 4: Ensuring the Supply of Floor Space Accommodates Market Demand

The fourth principle of the Draft Centres Policy emphasises the importance of competition between retailers. The key intention of this principle is to create better quality, cheaper and more accessible goods for all consumers through enhanced competition. To support opportunities for greater competition, the Draft Policy requires councils to ensure that there is sufficient zoned land to enable additional (and new) large format retailers to enter the NSW retail market.

Principle 5: Support a Wide Range of Retail and Commercial Premises and Contribute to a Competitive Retail Market

Principle 5 of the Draft Centres Policy states that, subject to meeting the appropriate location and design criteria, the zoning and development assessment process should not consider impacts between existing and proposed retailers as a planning consideration.

Whilst the Principle seeks to extract the matter of individual business impact from planning assessment (in keeping with the findings of various Land and Environment Cases) the effect of a proposed development to the function and vitality of existing and planned centres will remain as an important local issue.

Principle 6: Contributing to the Amenity, Accessibility, Urban Context and Sustainability of Centres

Principle 6 of the Draft Centres Policy highlights the importance of design quality, development layout, connectivity and integration. The Policy recognises that good design supports the vitality and function of a town centre as well as the viability and success of a retail development. Accordingly good quality design is in the interests of planning authorities, retailers and consumer alike.

Draft Activity Centres Policy (May 2010)

A subsequent draft titled 'Activity Centres Policy' was circulated to a number of selected stakeholders in the retail industry. We understand that this contains some different criteria to that contained within the NSW Draft Centres Policy. However it supports the emphasis on providing retail floorspace based on demand projections, particularly in Regional Centres where such uses may underpin the viability of centres.

Draft SEPP (Competition) (2010)

Following a review undertaken by the NSW Department of Planning (as it was) and the Better Regulation Office into how economic growth and competition were impacted by the planning system, a new Draft State Environmental Planning Policy (SEPP) has been prepared and was placed on public exhibition in July 2010.

The proposed state-wide planning policy removes artificial barriers on competition between retail businesses. The new Draft SEPP proposes:

- The commercial viability of a proposed development may not be taken into consideration by a consent authority, usually the local council, when determining development applications;
- The likely impact of a proposed development on the commercial viability of other individual businesses may also not be considered unless the proposed development is likely to have an overall adverse impact on the extent and adequacy of local community services and facilities, taking into account those to be provided by the proposed development itself; and
- Any restrictions in local planning instruments on the number of a particular type of retail store in an area, or the distance between stores of the same type, will have no effect.

Conclusion

To conclude we believe that an appropriate size retail centre in for Thrumster is around 8,000 to 9,000sqm of shop front leasable space – meeting around one third of retail floor space demand generated by the 11,000 trade area residents. The balance of demand would be supplied by expansions in the Port Macquarie town centre and in out-of-centre locations – mainly bulky goods locations.

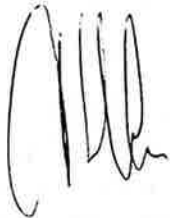
A larger centre of say 12,000sqm shop front space is achievable without disrupting the retail hierarchy. There will still be some level of expenditure (around 30%) generated by trade area residents being directed to Port Macquarie CBD.

A larger centre – particularly if it is anchored by a department store is a centre that will begin to rival and compete with the Port Macquarie CBD. A DDS requires a trade area that is at least double if not triple the size of the Thrumster trade area.

In my view development of a sub-regional shopping centre (PCA definition) with a DDS is unlikely in accordance with the proposed controls. The most important anchor is the supermarket which will capture at least three times more expenditure than a DDS. A full-line supermarket will not be sacrificed just to gain a DDS. At the most a small Target Country of around 1,500sqm would be provided as part of the mix.

Should you have any questions, please do not hesitate to contact us in our Sydney office on 02 9252 8777.

Yours sincerely,



Adrian Hack, (BTP, MLE, MPIA)
Principal

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