Draft guidelines for assessing net community benefit including a retail impact assessment test

Discussion paper prepared for NSW Department of Planning
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1 Introduction
These guidelines have been prepared to operationalise the planning framework surrounding retail development described in the document "Promoting economic growth and competition through the planning system - discussion paper" (Witherby, 2009). They outline how the various suggested controls would operate in practice and also how these controls would intersect with each other. The guidelines also present a framework for assessing the economic impact of retail proposals.

2 Definitions
In these guidelines the following definitions are used:

Accessibility principles means the location of retail development so as to minimise overall trip making within the town or region, including the location of retail development so as to maximise chained trip patterns by consumers.

Activity centre means an area of retail and commercial development, identified by a business zoning, which may also contain recreational, administrative and service uses.

Competitive Tension describes the economic process by which the existence of two or more competing firms in a market leads to consumers benefiting from outcomes such as lower prices, increased choice or higher service levels because of the competition between those firms.

Note: Competitive tension does not include use by a firm with market power of techniques that, without the existence of market power, would cause harm to that firm (e.g. sustained pricing of products at levels below marginal cost so as to force a rival out of business).

Core commercial area means that portion of an activity centre where the majority of activity is located.

Gross leasable floor area means the sum of the area within the floors of the building, being the area within the internal faces of the walls excluding stairs, amenities, lifts, corridors and public areas but including all stock storage areas. In the absence of gross leasable floor area information, the gross leasable floor area will be taken to mean 80% of the gross floor area of the building.

Market means the geographic area of operation of a local firm for the purpose of assessing market dominance.

Market dominance means the proportion of a market that is held by a single business (including other businesses within the same ownership group including related entities).

Metropolitan means areas within the Sydney, Newcastle and Wollongong statistical divisions.

Net community benefit means whether, on balance, a proposal is of net benefit to the community.

Note: This is determined through tests as outlined in these guidelines, which provide a structured approach to merit-based assessment of major retail proposals.
Non-metropolitan means areas outside the Sydney, Newcastle and Wollongong statistical divisions.

Primary trade area means the trade area of a retail business (eg a supermarket or department store or hardware store) the outer edge of which is defined by a line where people are equally likely to shop at an equivalent competitor that is outside this area. This should generally be determined by way of household survey.

Regional catchment means the primary trade area of the nearest high order activity centre directly servicing the locality (e.g. regional shopping centre, town centre or the like).

Note: This should generally be determined by way of household survey.

Retail impact assessment means the qualitative and quantitative methods used to assess the economic impacts of new retail development.

Sequential test means the principle of first seeking to locate additional retail floorspace within the existing activity centres and, if this is not feasible, then seeking to locate floorspace on the edge of existing activity centres. New activity centre development should only be considered where is impracticable to locate within or on the edge of existing activity centres, or where an area can justify a new activity centre based on accessibility principles.

Vacancy rate means the percentage of shopfronts vacant at ground floor level (including shops within arcades) within the business zoned lands of the activity centre.

3 Overall planning approach and the interrelationship of tests

3.1 Application of the guidelines and the trigger levels

The guidelines apply to NSW. They identify the "trigger levels" at which enhanced assessment of retail development needs to occur. Proposals need to meet both the incremental change test and the market dominance test, otherwise a retail impact assessment is required.

The guidelines are consistent with the best practice guidelines of the Development Assessment Forum. This establishes a national approach to determining levels of assessment, based on impact. In other words, the greater the potential for impact, the greater is the required level of assessment. Smaller-scale developments and larger developments not exceeding the trigger levels would consistent with the Code and Merit tracks respectively (e.g. complying or standard DA assessment), while developments that meet or exceed the trigger levels would be Impact Assessable (the most rigorous level of assessment). These guidelines provide the basis and tests for impact assessment.

The trigger levels for the tests are as follows:

3.1.1 Incremental change test for new retail development involving a rezoning

- Merit assessment through a net community benefit test is required if
The regional catchment is reviewed to assess whether total floor space provision exceeds 2 m² per head of population. This is to ensure that where areas of substantial floorspace oversupply exist, pressure is applied to utilise existing zoned land and infrastructure more efficiently prior to rezoning additional lands. For the purpose of this test, additional floorspace is to be calculated from the maximum floorspace ratio under the proposed zoning.

If the catchment has a total floor space provision of 2 m² per head of population or less, and the proposed rezoning site is within or directly adjacent to an existing commercial zoning (the sequential test) then the rezoning should be supported provided that the quantum of the rezoning is 15% or less of the business zoned area of the existing activity centre and that vacancy rates within the activity centre are also less than 10%.

Within regional areas it is vital that the "Main Street" be supported. The test therefore examines whether the proposal is within the commercial core, as defined by the most active part of the business area. This area would be less than the existing business zoning and should be determined on the basis of indicators including major pedestrian generators (e.g. newsagent, pharmacy, chemist, bank, supermarket) and overall pedestrian activity. As a guideline, areas failing the "health check" would not be considered core areas.

**3.1.2 Incremental change test for new retail development not involving a rezoning**

- Merit assessment through a net community benefit test is required if
  - increased floorspace > 15% of existing activity centre floorspace, or 1000 m² (whichever is the smaller) or
  - activity centre vacancy rates > 10% or
  - development is not within the core commercial area ("Main Street") (non-metropolitan activity centres only).

**Details**

If the development is located within an existing activity centre and represents an increase in floorspace of less than 15% of the ground floor floorspace of retail development within the activity centre or 1000 m² (whichever is the smaller), no additional economic impact assessment is required provided vacancy rates within the existing activity centre are also less than 10%.
3.1.3 Market dominance test for new retail development (whether or not involving a rezoning)

- impact assessment is required if
  - 25% of category floorspace within the 15 minute off-peak isochrone is within the same ownership group (metropolitan areas), or
  - 25% of category floorspace within the 45 minute off-peak isochrone is within the same ownership group (non-metropolitan areas).

Details

In addition to the incremental change tests, retail proposals would need to pass a market dominance test to determine whether additional economic impact assessment would be required. Retail proposals have been identified for this test on the basis of the relative catchment size as compared to other forms of development (e.g. housing). Because of the nature of retailing, in particular convenience retailing, the focus of competition relates to market dominance within a sub-region, generally defined by a 15 minute off-peak isochrone. Convenience retailing is of most significance when reviewing local accessibility to goods and services.

The market dominance test is applied using a floorspace dominance test. This test utilises gross leasable floor area. On the basis of the relevant regional catchment, commercial rivals are identified within the relevant retail category. Where 25% or more of the floorspace within that retail category is within the same ownership group (including related entities) then a retail impact assessment needs to be conducted.

3.2 Components of a net community benefit test

This section of the guidelines outlines the components of a net community benefit test. This test combines both qualitative and quantitative measures needed to review the social, environmental and economic aspects of new development.

The test needs to recognise that activity centres are much more than the provision of retailing, but that they represent social and administrative hubs as well.

Below are the key “dot points” of the recommended test.

3.2.1 Economic Impacts

- Retail economic impact assessment (see Appendix A for draft methodology)
  - what are overall impacts of the proposal on the host activity centre and sub region?
- impact on competitive tension
  - would the proposal tend to exclude other competitive entrants?
- Impact on net employment
what is the predicted net employment impact by employment sector?

3.2.2 Environmental Impacts

- Impact on overall vehicle trips
  - including consideration of chained trips, would car-based net trip making (by distance) increase or reduce as a result of the proposal?
  - would the development result in a net increase in the number of walk-based trips undertaken for convenience shopping purposes?
- Site specific impacts (“traditional” DA assessment) - Traffic and parking, urban design, sustainability
  - does the development complying with local policies and codes?

3.2.3 Social Impacts

- “Urban blight”
  - are any activity centres/sectors at particular risk?
    - If so, for what time period?
  - Would there likely be a call on public investment in those activity centres if risks are identified?
- Accessibility to local goods and services
  - does the development increase in overall accessibility to local goods and services within a 15 minute off-peak isochrone?
  - Would any areas or groups suffer disadvantage not made good by the proposed development?
- Integration with/strengthening of an existing activity centre
  - does the proposal take best advantage of its site in terms of integration with the existing activity centre?
  - does the proposal maximise synergistic opportunities with other retail types?
  - does the proposal fill an identified a gap in service provision?
- Contribution to social places/spaces
  - does the development enhance the public realm?
  - does the development contribute social and meeting places?
  - does the development minimise privately owned public open space?
4 Appendix A

**Draft methodology for retail economic impact assessment**

This methodology establishes guidelines for the conduct of retail impact assessment. Each of the dot point indicated below can be further expanded to provide increased certainty regarding the operation of the methodology.

The key point to undertaking retail economic impact assessment is to ensure that whichever techniques are selected (e.g. conventional modelling, spreadsheet approaches or the like) are data driven. This means that, wherever possible, the data are sourced from local/subregional survey work including household surveys and street surveys within activity centres.

Assumptions used in modelling are to be explicit and justified.

**Base data**

- project description
  - location
  - type of floorspace
    - business type (e.g. supermarket, specialty retailing, etc)
    - category of goods sold (e.g. convenience retail, comparison retail)
- study area identification
  - identification of regional/subregional catchment
    - description of overall retail hierarchy (existing)
    - relationship to highest order activity centre directly serving the study area
    - sub-catchments by activity centre
  - determination of primary trade areas (e.g through isochrones, standard radii based on activity centre type and floorspace or household survey (preferred)).
    - activity centre of proposed location
    - other competing activity centres within the subregion
- review of existing shopping provision (activity centre of proposed location and other competing activity centres within the subregion)
  - retail census and “health check”
    - quantitative (all activity centres)
Quantitative Analysis

1. Definition of base parameters and key assumptions
   - Population
   - Growth rates (population and expenditure)

2. Determination of existing retail expenditure
   - Population and per-capita on business type or goods type (preferably triangulated through survey work)

3. Existing activity centre and category turnover estimates
   - Market shares (based on household survey)
   - Escape expenditure (based on household survey)
   - Inflows from outside study area (e.g., tourists)

4. Capacity analysis
   - Growth in expenditure (including basis for assumptions)
   - Recovery of escape expenditure (including basis for assumptions)
   - Other committed or planned developments
   - Current floorspace provision (by sector and activity centre)

5. Impact assessment (base year and roll forward to year 10)
o Trade diversions (amount and %)
  ▪ Basis for the assessment
o Potential spin-offs from new development
o Revised turnover estimates by activity centre and sector
o Sensitivity analysis
  ▪ Expenditure growth
  ▪ Escape expenditure recovery
  ▪ Turnover per m2 of the new development

• Interpretation and conclusions
  o impacts on existing retail in the sub region by sector and activity centre
  o identification of "at risk" activity centres/key anchors (if any)
    ▪ risk of "urban blight" through increased activity centre vacancies and reduced investment capacity
  o review of net employment impacts
    ▪ by employment type
  o overall conclusions regarding the development