

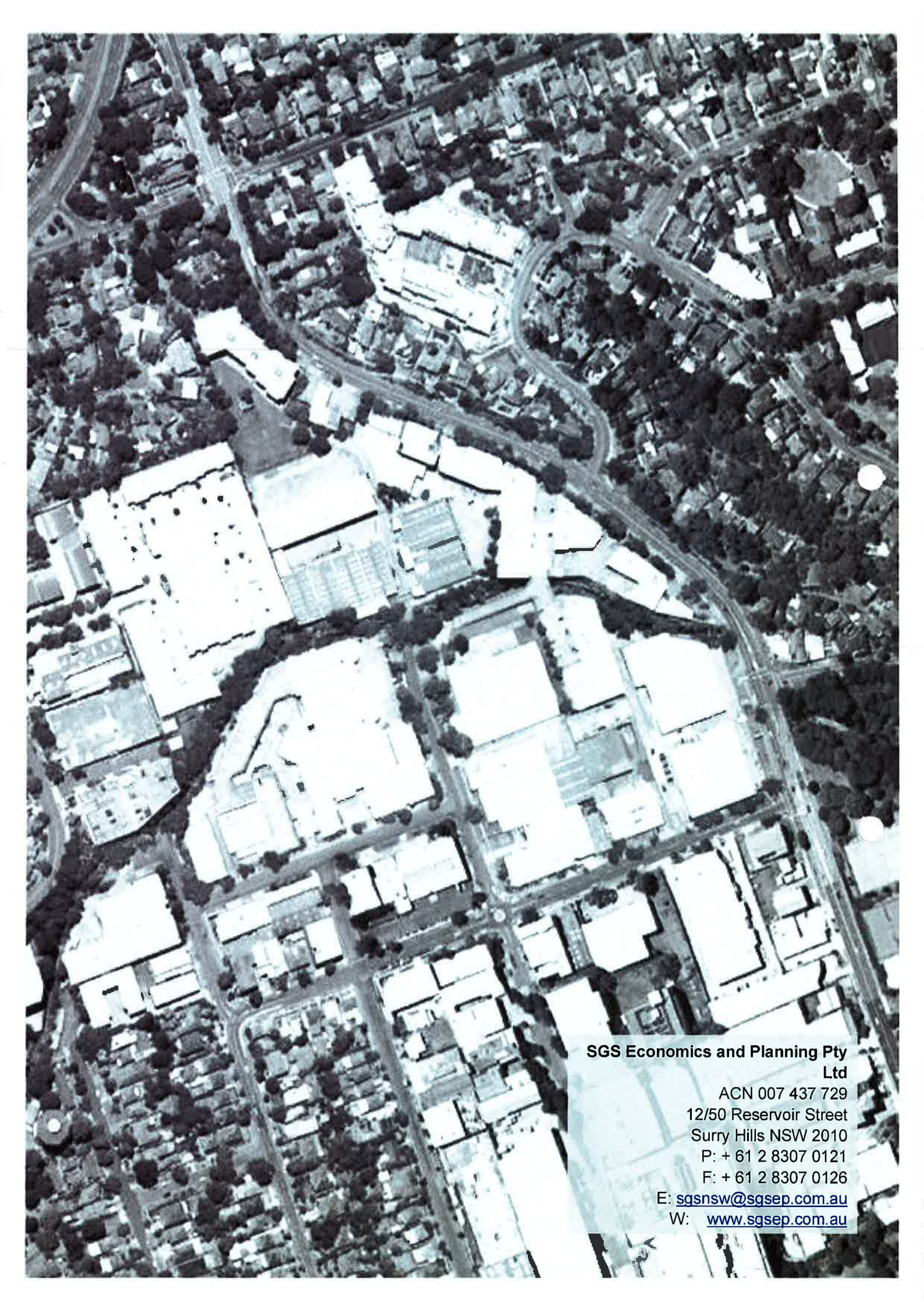
Review of planning proposal 17-19 Smith Street East Chatswood

Final report

Willoughby City Council

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Executive Summary

SGS Economics and Planning (SGS) has been commissioned by Willoughby City Council (Council) to review a planning proposal and supporting documentation for a proposed full-line Woolworths supermarket at 17-19 Smith Street East Chatswood. The proposal seeks an enabling clause to the local environmental plan (LEP) to allow supermarkets as a permissible land use on the site. Council has asked SGS to independently review the planning proposal submitted by City Plan Services (CPS) and supporting documentation prepared by Duane Location IQ and Jones Lang Lasalle (JLL).

The subject site of the proposed supermarket is within the East Chatswood employment lands. The current zoning in the employment lands promotes light industrial and business park uses as well as support services, and prohibits the development of supermarkets and other non-bulky goods retail. The CPS planning proposal and supporting documentation advocate that the East Chatswood employment lands should accommodate a greater diversity of land uses and that the relevant planning controls no longer reflect the land use demand for floor space in the area. Further, the planning proposal argues that there is sufficient retail expenditure in the suggested catchment area to support a supermarket with only a minor impact on the existing retail vitality of Chatswood as well as smaller local centres.

SGS's review of the planning proposal and the accompanying reports highlight that while a prima facie case has been made for the supermarket, there is still insufficient evidence on which to form a view in favour of the proposal. In particular:

Reference to only partially relevant documents

The supporting documentation contains reference to a range of documents which it draws upon to support the proposal. These include a draft Centres Policy (described on its cover as being 'not government policy'), discussion papers or non government reports. None of these have official policy status. In simple terms the relevant thrust of the documents is:

- Competition is facilitated by ensuring a supply of appropriately zoned land which more than meets future demand for retail premises
- Retail premises are best located in or on the edge of existing centres
- The typology of retail and commercial centres should not be so rigid as to deny opportunities for large format premises, such as supermarkets, locating in them
- Proposals for retail premises in out of centre locations that can not be accommodated in-centre or edge-of-centre should be subject to a net community benefit test (where net impacts not transfer impacts are the critical consideration).

If this framework was adopted policy the only relevant test for the project, given that it is clearly 'out of centre' would be:

- whether or not the project can be accommodated in-centre or edge-of-centre and if not,
- then does it meet a net community benefit test.

Neither of these is addressed in any detail in the CPS report or in other documents supporting the proposal. Our analysis finds that there appear to be suitable sites in existing centres (see below).

Key relevant tests of the Centres Policy elements and employment lands strategic assessment criteria in the Metropolitan Plan not addressed

In the absence of the above mentioned framework being adopted policy (or any other alternative coming from the current NSW Government) the key and ultimate policy tests are the Centres Policy elements and employment lands strategic assessment tests in the Metropolitan Plan for Sydney 2036 (p. 60 and p. 141 respectively) and the Section 117 Directions (1.1 Business and Industrial Zones). The documentation contains no reference to the former document. A detailed letter addresses the latter (see comments below).

Given the proposal would be an 'out of centre' development, overall it rates poorly against the Centres Policy elements in the Metropolitan Plan for Sydney 2036.

A 'quick' and qualitative assessment against the employment lands strategic assessment criteria generates a mixed outcome for the proposal but more work is required by the proponent to test the proposal fully against these criteria. In particular a more comprehensive report is required which addresses the '*stocks of local employment lands and the ability of remaining stocks to meet future local industrial needs*'. The CPS and other documentation supporting the proposal includes information on the industrial land market and vacancies, but the medium to longer term supply-demand perspective is not addressed (in a quantitative way).

Difficult for proposal to satisfy key relevant tests in the Section 117 Direction: 1.1 Business and Industrial Zones – in particular whether it maintains the economic viability of centres and whether it will likely reduce the potential floor space for industrial uses in the existing industrial zone.

The key tests which the proposal needs to satisfy from the Section 117 Directions – 1.1 Business and Industrial Zones are whether it is consistent with clause 4 or, if not consistent, whether it can meet the clause 5 tests.

In Clause 4 the key tests are:

1. whether it can give effect to the objectives of this Section 117 Direction, and
2. whether it will likely reduce the potential floor space for industrial uses in the existing industrial zone.

In relation to the first key test:

- It is arguable whether the proposal meets objective (a) (*encourage employment growth in a suitable location*), given that it will be retail employment which the centres policy would usually dictate should be in a centre (as a 'suitable location').
- Probably, the critical objective that the proposal (and supporting studies) needs to meet is (c) "*support the viability of identified strategic centres*". Ultimately a reduction in

expenditure – even as little as 1.3 percent as suggested in the Duane Location IQ report – is **not consistent** with the test of **supporting the viability** of the strategic centre of Chatswood. The CPS report and letter state that it will **"not threaten the viability"** of centres, which is not actually the test the proposal needs to meet.

In relation to the second key test:

- It is very difficult to argue that introducing a general retail use to the zone (even if just to one site) preserves the floorspace available to industrial uses within that zone.
- However, it might be possible to satisfy this item if it was demonstrated that **all** potential demand was able to be accommodated by the reduced supply. The supporting studies note the change in type of employment uses and the current high vacancy rate but, though implied, do not address this ultimate test.

If inconsistent with Clause 4 the relevant elements of Clause 5 that apply are that the provisions of the planning proposal need to be:

- justified by a study which gives consideration to the objective of this direction (5(b)) (see discussion above), or
- in accordance with the relevant Regional Strategy or Sub-regional Strategy....(5(c)).

For 5(c) the relevant Regional Strategy is the Metropolitan Plan and a broad and qualitative consideration of the extent to which the proposal addresses or satisfies the centres policy elements and employment lands strategic assessment criteria suggests the proposal falls short. Though in relation to the latter (employment lands strategic assessment test) a more comprehensive demand-supply assessment for the precinct would enable these criteria to be better addressed.

The proposal is not consistent with the Inner North Draft Subregional Strategy which seeks to protect the East Chatswood area as (category 1) land to be retained for industrial purposes.

Council's relevant strategic planning directions not addressed

Council has a set of strategic planning directions (principally outlined in the Community Strategic Plan but also in other Council reports and documents) which are not addressed by the planning proposal. A summary of the key relevant directions and elements is as follows.

- provide a diversity of housing, in particular located and provided with adequate infrastructure and services
- manage car parking to promote public transport use instead of private vehicle use
- maintain local commercial and retail centres
- locate employment in areas that can be well serviced by public transport
- limit commercial and retail activity in industrial areas
- support the CBDs of Chatswood and St Leonards.

These strategic settings established by a number of Council documents and consultant reports do not support development of the site for the proposed Woolworths supermarket. There is only a limited reference to these local strategic directions in the CPS and other documentation.

Retail and economic analysis consistent with practice but assumptions unclear

While the retail and economic impact analysis adopts conventional benchmarks and thereby makes a strong case in favour of the proposal, many assumptions used are not transparent. Sensitivity testing of assumptions, or using primary, locally relevant data on expenditure patterns and potential changes as a result of this proposal, generated using a survey of residents, would provide for a richer and more robust assessment of the prospects for the supermarket and the impact on surrounding centres.

It should be noted that the test of whether the planning proposal meets the objective of maintaining the viability of centres (and the strategic centre of Chatswood in particular) is a key one (in the Section 117 guidelines). The Duane Location IQ report acknowledges there will be a negative impact on other centres (e.g. -1.3 percent in Chatswood centre, -5.4 percent in Willoughby High Street and -4.0 percent in Castlecrag). We think these figures – without the benefit of a detailed quantitative assessment – are probably understated. Nevertheless, any proposal that has a negative impact on the expenditure potential of another centre (even if modest) will find it difficult to meet a strict reading of the objective of contributing to **maintaining** the viability of existing centres.

Demand for industrial land in the East Chatswood precinct still strong for smaller industrial units for mixed office/warehousing but vacancies high and concentrated in larger format buildings and sites

The site is in the East Chatswood industrial area. The supporting documentation seeks to show that there is a high vacancy rate in the area and that demand for employment activities is changing such that the area does not support 'traditional' industrial activity anymore and a wider complex of employment uses is emerging and should be allowed. SGS agree with this proposition but it does not necessarily justify allowing general or supermarket retailing which would be better located in centres.

Furthermore, the vacancies are concentrated in larger format buildings and sites for which there is limited current demand. Sites with smaller industrial units are in demand. Overtime it could be expected that many of these will redevelop in line with market preferences.

Planning controls (and appropriate transport investment) should facilitate development for more intense, diverse uses including some larger format or ancillary retail, offices and a hybrid mix of business requiring both office and warehouse space, though without necessarily allowing general retail (including supermarkets), which should be the subject of appropriate associated planning given its catalyst role in centres

A longer term evaluation of supply-demand prospects in the precinct is required to support a case for losing industrial land in the precinct to supermarket and other retail.

Two other sites would be suitable to accommodate a supermarket in existing centres

SGS has evaluated a number of alternative sites in the LGA, from a list provided by Council, for a supermarket development.

The site assessment was based on six criteria that assessed the sites based on their practicality, location, their position within council policy and the metropolitan planning framework and what their constraints were. The assessment indicates that Sites 1 (173-197 Victoria Avenue, Chatswood) and Site 11 (243 – 245 Penshurst Street, Chatswood) are probably the most viable alternative options to the subject site at East Chatswood. They are located in close proximity to each other as well as the subject site and the assumed trade catchment boundaries, and would support the viability and development of existing centres.

A supermarket – if supported on this site – should not be allowed to develop without complementary and integrated planning of the immediate precinct including for additional retail and possibly residential uses (forming in effect a new centre)

The proposed Woolworths development in East Chatswood is in line with recent activity by the company as a site developer. A similar development has occurred in the Balgowlah or Manly Vale industrial precinct and this has precipitated a wider evaluation of and up-zoning of part of the precinct. Land values in this area do not appear to have shifted upward as a result of the Woolworths development yet, but it is not yet operating and such higher land values would be expected to occur over time once traffic and shoppers arrive.

If the proponent is able to build a stronger case to support the proposal and Council is inclined to support it, in SGS's opinion it would be wrong to allow the supermarket as an isolated retail development. In our view the supermarket development would catalyse further retail development such that a centre by default would be created. In this case not only would the industrial area be affected by encroaching and higher land value development, with unmanaged consequences, the opportunity to obtain more desirable planning outcomes would be lost.

If the development was to go ahead there is a strong case for analysis and the development of a structure plan and associated planning controls for basically a new centre in this location, building on the supermarket anchor, with a small complex of supporting retail activities and potentially residential development. The demarcation with the existing industrial area can be strongly drawn to protect it for the future and traffic impacts can be managed in a more integrated way.

Conclusion

Ultimately, the key tests for this proposal are relevant policy elements and tests in the **Metropolitan Plan for Sydney 2036** and the **Section 117 Direction: 1.1 Business and Industrial Zones**.

1. The proposal fares poorly against the Centres Policy elements in the Metropolitan Plan for Sydney 2036. It also 'falls short' against the Employment Lands Strategic Assessment. In particular a more comprehensive report is required which addresses the criterion of impacting on *'stocks of local employment lands and the ability of remaining stocks to meet*

future local industrial needs'.

From our analysis future projections of demand are modest but market anecdotes and activity suggest that sites with smaller industrial units are in demand. Overtime it could be expected that larger sites and buildings, where the vacancies are concentrated, will redevelop in line with market preferences. Whether this will be sufficient to absorb spare capacity needs to be the subject of further analysis.

2. In relation to the Section 117 Direction: 1.1 Business and Industrial Zones needs to satisfy two of three objectives in particular.

- Firstly, it is arguable if the proposal meets the objective of "*encouraging employment growth in a suitable location*", given that it will be retail employment which the centres policy would usually dictate should be in a centre (as a 'suitable location').
- More critically, the proposal does not satisfy a strict reading of the objective of "*supporting the viability of identified strategic centres*". Ultimately a reduction in expenditure – even as little as 1.3 percent as suggested in the Duane Location IQ report – is **not consistent** with the test of **supporting the viability** of the strategic centre of Chatswood.

In addition, the planning proposal could seek to satisfy a net community benefit test, as per the Department of Planning's *Guide to Preparing Planning Proposals*.

If the Council saw fit to support the development based on it being able to meet these various tests, in SGS's opinion a further study on the potential of the location as a centre would need to be conducted. The precedent effect of the supermarket development would be significant and it would be difficult to resist additional retail and related development such that a centre 'by default' is likely. Council's planning needs to anticipate this prospect.

1 Introduction

1.1 Background

SGS Economics and Planning (SGS) has been commissioned by Willoughby City Council (Council) to review a planning proposal for 17-19 Smith Street Chatswood. The planning proposal was lodged with Council by CityPlan Services (CPS) on behalf of Woolworths Group (the property owner). The brief also asks for supporting information submitted as part of the planning proposal to be reviewed. This documentation includes a Response to Council prepared by Duane Location IQ in relation to issues raised by Council about the proposal as well as a land use study for 17-19 Smith Street and the wider employment lands study area that has been prepared by Jones Lang Lasalle (JLL) for Woolworths Group.

The planning proposal seeks to amend the *Willoughby Local Environmental Plan 1995* (the relevant planning instrument) to allow for supermarket retail on the site. At present the subject site is zoned 4(b) Light Industrial, in which supermarkets (not separately defined but covered by the definitions of 'shops') are not a permissible land use. Further, Willoughby Council is currently in the advanced stages of finalising their comprehensive LEP, based on draft Willoughby Local Environmental Plan 2009. In the draft LEP the site is proposed to be zoned IN2-Light Industrial which also prohibits supermarkets. The planning proposal seeks an enabling clause in the 4(B) zone as part of the current LEP to allow supermarkets as a permissible land use. The proposal also requests that this should also apply to any zoning changes to be carried over into the draft WLEP 2009.

The planning proposal and supporting documentation provide a case to justify allowing supermarkets as a permissible land use within the zoned industrial area. The justification can be summarised as:

- The existing and proposed land use controls in the industrial area do not reflect the local and regional land use trends and market demand for floor space
- There is insufficient demand for traditional light industrial uses which indicates a need for more flexible zoning and land use options in the area
- There is additional expenditure capacity in the Chatswood retail catchment area combined with limited room to develop a full line supermarket in Chatswood centre
- The development of a new supermarket on the subject site would not have a major impact on existing retail development in Chatswood centre, nor the other smaller retail centres through the LGA and surrounding area.
- A new supermarket on the subject site would create a cumulative net community benefit.
- There is a growing trend and policy shift of allowing neighbourhood shops in business development zones, business parks and certain light industrial zones
- The proposed rezoning would create a higher density of employment per square metre than existing uses.

1.2 Site context

The subject site is located at 17-19 Smith Street East Chatswood. The site is located within a light industrial precinct. The precinct is identified as the East Chatswood Employment Lands in the draft Inner North Subregional Strategy. The subject site was formerly a Sundell Holden Service Centre. After Holden ceased operations at the site, it was purchased by Woolworths Group. Figure 1 below shows an aerial view of the subject site, and the wider employment lands precinct.

Figure 1. Subject site in the East Chatswood Employment Lands



Source: Google Maps (2012)

The East Chatswood Employment Lands are a 26 hectare industrial precinct that accommodates a diversity of land uses and industries. It was formerly home to traditional heavy industries, but now contains a mix of light industrial uses, warehouses, business parks and a growing presence of bulky goods retail and recreational facilities. The employment lands are one of only two precincts in Willoughby Council and form part of the very small remainder of employment precincts left on the North Shore of Sydney.

1.3 Scope of works

In completing a review of the planning proposal, SGS has focussed on the justification, and in particular the method and assumptions adopted in the supporting documentation. The following tasks were carried out:

- An assessment of the proposed development against the planning policy and strategic planning framework at a state and local government level.
- An examination of the methods and assumptions used by CPS, JLL and Location IQ in the retail and economic impact analysis.
- Testing the assumptions made and conclusions drawn in relation to the industrial land market.
- A sense check of data and methods through desktop review, consultation with commercial property market agents and in-house experience.
- A review of potential alternative sites.
- An analysis of current supermarket retail strategy in purchasing land in industrial areas and assessing the overall land use demand, impacts and land value changes from allowing supermarket retail in employment lands.

Ultimately the work does not constitute a full peer review as it has not included any parallel modelling or major quantitative analysis. It mainly focuses on the supporting documentation and the case for the proposal.

2 Assessment of project justification against state policy and planning framework

2.1 Introduction: Metropolitan planning framework

The metropolitan planning framework has been developed by the NSW Government through long term strategic plans prepared by the NSW Department of Planning and Infrastructure (DOPI) to guide Sydney's development for the next 25 years. The long term strategic plans include the Metropolitan Plan for Sydney 2036 (2010) and its predecessor the Metropolitan Strategy: A City of Cities (2005). Draft subregional strategies including the Inner North Draft Subregional Strategy (INDSS) were released after the 2005 Metropolitan Strategy to provide a higher level of local detail and translating the vision of the metropolitan framework. The subregional strategies have remained in draft form, though are key reference documents for Council planning. The overall framework for metropolitan Sydney is based on the concept of a city of cities with a defined typology of centres, each having specific roles. Global Sydney is supported by a network of regional cities, major centres, specialised centres, town centres, villages and neighbourhood centres.

Chatswood is identified in the Metropolitan Plan for Sydney 2036 and the Inner North draft Subregional Strategy (INDSS, 2007) as a Major Centre, with a major shopping, business and regional employment role and focus for the North Shore. The Chatswood Major Centre falls within the Global Economic Corridor (running from Macquarie Park through the Sydney City Centre to the Airport) which is a major economic and business concentration and driver of Australia's economy. Chatswood is located between the specialised centres of St Leonards and Macquarie Park, forming a vital link in the hi-tech and IT industrial cluster between the two specialised centres.

The INDSS emphasises the importance of existing employment lands in the subregion. One of the four key directions in the Economy and Employment Chapter is to "Protect Strategic Employment Lands" (p20). East Chatswood is identified as one of the strategic employment lands. The strategy characterises the precinct as a 26 hectare (local industry) former heavy industrial area, containing a mix of manufacturing and ancillary office development, with a hi-tech focus.

The INDSS sets a clear agenda to retain the existing employment lands within the subregion. It suggests that given the continued demand for employment lands and scarcity of available land, conversion of existing employment lands within the subregion should be restricted and existing precincts, including East Chatswood, should be retained. The strategy does note that in order to accommodate potential future demand, there may be a need for some intensification of employment lands, however this must not undermine the integrity of the employment lands in servicing local needs or threaten the strategic position of the established centres.

The CPS report assesses the metropolitan planning framework and critiques or adopts elements of it in support of the project proposal. The CPS report also draws on a range of draft policy documents and reviews (some from outside the state government) to make a case for the East Chatswood supermarket proposal.

The following section examines in more detail the policy arguments used to support the project, and provides a critique of these arguments where warranted.

2.2 Policy justification for assessment

Draft Inner North Sub Regional Strategy

The initial discussion under this heading (CPS, p.33) accurately identifies how the site is identified in the INDSS.

- **Draft Inner North Sub-Regional Strategy**

The subject site is located within the East Chatswood employment lands. The Draft Inner North Sub-Regional Strategy identifies East Chatswood as Category 1 employment lands or "land to be retained for industrial purposes".

The paragraphs that follow quote from the subregional strategic framework selectively and not always accurately.

The Draft sub regional Strategy defines Employment lands as:-

"Traditional industrial areas and business and technology parks for higher order employment. They are vital to supporting the economy and ability to service the city and incorporate light industries, heavy industry manufacturing, urban services, warehousing and logistics and high-tech based activities".

The INDSS actually defines employment lands slightly differently (p.25).

Employment Lands

The Metropolitan Strategy defined Employment Lands as including traditional industrial areas and business and technology parks for higher order employment. They incorporate light industries, heavy manufacturing, urban services such as concrete batching plants and waste management, warehousing and logistics, and higher order technology-based activities.

The CPS report then goes on to provide a commentary on the subject site's suitability for redevelopment given this subregional strategic context.

The size of the subject site, in single ownership, its relationship to adjoining low density residential and light industrial activities and its location close to the "Major Centre" of Chatswood renders it desirable for redevelopment. However, it is unlikely that the key functions identified within Category 1, such as heavy industry and manufacturing would occur on the site due to its contextual constraints. The site is removed from high quality infrastructure including (Freeways such as M2; M5 and M7) access to freight (rail road and sea) as well as being in close proximity to low residential density housing.

This is introducing irrelevant considerations. The definition of employment lands to be retained for industrial purposes is actually more elaborate in the Inner West Draft Subregional Strategy (p.28), as follows:

CATEGORY 1

Land to be retained for industrial purposes

Due to anticipated continued strong demand for Employment Lands across the metropolitan region, the majority of sites are currently considered to be most appropriately placed in category one (i.e. to retain for industrial purposes). These are sites which presently function as industrial areas and provide a regional/national economic role (including heavy and light manufacturing or major freight facilities) or subregional role (such as manufacturing and distribution links in supply chains or utilities such as bus depots and water supply infrastructure) or even a local role (such as auto repairs, local business services and trade supplies including building and plumbing). They vary significantly in size (from less than 0.5 hectares to over 500 hectares) and, whilst they may not all be significant employers, collectively these areas are vital to the health of local and regional economies and should be retained to accommodate the future range of economic services to sustain those economies. Some of the smaller sites and operations which host depots, utilities and service trades are vital in sustaining vibrant subregional economies.

Classification of Category 1 lands does not mean that the sites cannot be intensified or redeveloped to meet modern industrial requirements and create additional employment and economic benefits, but that they continue to primarily accommodate industrial and related uses, within the range generally allowed under current zonings.

And in the INDSS (p.26) the East Chatswood area is explicitly described as follows:

- 1) East Chatswood (Local Industry) provides 26 hectares of industrial land containing local services and a mix of manufacturing and ancillary office development, with a high tech focus. It evolved around Scotts Creek close to the intersection of Eastern Valley Way and Boundary Street. The area was previously home to tanneries and other heavy industrial activities.

There is no suggestion in these extracts from the INDSS that the site or the East Chatswood area is designated or even desirable for "heavy industry and manufacturing" as the CPS text implies. The category 1 designation suggests that these lands "will continue to primarily accommodate industrial and related uses, within the range generally allowed under current zonings". In East Chatswood's case the current uses are defined as "local services and a mix of manufacturing and ancillary office development, with a high tech focus".

A supermarket development is clearly at odds with the intention of these draft policy extracts.

Choice Free Zone Report

CPS summarise this report which was commissioned by the Urban Taskforce, including the following (p.34):

- **Choice Free Zone Report - May 2008**

In 2008, the Urban Taskforce commissioned former ACCC Chairman, Professor Allan Fels, to examine the regulation of retail development under the current planning system. His report, Choice Free Zone, was released in May 2008. Professor Fels, argues that retail developments should be encouraged outside established shopping centres, easing the transport burden and encouraging more "pedestrian friendly" communities.

The Choice Free Zone report concluded that shoppers are paying far too much for their groceries because of restrictive out-of-date planning legislation. Professor Fels found that an overhaul of the state government's centres' policy would allow greater competition, leading to consumers paying less for basic food items and other household products.

This document is an interesting contribution to the debate but has no policy status. It is also an incomplete analysis that does not take a community wide perspective of benefits and costs. For example it does not provide quantitative backing to its assertion that restricting supermarkets to established centres results in congestion and nor does it look at the cost of additional travel time that could result from a more dispersed pattern of retail development, or from more remote locations for industrial land, which is what the report advocates.

The more laissez faire pattern of retail development in the US that is effectively promoted by the Choice Free Zone report is critiqued in a letter to the Sydney Morning Herald¹ (see Figure 2).

Figure 2. Letter to Sydney Morning Herald response to Choice Free Zone report

16 Friday, August 8, 2008 smh.com.au The Sydney Morning Herald

Opinion & Letters

It's a trolley folly to blame planners for rising grocery prices

FIRST WORD

Zoning and planning are again being targeted for their role in supposedly limiting grocery shopping competition ("Planning laws give top stores fighting edge", August 6).

These arguments are drawn from a recent report by Allan Fels and others for the Urban Taskforce. The Fels report and the Urban Taskforce misrepresent planning policy in Sydney, while aspiring to dubious American examples for alternatives.

The State Government's Metropolitan Strategy does not expressly limit supermarket developments. It does favour concentrating development in and around Sydney's centres - of which there are more than 500. This concentration creates a catalyst for retail and associated development, minimises travelling and maximises public transport investment.

Directing new housing, retail and business development to centres also minimises the erosion of well-positioned industrial land, and reduces the potential for conflict with traffic-generating activities (such as supermarkets) in residential areas.

The approach in parts of the United States of allowing unfettered out-of-centre retail development has, in some cases, led to lower prices for retail goods. But at what cost? Many US cities have downtown areas which are unsafe and unfriendly to pedestrians, vast areas of car parking and vacant shops.

Americans are reaping false economies from their cheaper retail goods. Data from the US Department of Transportation shows that the length of shopping trips grew by about 50 per cent between 1991 and 2001. In Sydney, between 1999 and 2006, they grew by about 6 per cent, roughly the same as population growth. Americans travel more than 10 kilometres on average to shop, compared with about six kilometres in Sydney.

Some commentators say that because retail floor space per person in the US is roughly twice that of Australia, there is room for substantial retail expansion here. The American figures are higher because retailing is dominated by large format, characterless stores - and because so many shops in downtown areas, also counted in the figures, are under-trading or vacant. Australian cities are world class by any measure, and our generally well-planned retail centres are a key to this. Planning is not the reason for increasing retail prices. Those suggesting otherwise misunderstand or misrepresent planning's role in managing the competing interests in our cities.

Patrick Fensham director, SGS Economics and Planning; co-author, Sydney Metropolitan Strategy

¹ Fensham, P. (2008) 'It's a trolley folly to blame planners for rising grocery prices', *Sydney Morning Herald*, letter 8/8/08

Productivity Commission Report on the Economic Structure and Performance of the Australian Retail Industry

Again, this Productivity Commission report² has no official policy status. It is hard to argue with the quote included (CPS, p.34).

"While recognising the merits of planning and zoning controls in preserving public amenity, States and Territories should examine the potential to relax those controls that limit competition and restrict retail space and its utilisation".

Again any such change in controls needs to weigh up the complex of community costs and benefits with a long term perspective.

State Plan

Not directly relevant.

Draft Centres Policy

This is explicitly described on its cover as being 'not government policy'. Nevertheless, it provides little if any obvious immediate justification or basis for the rezoning being proposed. The CPS report quotes the 'sequential test' from the policy as follows (p.36):

- *it must first be demonstrated that there are no **suitably zoned sites within the existing centre**. Where the zoning is flexible – such as a mixed use zone – there will be more options available to proponents. It is recognised that acquiring appropriately zoned sites within existing centres may not always be practical or feasible particularly if large format sites are required.*
- *if there are no suitable zones sites in the existing centre, it must then be demonstrated that there are **no suitable sites in an edge-of-centre location**. Where available, edge-of-centre sites will generally be supported particularly if good connections can be established with the existing centre.*
- *out-of-centre stand alone sites will generally not be supported unless it has been demonstrated that there are **no suitable within-centre or edge-of-centre sites** and there is a demonstrated net community benefit".*

Emphasis added

The accompanying discussion argues as follows:

Further, it is considered that the subject site, being edge-of-centre has good connections with the established "Major Centre" of Chatswood with good access to existing infrastructure such as public transport. The rezoning of the subject site to allow a supermarket use would be compatible and/or complementary with the surrounding land uses; would increase choice and competition within the area, and would facilitate a permanent employment-generating activity. The above demonstrates the rezonings ability to produce a net community benefit.

² Productivity Commission Report on the Economic Structure and Performance of the Australian Retail Industry, No. 56, 4 November 2011

No definitions of 'edge of centre' are provided in the Draft Centres Policy, but it is hard to see how the site could claim this status. The sequential test concept emanates from British planning policy in relation to town centres. The most recent relevant definitions of these concepts are contained in the UK Department for Communities and Local Government, December 2009 document, *Planning for Town Centres: Practice guidance on need, impact and the sequential approach* (p.33-34).³ The relevant definitions are included below.

DEFINITIONS

- 6.3 Definitions are included in Annex B of PPS4. The key definitions are 'in centre', 'edge of centre' and 'out of centre'. For the purposes of:
- i) In centre*
- 6.4 The 'centre' for retail development is defined by PPS4 as the primary shopping area (PSA). Key considerations will be the extent of existing primary frontages, as defined by prime rental levels, and/or pedestrian flows. The presence of key anchor stores and other main town centre uses (e.g. cinemas) may also help to identify the extent of the PSA. Where specific proposals are identified, for example extensions to existing town centre shopping schemes, it may be appropriate to define these areas as planned extensions to the PSA.
- ii) Edge of centre*
- 6.5 For retail purposes, this is a location that is well connected to, and within easy walking distance (i.e. up to 300 metres) of the PSA. For all other main town centre uses, this is likely to be within 300 metres of a town centre boundary.
- 6.6 In determining whether a site falls within the definition of edge of centre, account should be taken of local circumstances. For example, local topography will affect pedestrians' perceptions of easy walking distances from the centre. Other considerations include barriers, such as crossing major roads and car parks, the attractiveness and perceived safety of the route and the strength of attraction and size of the town centre. A site will not be well connected to a centre where it is physically separated from it by a barrier such as a major road, railway line or river and there is no existing or proposed pedestrian route which provides safe and convenient access to the centre.
- 6.7 As well as existing and proposed physical links between the site/proposals and the PSA, the degree of functional linkage between the two will have a major effect on the level of linked trips. People may be more willing to walk between an edge of centre site and the PSA if they each have strong, complementary attractions.
- iii) Out of centre*
- 6.8 'Out of centre' locations are not in or on the edge of the centre but not necessarily outside the urban area. They are not within easy walking distance of the centre and are therefore unlikely to contribute to linked trips or to share the level of public transport accessibility as the town centre. Where locations in existing centres or edge of centre locations are not available, preference should be given to out of centre sites well served by a choice of means of transport, which are close to a centre and have a higher likelihood of forming links with a centre

On this and any other reasonable test this site - well over 2 kilometres from Chatswood station and separated by residential areas and a significant main road (Penshurst Street) - is 'out of centre'. If this policy had status the proposal would therefore need to firstly show that no in-centre or edge-

³ <http://www.communities.gov.uk/publications/planningandbuilding/towncentresguide>, viewed 29 March 2012

of-centre sites are suitable (see section 8 of the draft policy) and secondly pass the 'net community test' to begin to be entertained.

The two items referred to in the above extract from the CPS report ('increase choice and competition within the area' and 'facilitate a permanent employment generating activity') are a selective reading of the list of criteria mentioned in relation to the net community benefit test in the Draft Centres Policy. The text that precedes the list of criteria is a clearer reading of what might be included in a net community benefit test. This states (p. 24-5):

In NSW a variety of evaluation practices have developed over time to assess the net community impact of development. For example, some proponents will evaluate their development and include 'transfer' effects (i.e. transfers of benefits and costs between individuals and business with no net impact on welfare), while others will evaluate proposals using only 'welfare' effects (i.e. transfers of benefits and costs between individuals and businesses that do have a net impact on welfare). A good example relates to employment

– proponents who evaluate their developments and include transfer effects would argue that the creation of, for example, 400 jobs would be a key benefit of a new development, whereas proponents using only welfare effects would argue that the benefit is only the net number of new jobs created (once movements within the labour market have been factored in).

And goes on to say (p.25)

The assessment should only evaluate the external costs and benefits of the proposal (i.e. the externalities). The assessment should generally assume that any private costs will be cancelled out by any private benefits.¹⁰ However, consideration must be given to changes that reflect a higher community benefit that results from changes in private costs such as a resultant change in rents caused by a proposal that has created a change in the value the community places on a land use.

The assessment should only include costs and benefits that have a net impact on community welfare (i.e. welfare effects). Impacts that simply transfer benefits and costs between individuals and businesses in the community (i.e. transfer effects) should not be included, since they result in no net change in community benefits.

and

The assessment should quantify costs and benefits where possible, although this may not always be achievable or practical. For larger and more complex proposals, the proponent should consider the use of more formal cost benefit analysis techniques.¹¹ Such analysis should be carried out objectively taking into consideration matters such as the number and type of jobs generated, the local or regional economy multiplier effects and any infrastructure and likely travel cost implications.

On this reading 'transfers' should be excluded from the assessment. The competition merits and employment effects of the development are therefore not relevant (unless it can be shown this produces additional wealth or net new employment for the otherwise underemployed). The economic impact analysis acknowledges that the turnover of the supermarket will be almost exclusively based on a shift from other facilities and trend based growth in spending.

More relevant tests drawn from the above extracts would relate to net changes in rents and travel cost implications within the retail system. There is no assessment of the development against these tests in the CPS documentation.

Though the Draft Centres Policy is not adopted policy, the Department of Planning's *Guidelines for Planning Proposals*⁴ notes that planning proposals could be supported by a net community benefit test evaluation.

The assessment should be prepared by the proponent in conjunction with the relevant planning authority to be submitted to council for endorsement prior to submitting to the Department of Planning as part of the Gateway test. (p.5)

One other statement of interest in the Draft Centres policy relates to planning for supermarkets (p.20):

PLANNING FOR SUPERMARKETS

Supermarkets are utilised by the majority of community on a regular basis and therefore form an important retail anchor for local and major centres. Shopping trends in supermarkets range from:

- 'top up' shopping undertaken on a frequent, sometimes daily basis, often by public transport or walking with the supermarket taking over the role of the corner shop, to
- major shopping trips on a weekly, bi-weekly, or monthly basis, often by car.

This highlights the critical anchor role that supermarkets perform. A supermarket at East Chatswood will generate a 'gravitational' pull and create a precedent for other retailers such that a centre by default is likely to emerge, with all the associated travel and shifted expenditure consequences.

Standing Committee on State Development dated December 2009

The CPS (p.37) quotes from a report from this group which makes the obvious point that

⁴ Department of Planning (2009) A guide for preparing planning proposals, http://www.planning.nsw.gov.au/lep/pdf/guide_preparing_preparing_planning_proposals.pdf viewed at 1 May 2012

"The principal means of supporting competition in the planning system is through ensuring that there is sufficient suitably zoned land to accommodate market demand, thereby allowing new entrances into the market".

Promoting economic growth and competition through the planning system dated April 2010

The CPS report highlights one particular recommendation from this April 2010 report, namely:

- 4. The final Activity Centres Policy should consider ways to increase opportunities for competition by allowing more types of shops into centres that currently only permit 'neighbourhood shops'.**

This recommendation is not relevant to the current case. The intent of this recommendation is that a rigid hierarchy of retail and commercial centres which excludes larger format premises from lower order or smaller centres, should be discouraged. The theory is that there may be scope to rapidly expand small neighbourhood centres by allowing supermarkets and larger format stores, thereby increasing competition and building on the existing more modest retail dynamics.

The East Chatswood industrial area is not a centre. Totally different considerations apply where there is no existing cluster of convenience retail shops, and the proposal is for effectively the nucleus of a new centre.

CPS conclusions on the draft policies and reviews

The CPS report (p.39) goes on to say (in reference to the various position papers and draft policies that have followed the Metropolitan Strategy and Inner North Draft Subregional Strategy:

Consistent with the above mentioned various submissions, reviews and recommendations since the release of the Draft Sub-Regional Strategies, it is submitted that "retail premises" and "business premises" should not be excluded from zones intended for employment purposes, such as the business development zone; business parks; enterprise corridor zones and certain light industrial zones.

It is hard to agree with this reading of the various documents. In simple terms the relevant thrust of the documents is:

- Competition is facilitated by ensuring a supply of appropriately zoned land which more than meets future demand for retail premises
- Retail premises are best located in or on the edge of existing centres to achieve accessibility, agglomeration and productivity benefits
- The typology of retail and commercial centres should not be so rigid as to deny opportunities for larger format premises, such as supermarkets, locating in them
- Proposals for retail premises in out of centre locations that can not be accommodated in-centre or edge-of-centre should be subject to a net community benefit test (where net impacts not transfer impacts are the critical consideration).

If this framework was adopted policy the only relevant test for the project would be whether or not the project can be accommodated in-centre or edge-of-centre and then the net community benefit test – neither of which is addressed in any detail in the CPS report or in other documents supporting the proposal.

In the absence of this framework being adopted policy (or any other alternative coming from the current NSW Government), the relevant and latest published final positions for both industrial land (and centres) are contained in:

- the 2010 Metropolitan Plan for Sydney 2036, and
- S117 Directions.

The first of these is not discussed in the CPS report, and the second gets a passing mention in the CPS report but more detailed consideration in a letter to Council dated 24/2/12. The following section considers the proposal in light of relevant extracts and tests from these two documents.

2.3 The ultimate policy tests

Metropolitan Plan for Sydney 2036 (2010)

This document is not referred to in the CPS report. The most relevant sections are *Strategic Direction B Growing and Renewing Centres* and *Strategic Direction E Growing Sydney's Economy*. The relevant extracts and comments from each section are discussed below.

Strategic Direction B Growing and Renewing Centres

The Centres policy is described as follows (p.60):

CENTRES POLICY

The Metropolitan Plan reaffirms the multi-centred geography of Sydney identified and promoted in the 2005 *Metropolitan Strategy*. A centres approach has been and continues to be a defining characteristic of Sydney's urban planning. Since the *County of Cumberland Plan* in 1948, metropolitan planning has identified Major Centres and focused commercial and retail activities in these centres, typically on transport routes. The key elements of our centres approach continue to be:

- concentrating activity in accessible centres
- managing out-of-centre development to maximise the economic and social advantages of clustered activity
- making provision for the growth and urban renewal of existing centres

- planning for new centres to emerge in appropriate locations
- focusing State interest and involvement in the success of Global Sydney, the Regional Cities, Major and Specialised Centres
- influencing the distribution and scale of land uses to improve transport choice and boost active transport and public transport use
- locating 80 per cent of new housing within walking catchments of centres
- providing a diversity of settings for a wider range and density of housing, and
- concentrating commercial activity and job destinations in centres to achieve agglomeration, productivity benefits and improve workforce access

Table 1 shows one view of how the development does or does not contribute to each of these centres policy elements. Overall, given the proposal would be an 'out of centre' development it is not surprising it rates poorly.

Table 1. Contribution of the proposal to centres policy elements

Centres policy elements	Contribution of this proposal
Concentrating activity in accessible centres	Does not contribute. Not in a centre.
Managing out-of-centre development to maximise the economic and social advantages of clustered activity	This out of centre proposal would marginally dilute the clustering of industrial activities in East Chatswood (by displacing them) and of retail activities in other centres (by reducing their turnover)
Making provision for the growth and urban renewal of existing centres	Does not contribute
Planning for new centres to emerge in appropriate locations	Not part of active planning for a new centre (though likely to attract additional retailing and anchor a centre 'by default')
Focusing State interest and involvement in the success of Global Sydney, the Regional Cities, Major and Specialised Centres	Not particularly relevant
Influencing the distribution and scale of land uses to improve transport choice and boost active transport and public transport use	Does not contribute. This is a stand alone retail proposal where car based visits will predominate.
Locating 80 per cent of new housing within walking catchments of centres	Will undermine this element by creating a centre by default away from locations of planned new housing
Providing a diversity of settings for a wider range and density of housing, and	Does not contribute. Though would provide this if part of a planned new centre justified by policy
Concentrating commercial activity and job destinations in centres to achieve agglomeration, productivity benefits and improve workforce	Does not contribute. Not in a designated centre.

Further on in the section, under the Objective B1 (*To focus activity in accessible centres*) the 2010 Metropolitan Plan for Sydney 2036 states:

The pressure for retailing to occur in industrial areas continues to exist. Ideally, retailing in areas with an industrial zoning should continue to be limited to retailing that is ancillary to an industrial use, and the retailing of products such as building supplies—where the retailing generates impacts akin to industrial uses.

This is a clear adopted strategic statement limiting the sort of development represented by the proposal.

Strategic Direction E: Sydney's Growing Economy

Objective E3 (*To provide employment lands to support the economy's freight and industry needs*) and Action E3.2 (*Identify and retain strategically important employment lands*) provide the strategic context for the rezoning of employment lands.

Under these headings the document notes (p.141) that in many older employment areas there "is a declining level of activity due to factors such as obsolete building stock and subdivision patterns" and that in these areas options for renewal need to be considered. This issue is considered in more detail in section 5 of this report.

This proposes the replacement of the subregional strategy categorisation of industrial lands with a 'strategic assessment checklist'. The idea being that this will be more fully developed in the next round of subregional strategies, whose future is now unclear since the change in government. Nevertheless the 'summary' checklist remains adopted policy, as follows (p.141).

SUMMARY OF THE STRATEGIC ASSESSMENT CHECKLIST

- Consistency with *Subregional Strategies*
- Current use of the area, and existing transport and infrastructure
- Impacts on the long-term viability of the employment land precinct and any industry clusters in the precinct or surrounding area
- Whether the employment lands support national or state significant infrastructure
- Trends in local land use activity
- Suitability and extent of measures implemented to improve an area's employment lands viability
- Potential to redevelop for industrial uses and/or new industrial uses (e.g., creative industries)
- Impacts on stocks of local employment lands and the ability of remaining stocks to meet future local industrial needs

The document notes (p.141)

The NSW Government continues to support the retention of existing strategically important employment lands across the Sydney region. Only areas that are not strategically important will be considered for rezoning.

For each of these criteria the role or impact of the current proposal is considered in broad terms below.

Table 2. Consistency of the proposal against Metropolitan Plan for Sydney 2036 (p.141) strategic assessment checklist

Strategic assessment checklist	East Chatswood supermarket proposal
Consistency with Subregional Strategies	No new subregional strategies but not consistent with Inner North Draft Subregional Strategy
Current use of the area, and existing transport and infrastructure	Not consistent with the current use of the area (which is industrial or 'high tech' with some bulky goods retail)
Impacts on the long-term viability of the employment land precinct and any industry clusters in the precinct or surrounding area	Will reduce area for industrial and may increase land values in surrounds and thereby threaten longer term viability for some industrial activities in immediate area (see sections 3 and 4)
Whether the employment lands support national or state significant infrastructure	Not applicable
Trends in local land use activity	CPS proposal notes some trends including an influx of highway retail and bulky goods, and extent of vacancies, but recent significant investment in smaller industrial units and longer run demand-supply trends not quantified
Suitability and extent of measures implemented to improve an area's employment lands viability	Proposal would claim that it is enhancing the area's 'employment lands viability' but this is on a broad definition of employment lands not necessarily intended by the checklist. As mentioned above the proposal may undermine the viability of this area for some industrial activities (this would be subject to further research)
Potential to redevelop for industrial uses and/or new industrial uses (e.g. creative industries)	Re-investment in the area would allow for this. A change in the industrial use of the area could be facilitated by a development such as that proposed though possible increase in land values may also reduce this prospect in the immediate site vicinity, alienating land for industrial purposes.
Impacts on stocks of local employment lands and the ability of remaining stocks to meet future local industrial needs	This longer term supply-demand perspective is the main issue and needs greater coverage. There is a discussion of this in section 5 below.

This 'quick' and qualitative assessment generates a mixed outcome for the proposal but more work than is included in this report would be required to test the proposal fully against the criteria. These criteria should have been covered by arguments in the CPS proposal.

Section 117 Directions – 1.1 Business and Industrial Zones

These are the other relevant official and adopted government positions on the rezoning of industrial lands. The most recent s.117(2) Directions related to business and industrial zones⁵ contain the following objectives.

Objectives

- (1) The objectives of this direction are to:
 - (a) encourage employment growth in suitable locations,
 - (b) protect employment land in business and industrial zones, and
 - (c) support the viability of identified strategic centres.

What a relevant planning authority must do if this direction applies

- (4) A planning proposal must:
 - (a) give effect to the objectives of this direction,
 - (b) retain the areas and locations of existing business and industrial zones,
 - (c) not reduce the total potential floor space area for employment uses and related public services in business zones,
 - (d) not reduce the total potential floor space area for industrial uses in industrial zones, and
 - (e) ensure that proposed new employment areas are in accordance with a strategy that is approved by the Director-General of the Department of Planning.

Consistency

- (5) A planning proposal may be inconsistent with the terms of this direction only if the relevant planning authority can satisfy the Director-General of the Department of Planning (or an officer of the Department nominated by the Director-General) that the provisions of the planning proposal that are inconsistent are:
 - (a) justified by a strategy which:
 - (i) gives consideration to the objective of this direction, and
 - (ii) identifies the land which is the subject of the planning proposal (if the planning proposal relates to a particular site or sites), and
 - (iii) is approved by the Director-General of the Department of Planning, or
 - (b) justified by a study (prepared in support of the planning proposal) which gives consideration to the objective of this direction, or
 - (c) in accordance with the relevant Regional Strategy or Sub-Regional Strategy prepared by the Department of Planning which gives consideration to the objective of this direction, or
 - (d) of minor significance.

Note: In this direction, "identified strategic centre" means a centre that has been identified as a strategic centre in a regional strategy, sub-regional strategy, or another strategy approved by the Director General.

Consistency with Clause 4

The current proposal needs to satisfy (a), (b), (c) and (d) of clause 4 if it is arguing 'consistency'.

It is arguable whether the proposal meets objective (a) (*encourage employment growth in a suitable location*), given that it will be retail employment. In terms of the centres policy in the Metropolitan Plan for Sydney 2036 a 'suitable location' for retail employment would be in an

⁵

<http://www.planning.nsw.gov.au/LinkClick.aspx?fileticket=dOkLhSFp9eo%3D&tabid=248&language=en-AU>

'accessible' centre, to improve transport choice and boost active transport and public transport use and also to manage out-of-centre development to maximise the economic and social advantages of clustered activity, for example locating a range of uses (such as civic, cultural, commercial and other retail) in close proximity to facilitate multi-purpose trips and thereby minimise aggregate trip making.

The proposal can safely claim that it would meet objective (b) (*protect employment land in business and industrial zones*) – given that it replaces one type of employment for another.

Probably, the critical objective that the proposal (and supporting studies) needs to meet is therefore (c) "*support the viability of identified strategic centres*".

The 24/2/12 letter tries to argue the site is 'edge-of' the Chatswood centre, and in this way somehow is compatible with or complements the surrounding land use and centre and can therefore be seen to be supporting the viability of the centre. This argument can be wholly discounted. As discussed above the site is more than 2 kilometres away from Chatswood and is separated by residential areas and major streets. By any definition the proposal is 'out-of-centre'.

It is hard for any proposal of this kind, which will involve a redirection of expenditure away from existing centres to the proposed supermarket, to meet a strict reading of objective (c). Ultimately a reduction in expenditure – even as little as 1.3 percent as suggested in the Duane Location IQ report – is **not consistent** with the test of supporting the viability of the strategic centre of Chatswood. The CPS report and letter state that it will "**not threaten the viability**" of centres, which is not actually the test the proposal needs to meet.

The impact analysis is discussed in more detail in section 4.

The proposal can claim to satisfy 4(b) and (c).

It is difficult for the proposal to satisfy 4(d) because it will likely **reduce the potential floor space for industrial uses in the existing industrial zone**. The CPS 24/2/12 letter argues otherwise, with a claim that:

"...the PP does not seek a rezoning but rather only seeks to introduce an additional permissible use for the subject site so as to retain the floor space area within the industrial zone." (p.1)

Notwithstanding the significant precedent that this approach (a site specific change to the allowable uses in the zone) would unleash, it is difficult to argue that introducing a general retail use to the zone (even if just to one site) preserves the floorspace available to industrial uses within that zone.

It might be possible to satisfy clause 4(d) if the supporting studies showed that the ultimate (long term) development potential of the zone would not be compromised by the proposal. This would only be the case where all potential demand was able to be accommodated by the reduced supply. The supporting studies note the change in type of employment uses and the current high vacancy rate but, though implied, do not address this ultimate test of whether longer term potential can be accommodated.

If inconsistent with Clause 4 the proposal needs to satisfy Clause 5

If the proposal is inconsistent with this direction it needs to satisfy the relevant elements of clause 5 to be entertained (by the authority or the DG or his/her officers). The CPS 24/2/12 letter and accompanying reports aim to show the proposal can achieve satisfy these elements.

Though the letter devotes a few paragraphs to addressing 5(a) none of the material is directly relevant because 5(a) is about justifying an inconsistent proposal by a strategy "approved by the Director-General of the Department of Planning" (5(a)(iii)). The letter does not make reference to such a strategy. The only strategy which could qualify is the 2010 Metropolitan Plan for Sydney 2036, or perhaps the INDSS, but this is explicitly covered by 5(c), and is discussed below. There is no other Director General endorsed strategy explicitly relating to this site.

For 5(b) the letter and documentation for the proposal needs to address or 'give consideration to' the objective(s) of the direction (see discussion above).

For 5(c) the relevant Regional Strategy is the Metropolitan Plan and a broad and qualitative consideration of the extent to which the proposal addresses or satisfies the centres policy elements and employment lands strategic assessment criteria (see Table 1 and Table 2) suggests the proposal 'falls short'.

The letter invokes the Inner North Draft Subregional Strategy in relation to this clause 5(c). The merits of CPS's arguments in favour of the proposal against the contents of this document are discussed earlier, and it was found that a supermarket development on the site is clearly at odds with the intention of relevant extracts from this draft policy.

The CPS 24/2/12 contains the following commentary (p.4):

- Draft Inner North Subregional Strategy;
- Choice Free Zone by Professor Fels;
- Productivity Commission report;
- State Plan;
- Draft Centres Policy;
- Standing Committee on State Development; and
- Promoting economic growth and competition through the planning system dated April 2010

Based on the review of these policies as listed above a clear policy shift is apparent. There is a shift from the traditional principle that only industrial land should be retained for employment purposes to acknowledging that a mixed of uses including retail premises and business premises can more appropriately contribute to employment generation. This is consistent with *objective (b)* in that it allows appropriate uses which would protect employment land.

This is a tenuous reading of the documents quoted. For a start only the State Plan has the status of policy (and it doesn't have any substantive discussion on relevant issues). The Inner North Draft Subregional Strategy comes closest to representing an official position and it makes no assertion that "retail premises and business premises can more appropriately contribute to employment generation".

The letter's last page also includes the following three paragraphs (p.6).

Consistent with the various submissions, reviews and recommendations since the release of the Draft Sub-Regional Strategies, it is submitted that 'retail premises' and 'business premises' should not be excluded from zones intended for employment purposes, such as the business development zone; business parks; enterprise corridor zones and certain light industrial zones.

Typically, when the Department of Planning refers to "employment land" it is predominantly referring to "industrial land". Largely excluded from the concept of "employment lands" is the retail sector, considered to be Australia's largest single source of employment.

It is our submission that all lands capable of supporting employment should be recognised as employment lands; and not only industrial land. That the subject site, and East Chatswood Industrial area as a whole should have a zoning which allows a greater mix of uses - employment uses. As such, the PP would not be contrary to the intent of the S117 Directions.

Some of the documents referred to make the claims in the first paragraph though within the category of retail premises, supermarkets are unique in the share of total expenditure they attract. For this reason they are not simply another 'retail premise'. There would be very strong and legitimate opposition to allowing supermarkets, which have such a catalysing and anchor role for centres, to proliferate in the zones suggested.

The second paragraph is a more or less correct reading of the Department of Planning's position but is hardly relevant.

The third paragraph and the opening sentence in particular is a stronger philosophical position than that put in the first paragraph. Where the first paragraph identified a limited range of zones where retail and business premises ought to be allowed, this paragraph argues that "all lands capable of supporting employment should be recognised as employment lands; and not only industrial land". Presumably the logical extension to this statement is that there would just be four or five zones (employment, residential, recreation, rural etc).

This line is typically advocated in relatively extreme planning literature and would not seem to be consistent with the more fine grain approach to planning that is included in documents like the Metropolitan Plan for Sydney 2036. This includes a centres approach which seeks to concentrate particular uses – retail in particular - for net economic and community development benefits, a land use conflict minimisation approach that recognises that some employment generating uses may not be compatible with each other and an agglomeration approach which seeks to cluster broadly similar employment uses for operational and productivity benefits.

3 Local policy framework

3.1 Introduction

Willoughby City Council has established a strategic planning direction for the LGA through preparation of a number of documents and planning studies, and through its Community Strategic Plan⁶. These documents and their key relevant elements are summarised below.

3.2 Willoughby Council policy documents

Willoughby Industrial Areas Study

The Willoughby Industrial Areas study was prepared by SGS Economics and Planning in 2005. The Industrial Areas Study was commissioned to assess the current dynamics and function of industrial precincts in East Chatswood and Artarmon as well as provide recommendations for their future development. The study focussed especially on emerging land uses in the precincts and the changing demand for land in older industrial areas in inner city/inner suburban locations. The changing demand for floor space in the industrial areas has come especially from office uses and bulky goods retailing. The study however makes clear the need to balance the demand for a greater office component and reduced 'traditional industrial' activity, whilst protecting the very small remaining pockets of industrial land on the North Shore.

The report supports the notion that older heavy manufacturing activities and transport and logistics industries will continue to relocate, as companies look to consolidate industrial activity on fewer sites as well as move to areas with cheaper land, larger floor plates and better transport connectivity, especially around the Sydney Motorway Network. Importantly, the report also notes that higher-order activities, including high end manufacturing, business services, research and development and other health and education facilities are likely to expand and require smaller units of work.

The report supports wider evidence that demand for alternative land uses in the industrial areas in Willoughby LGA, including East Chatswood, is being generated by businesses support services and local support services, research and training facilities and high tech and niche manufacturing. The report outlines the need to provide land for employment uses which would not be appropriate in

⁶ These are:

SGS Economics & Planning, Hansen Partnership, Parsons Brinckerhoff (2004) *Willoughby industrial areas study*, Willoughby City Council,

Hill PDA (2010) *Chatswood office precinct economic analysis*, Willoughby City Council,

SGS Economics & Planning, Andrews Neill (2005) *Victoria Avenue/Chatswood Mall scoping study*, Willoughby City Council,

Willoughby City Council (2010) *Exhibition of new planning controls*.

Willoughby City Council (2009) *Willoughby City Strategy together towards tomorrow, Community Strategic Plan 2010 – 2025*, December 2009

another location, such as research and development facilities that have an office component but still include a warehouse or 'lab' function. The report emphasises that sound planning policy and principles dictate that key uses not appropriate in the industrial areas include:

- residential uses, which are generally incompatible with industrial uses and could impact on their operations;
- retail uses and associated retail sale activities, which should be located in designated activity centres; and
- offices, which should be located within designated activity centres and close to public transport.

Based on these findings, retail (particularly food retail that could be located in a designated centre) is not supported by the report as an appropriate land use in the study area.

Chatswood Office Precinct Economic Analysis

Hill PDA was commissioned by Willoughby City Council in 2010 to complete an Economic Analysis for the Chatswood Office Precinct. The findings of the paper were to be considered by Council for the preparation of a new planning framework for Chatswood centre. The paper aimed to ascertain the current demand and supply factors affecting the commercial office market in Chatswood centre and also to analyse the impacts of a policy change to office development in Chatswood centre.

The report affirms the role of Chatswood as a regional commercial centre and strategic employment centre as identified in the draft Inner North Subregional Strategy. The paper notes that the commercial office market in the Chatswood centre is part of a wider demand supply chain for commercial space in Northern Sydney. Macquarie Park and St Leonards are competitors in the same market, with a majority of prospective tenants in Chatswood, coming from within the region looking to relocate or upgrade. This has had quite an impact on Chatswood as there is limited availability of new commercial space. The report notes that Macquarie Park has become a major competitor, as it is able to offer cheaper campus style accommodation, with a lack of available premium office stock in Chatswood.

The paper supports the concentration of commercial space in the commercial core on the western side of the railway line between Chatswood railway station and the Pacific Highway. Additionally the analysis also advocates for an increase in residential density for the remainder of the centre on the eastern side of the railway line, with provision for other mixed uses. This includes the existing retail functions

The paper also emphasises the need to maintain current FSRs in the commercial core, rather than increase the FSR ratio. The rationale is that increasing the FSRs has the prospect of driving land value expectations higher, subsequently hindering possible development. This impact is exacerbated by the relatively high vacancy rates (~10-12%).

Victoria Avenue/Chatswood Mall Scoping Study

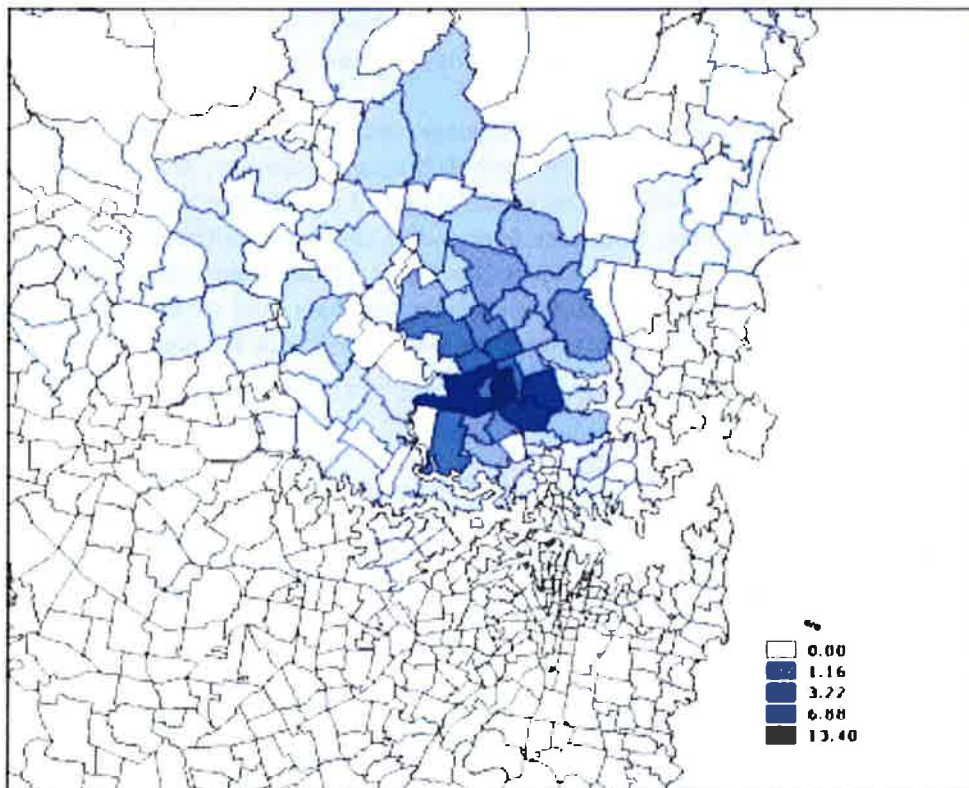
SGS Economics and Planning and Andrews Neill were commissioned by Willoughby City Council in 2005 to provide a scoping study for Victoria Avenue/Chatswood Mall in the centre of Chatswood. The study was to analyse the current retail context of the Chatswood centre and to put forward a

set of recommendations to revitalise and improve the vitality of the retail strip along Victoria Avenue and Chatswood Mall.

The paper looks at the current retail dynamics of Chatswood, which indicate that the Westfield and Chatswood Chase shopping centre's dominate the local trade, with Victoria Avenue and Chatswood Mall seen as more transit shopping destinations, with lower end retail and convenience and food stores. The report also confirms the regional importance of Chatswood as a dominant retail destination on the lower North Shore and large proportion of the upper North Shore.

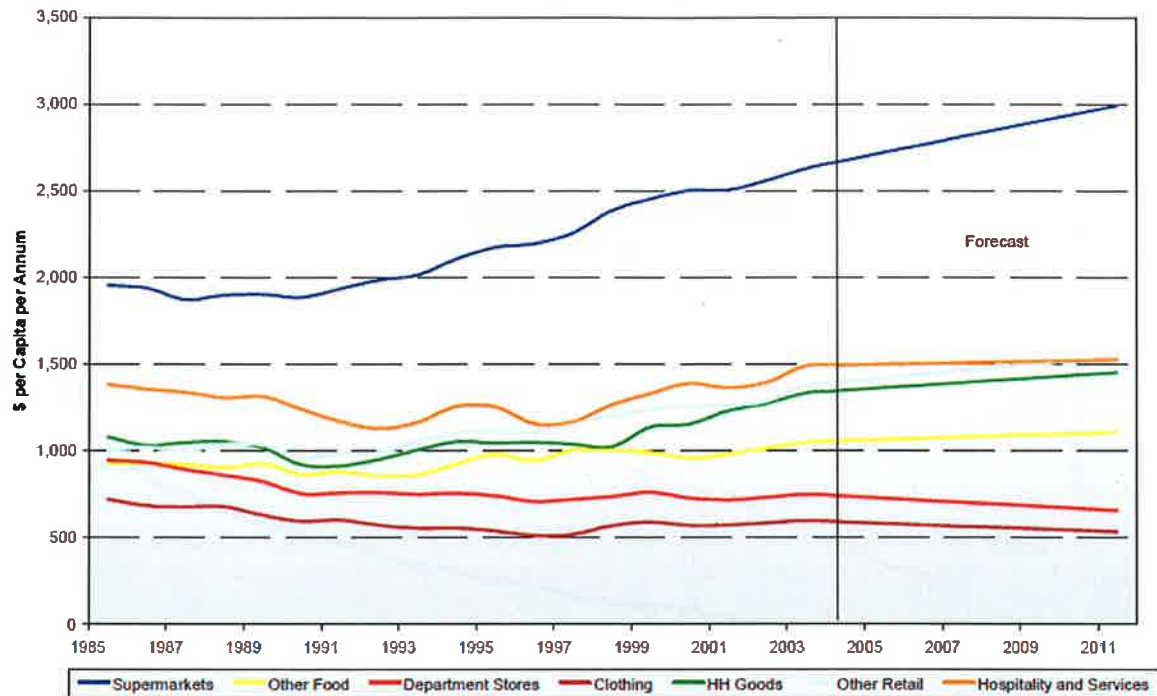
The retail demand analysis in the study informs that there is forecast to be large scale increase in national expenditure for supermarkets. The supermarket retail turnover density and other retail turnover density are shown in Figure 3 below. The retail catchment map shows a strong catchment area in the east of Chatswood centre, in the area surrounding the employment lands and subject site.

Figure 3. Sources of turnover for Chatswood Supermarkets



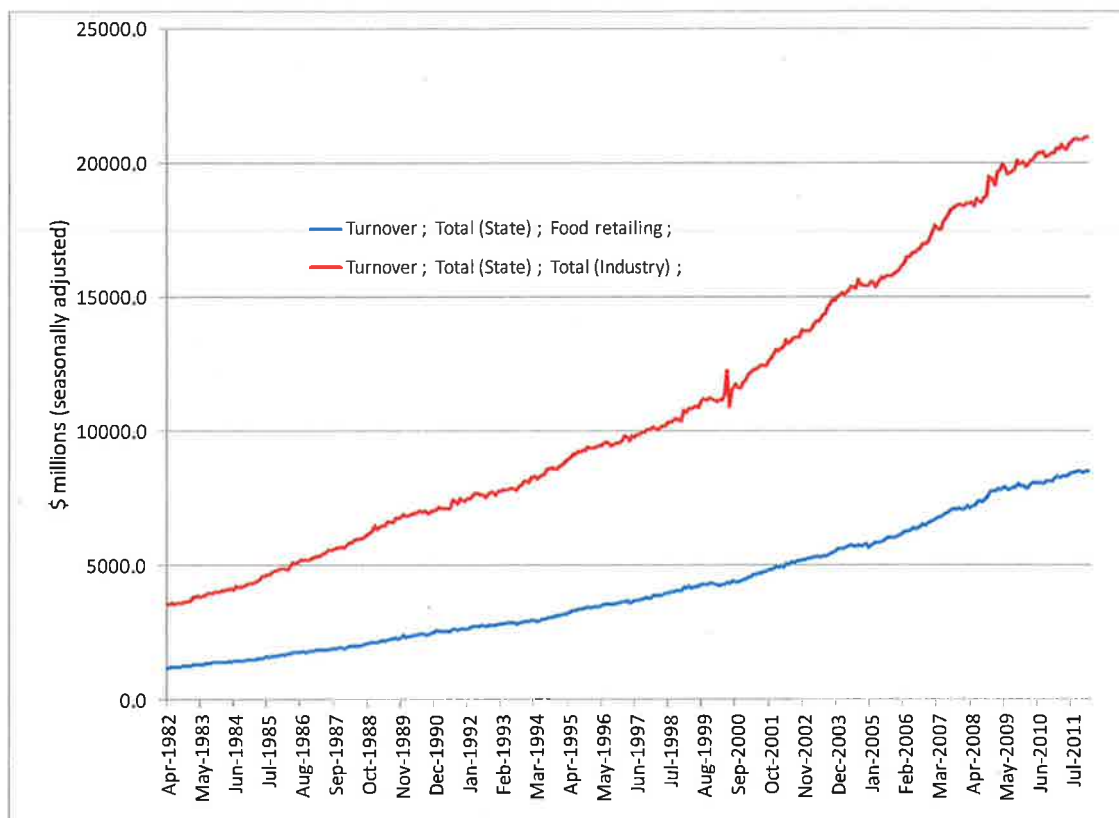
Source: SGS (2005)

Based on the turnover density in the primary, secondary and greater catchment regions in the report, it is fairly clear that Chatswood dominates the local retail market in a centralised manner. It does need to be taken into account however that supermarkets are forecast to have the highest increase and total spend per capita in Australia, with this trend increasing over the next 25 years. Figure 4 below shows the increase as shown in the report.

Figure 4. National retail spending per capita (2001 constant \$)

Source: ABS and SGS Projection (2005)

It should be noted that overall retail and food spending has 'flattened' off in the years since this Victoria Avenue/ Chatswood Mall Scoping Study was completed (see Figure 5). The year on year increases in spending that we have seen may not continue as households pay down debt with a more cautious economic outlook. Future projections are likely to be less robust (though the share of total expenditure captured by supermarkets may hold up or continue to increase).

Figure 5. Australian total and food retail spending

Source: ABS, 8501.0 - Retail Trade, Australia, Feb 2012

Willoughby City Council Exhibition of New Planning Controls

In March 2010 Willoughby City Council issued 'Willoughby Local Environment Plan News' to property owners and residents. This is a brochure about proposed new residential planning controls that were to be exhibited as part of the Draft Willoughby Local Environmental Plan. The bulletin indicated the proposed revised planning controls for residential areas were to firstly be consistent with the requirements of the comprehensive LEP template and secondly to allow Council to accommodate an additional number of dwellings in centres and suitable locations which could support and benefit from residential intensification.

The proposed controls would allow certain parts of Chatswood centre and St Leonards centre to be zoned R3 (medium density residential), R4 (high density residential) and B4 (mixed use zone). Further the proposed controls allow for other selected residential areas to be rezoned, allowing for increased residential density in the smaller activity centres of Willoughby, Naremburn and areas along Penshurst Street and the Pacific Highway.

The purpose of the proposed rezonings is to concentrate new residential, business and community development into existing centres of commercial and community activity and residential density.

This firstly allows for the existing centres to benefit from increased density and secondly means that accommodating new dwellings and non residential land uses can be done in areas where there is existing access to retail and community services as well as access to public transport and where infrastructure costs can be reduced. To this extent, the proposed site for the Woolworths Supermarket in East Chatswood is not complementary to the policy of supporting existing activity centres.

Willoughby City Strategy together towards tomorrow, Community Strategic Plan 2010 – 2025, December 2009

The Community Strategy includes goals and objectives across a range of areas. While relatively high level these provide clear strategic directions for development.

In relation to housing there is a clear aim to provide a diversity of housing, in particular located and provided with adequate infrastructure and services (see Figure 6).

Figure 6. Housing Objectives from Community Strategic Plan

- 3.1.1 A range of housing choices for all household types and age groups*
 - a. Identify and plan for housing needs, particularly opportunities for promoting mixed use housing developments, new affordable housing and other special needs housing.
 - b. Investigate changing demographics of the Willoughby area and review planning controls to encourage new housing types to meet community needs.
- 3.1.2 Ensure adequate provision of housing for older people and people with individual needs.*
 - a. Support for people who need social and public housing.
 - b. Facilitate and advocate for the provision of affordable housing.
 - c. Integrate universally accessible measures into all new housing design.
 - d. Investigate the future housing needs of older people and people with individual needs including aged and respite services.
- 3.1.3 New housing is located in areas where housing densities are appropriate to the infrastructure and services and where quality living amenity for residents is ensured.*
 - a. Ensure future development can be provided with adequate infrastructure and services.
 - b. Assess development for its quality and amenity for living.

In relation to transport one objective amongst many is to 'manage car parking to promote public transport use instead of private vehicle use'.

Figure 7. Selected Transport Objectives from Community Strategic Plan

- 4.1.3 Transport management balances our necessary private vehicle trips with alternative, more sustainable transport.*
 - a. Plan and develop higher density land uses within and around existing centres, where infrastructure and services are located.
 - b. Manage car parking in developments in order to promote public transport use instead of private vehicle use.
 - c. Control parking in areas served by public transport through pricing and parking time.
 - d. Involve the business community in transport initiatives.
 - e. Identify and implement traffic mitigation strategies and alternative transport options for industrial areas.

In relation to the economy and employment the objectives include maintaining local commercial and retail centres, locating employment in areas that can be well serviced by public transport,

limiting commercial and retail activity in industrial areas, and supporting the CBDs of Chatswood and St Leonards (see Figure 8).

Figure 8. Selected Economic Objectives from Community Strategic Plan

5.1 Local Business and Industry

Goal: To promote the City's position as a preferred location for a range of business and industry that is responsible and responsive to the local community and the environment.

5.1.1 Prosperous business and industry precincts that attract customers and support jobs.

- a. Provide or advocate for relevant infrastructure to support local centres and industrial areas.
- b. Provide information and assistance to support the needs of local business and industry.
- c. Maintain the role of neighbourhood shopping centres.
- d. Provide priority service for development assessment and construction.

5.1.2 Diverse retail and business activities are maintained.

- a. Plan for a range of different employment and services centres catering for local, commercial and community needs.
- b. Support start up and home businesses.
- c. Provide and encourage a range of business/retail spaces and business incubators.
- d. Provide land use planning controls to support viability and local service focus of local centres.
- e. Encourage innovation, research or knowledge based businesses to locate or remain in Willoughby.
- f. Investigate strategies to promote the establishment of small businesses.

5.1.3 Local business and industry implement sustainability practices.

- a. Undertake sustainability education, assistance and awareness campaigns for local business and industry.
- b. Locate employment in areas that can be well serviced by public transport and encourage home based occupations.

5.1.4 Integrity of local industrial areas is maintained.

- a. Provide policies to limit commercial and retail activity in industrial areas and ensure versatility of sites for alternative industrial uses.

5.2 Central Business Districts (CBDs)

Goal: To have accessible, prosperous, safe, convenient and attractive Central Business Districts providing a desirable range and quality of services.

5.2.1 Chatswood is a major corporate and retail destination.

- a. Develop a strategy for the long term development of Chatswood CBD.
- b. Provide incentives for redevelopment that will upgrade building stock and streetscapes.
- c. Promote the Chatswood CBD for corporate and retail investment.
- d. Provide a community heart for Chatswood.
- e. Strengthen marketing around Chatswood retail.

5.2.2 St Leonards is a specialised employment centre for health and education.

- a. Coordinate planning for the centre with Lane Cove and North Sydney Councils.
- b. Support Royal North Shore Hospital redevelopment for state of the art health and medical services for the local community and Northern Region.
- c. Plan for new development that supports St Leonards employment objectives.

5.2.3 Our CBDs are attractive and safe with a high standard of sustainable urban design.

- a. Provide planning controls for sustainable urban design within the CBDs and operation of buildings and spaces.
- b. Work in partnership with local business to maintain safe, attractive, healthy CBDs.
- c. Provide easily accessible and walkable CBDs.
- d. Increase public art and the quality of the public domain in the CBDs.

5.2.4 Our CBDs are supported by provision of utilities, public transport, road upgrades, open space infrastructure and pedestrian linkages.

- a. Develop plans and policies to effectively manage our assets.
- b. Develop transport and commuter parking strategies.
- c. Develop a civic improvements program for Chatswood and St Leonards.
- d. Lobby state and federal governments for funding to support ongoing and future infrastructure demand in and around Chatswood and St Leonards.
- e. Require development contributions for the provision of infrastructure and facilities.
- f. Develop open space and pedestrian linkages.

3.3 Local strategic settings

Generally these strategy and policy documents take their cue from state government metropolitan planning directions. A summary of the key relevant directions and elements is as follows.

- Provide a diversity of housing, in particular located and provided with adequate infrastructure and services
- Manage car parking to promote public transport use instead of private vehicle use
- Maintain local commercial and retail centres
 - Council policy supports further dwelling construction to activate smaller town and village centres, including Northbridge, Naremburn and Willoughby.
 - In the local centres, although the actual amount of land identified as commercial has not increased in the draft LEP it does include some increases in density and heights, for example in the Victoria Ave/Penshurst St centre (North Chatswood) and Northbridge the height has increased from 3-4 storeys
- Locate employment in areas that can be well serviced by public transport
- Limit commercial and retail activity in industrial areas
 - Industrial activity is changing in Willoughby, with a higher technical and office component. The industrial areas are evolving to accommodate these rather than traditional industrial activities such as pure warehousing and manufacturing. These uses often include a warehousing or have operational characteristics which means they still need to locate in industrial areas.
 - Retail (particularly food retail that could be located in a designated centre) is not supported as an appropriate land use in the industrial areas.
- Support the CBDs of Chatswood and St Leonards
 - Chatswood is confirmed as the major centre in the LGA, and as a regional commercial, retail and services hub. Additionally, the specialised centre of St Leonards is recognised along with Chatswood as having the most capacity to house additional residents and employment growth.
 - In Chatswood, additional sites on the edge of the City have been rezoned for commercial purposes in the draft LEP.
 - Similarly, St Leonards has been identified as an area of additional growth with increases in height, FSR and permissible land uses.

These strategic settings established by a number of Council documents and consultant reports do not support development of the site for the proposed Woolworths supermarket. There is only a limited reference to these local strategic directions in the CPS and other documentation.

4 'Desktop' review of economic impact analysis

4.1 Introduction

In support of the proposal for a full line supermarket on a site currently zoned for industrial uses, the proponent (Woolworths) has submitted an economic analysis prepared by Duane Location IQ in May 2011 to the Willoughby Council.

The main purpose of this Location IQ analysis was to assess the demand for a proposed Woolworths supermarket at East Chatswood and the likely economic impacts that would result from the proposed development, which include both the likely trading impacts on other retailers and employment generation of the proposed supermarket.

4.2 Location IQ Response to Council Request (February 2011)

The Duane Location IQ paper addresses issues raised by Willoughby Council in relation to the proposed development of a full-line supermarket with underground parking on the subject site in the East Chatswood Industrial area. Council's stated concerns include:

- the need to maintain a supply of industrial land in the area
- the availability of existing zoned areas in established centres allowing supermarket retail, and
- the impact on surrounding areas from the development of a supermarket.

In response, Location IQ identify a number of factors that they argue support the proposal.

The biggest consideration in Location IQ's view is the increase to employment in the area. They argue that as the area is no longer a core industrial precinct there are many vacant allotments and a low ratio of employment to square metre of industrial zoned space. They suggest that seventy-six tenancies are vacant, which equates to just over eighteen percent of the area. These figures are compared to nearby Artarmon industrial area. Artarmon is almost two and a half times the size of Chatswood East and has a lower rate of vacancy. These comparative figures, along with its location, higher employment rates and proximity to major arterial roads, are used to suggest that Artarmon is a more viable industrial area to focus on as it provides greater scope for growth.

They argue that because only twelve percent of workers in East Chatswood live locally, and there is small scope for growth in industrial jobs in the precinct in the future, the area is in need of rejuvenation. Seventy-one percent of the working population in East Chatswood fill managerial, administrative, professional, associate professional, clerical and service roles. This is indicative of the change of uses away from traditional industrial facilities to offices, showrooms, retail and mixed businesses. Location IQ notes that Woolworths is projecting the creation of 176 direct jobs, and