

REVIEW  
of  
PROPOSED RETAIL DEFINITION  
~  
NEIGHBOURHOOD SUPERMARKET

Prepared For:  
NSW DEPARTMENT of ENVIRONMENT and PLANNING

Prepared By:  
LEYSHON CONSULTING PTY LTD  
SUITE 1106 LEVEL 11  
109 PITT STREET  
SYDNEY NSW 2000

TELEPHONE (02) 9224-6111  
FACSIMILE (02) 9224-6150

REP 1811  
JULY 2018  
© Leyshon Consulting Pty Ltd 2018

## TABLE of CONTENTS

	Page
DISCLAIMER	
EXECUTIVE SUMMARY . . . . .	i-ii
1 INTRODUCTION. . . . .	1
2 OVERVIEW. . . . .	3
2.1 Role of B1 Centres . . . . .	3
2.2 Prevalence of B1 Zones . . . . .	4
2.3 Characteristics of B1 Centres . . . . .	5
3 SUPERMARKET SCALE . . . . .	8
3.1 Supermarket Typology . . . . .	8
3.2 Supermarket Performance . . . . .	9
4 IMPACT on HIERARCHY . . . . .	11
4.1 Required Catchment Population. . . . .	11
4.2 Potential Impact . . . . .	15
5 REVIEW of SUBMISSIONS . . . . .	18
6 CONCLUSIONS . . . . .	19
6.1 Overview . . . . .	19
6.2 Recommended Floorspace Control. . . . .	19
6.3 Metropolitan and Regional Settings. . . . .	21

## LIST of TABLES

4.1	:	ESTIMATED POPULATION REQUIRED to SUPPORT NEIGHBOURHOOD SUPERMARKETS
4.2	:	SELECTED SYDNEY METROPOLITAN AREA SUBURBAN POPULATIONS, 2016
4.3	:	ESTIMATED POTENTIAL IMPACT of NEIGHBOURHOOD SUPERMARKET (\$2017)

## DISCLAIMER

This Report has been prepared solely for the purposes recorded at Section 1 of the Report and solely for the benefit of the party to whom the report is addressed. No third party is entitled to rely upon this Report for any purpose without the written consent of Leyshon Consulting Pty Ltd having first been sought and obtained.

This Report involves the making of future projections. Those projections are grounded upon the facts and matters contained in this Report. Some or all of those facts and matters comprise assumptions and/or representations upon which Leyshon Consulting Pty Ltd has relied but about which it has no knowledge of its own. By reason of this, Leyshon Consulting Pty Ltd cannot warrant or represent the correctness or accuracy of such assumptions and/or representations. It follows that, while the projections contained in this Report are made with care and judgment, Leyshon Consulting Pty Ltd cannot confirm, warrant or guarantee that actual results achieved will be consistent with the results projected by this Report.



# EXECUTIVE SUMMARY

## Introduction Section 1

This Report has been prepared for the Department of Planning and Environment (DPE). The Report relates to the proposed introduction of a definition for a “neighbourhood supermarket” as part of the Standard Instrument Local Environmental Plan.

The objective of introducing the definition is to make such stores a permissible use in the B1 Neighbourhood Centre zone. It has been further proposed that such stores would be limited to a maximum of 1,500m<sup>2</sup>.

The proposal is designed to facilitate the provision of convenient daily shopping facilities for local residents and to assist in the rejuvenation of smaller centres. It also acknowledges the role of small supermarkets and allows councils to permit them in B1 zones if appropriate.

## Overview Section 2

B1 Neighbourhood Centres occupy the lowest level of the centres hierarchy in any particular area. Most larger-scale supermarkets are found in centres zoned either B2 Local Centre or B3 Commercial Core.

Not all Planning Schemes in New South Wales provide for B1 zones. B1 zones are common in the Sydney Metropolitan Area but less so in major regional cities/towns and rural areas of the State. Accordingly, the proposed changes would not have universal relevance throughout New South Wales.

Many B1 Neighbourhood Centres are quite small and their restricted site area means their capacity to accommodate a supermarket of up to 1,500m<sup>2</sup> may not be capable of being fully implemented.

## Supermarket Scale Section 3

Supermarkets in New South Wales range from large national chain stores of up to 4,500m<sup>2</sup> (Coles/Woolworths) to discount supermarkets of up to 1,800m<sup>2</sup> (like those operated by Aldi) to small/very small supermarkets of 250-1,500m<sup>2</sup> (primarily operated by IGA, SPAR and Foodworks).

The two major national chains (Woolworths and Coles) are estimated to capture about 69% of all supermarket sales nationally. Coles and Woolworths together with Aldi achieve much higher average sales rates than the smaller “independent” supermarkets.

# EXECUTIVE SUMMARY

## Impact on Centre Hierarchy Section 4

A supermarket of 1,500m<sup>2</sup> developed in a Neighbourhood Centre would require a catchment population of up to 20,000 people if it was competing with other nearby national chain supermarkets.

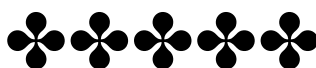
Supermarkets of 1,500m<sup>2</sup> in Neighbourhood Centres would have the potential to compete robustly with larger national chain supermarkets located in the same or adjoining suburbs. A slightly smaller Neighbourhood Centre supermarket of 1,000m<sup>2</sup> would have a low-to-medium impact on supermarkets in higher order (that is, in B2 and B3 zoned) centres.

## Review of Submissions Received Section 5

Submissions received by the Department with respect to the proposed policy change expressed a divergence of opinion about the proposal. Some industry operators supported the proposed change. Some councils meanwhile questioned the need for introducing the proposed definition and/or raised concerns about the potential impact a supermarket of up to 1,500m<sup>2</sup> could have on existing small local centres.

## Conclusions Section 6

On balance, a floorspace control of 1,000m<sup>2</sup> maximum for Neighbourhood Centre supermarkets is considered to be most appropriate. Such a control would help ensure a better balance between increasing market opportunities for independent supermarket operators, improving local residents' access to convenience food and grocery shopping opportunities while also continuing to restrict the essential role of Neighbourhood Centres to one of providing for the needs of local residents in terms of their access to convenience goods and services.



# 1 INTRODUCTION

This Report has been prepared by Leyshon Consulting Pty Ltd for the New South Wales Department of Planning and Environment (DPE).

The Report relates to the proposed introduction of a definition of “Neighbourhood Supermarket” as part of the Standard Instrument Local Environmental Plan (Standard Instrument LEP) in New South Wales.

In April, 2018 the DPE released the Discussion Paper *Planning for the Future of Retailing* and associated proposed amendments to the Standard Instrument LEP.

Among the proposed amendments was the introduction of a definition for a “Neighbourhood Supermarket”.

The proposed definition of a “Neighbourhood Supermarket” is intended to be an entirely new definition within the Standard Instrument LEP. The definition as currently proposed is as follows:

*“A shop selling food and other household items where the selection of goods is organised on a self-service basis.”*

It is intended that a “neighbourhood supermarket” would be a new type of shop or retail premises as far as the Standard Instrument LEP is concerned. It will, however, be a sub-set of the existing definition of “shop” which in turn is a sub-set of the definition of “retail premises”.

The purpose of the new definition is to enable “Neighbourhood Supermarkets” to be developed within the B1 Neighbourhood Centre

zone in New South Wales. Clause 5.4 of the Standard Instrument LEP is also proposed to be amended to include a restriction on the floor area of a neighbourhood supermarket to a maximum of 1,500m<sup>2</sup>.

The proposed definition acknowledges the existence and importance of smaller-scale supermarkets and is intended to enable councils to allow such stores in B1 zones if that accords with their strategic planning objectives.

The Department's proposed amendments to the Standard Instrument LEP note that:

*"Allowing smaller format supermarkets in B1 Neighbourhood Centre zone provides convenient daily shopping for consumers and encourages people to walk rather than use a car. It could also rejuvenate smaller neighbourhood centres or allow for a suitable ground floor use in shop top housing."*

Leyshon Consulting has been engaged to review the proposed 1,500m<sup>2</sup> control, as exhibited, and to recommend an appropriate maximum floorspace limit.

# 2 OVERVIEW

## 2.1 Role of B1 Centres

The overwhelming majority of ‘traditional’ shopping centres in New South Wales are subject to one of the following zonings:

- ▶ B1 – Neighbourhood Centre
- ▶ B2 – Local Centre
- ▶ B3 – Commercial Core.

Larger-scale supermarkets in New South Wales are located almost exclusively in B2 and B3 zoned centres.

Centres zoned B1 Neighbourhood Centre are at the lowest level of the centres hierarchy in any particular area. They are also usually the smallest centres in floorspace terms and, accordingly, provide a restricted range of goods and services.

The Standard Instrument LEP has an objective for the B1 Neighbourhood Centre zone as follows:

*“To provide a range of small-scale, retail business and community uses that serve the needs of people who live or work in the surrounding neighbourhood.”*

As far as we are aware, there is no agreed definition of what constitutes “the surrounding neighbourhood”. Some planners consider that a “neighbourhood” is a more restricted area than a suburb although we are unaware if this particular geographical descriptor has been tested in the Land and Environment Court of New South Wales.



In our experience the B1 zone often encompasses a small group of shops and personal/professional service businesses which provide a very limited range of products and services. It is unusual to find a supermarket of any significance (that is, one greater than 1,000m<sup>2</sup>) in a B1 zoned centre.

In many cases, centres which have a B1 Neighbourhood Centre zoning are “historic” in nature in that they predate the development of larger centres containing major supermarkets, discount department stores (DDSs) and a wide range of specialty shops and services.

In new urban release areas it has become fashionable to provide for the development of small shop groups with the objective of encouraging walking to centres. In reality few new, small B1 Neighbourhood Centres have been constructed—especially in the early stages of release area development. The primary reason for this is that such centres face significant viability challenges in environments where they would need to compete with larger centres anchored by one or more national chain supermarkets. A high level of car ownership and residents’ heavy dependence on private vehicles for transport also lessens the likelihood of such small centres establishing successfully in these areas.

## 2.2 Prevalence of B1 Zones

Not all planning schemes in New South Wales make provision for B1 Neighbourhood Centre zones.

Most councils in the Sydney Metropolitan Area do provide for B1 Neighbourhood Centre zones in their LEPs. In major regional centres, this is not always the case, however. For example, while Tamworth LEP 2010 provides for B1, B2 and B3 zones immediately to Tamworth’s

north Armidale Dumaresq LEP 2012 provides only for B2 and B3 zones. Orange LEP 2011 meanwhile has B1, B2 and B3 zones although Bathurst Regional LEP 2014 provides for B1 and B3 zones but not B2.

In rural areas of the State, some councils have B1 and B2 zones (for instance, Yass Valley, Nambucca, Mudgee [now Mid-Western Regional Council]) while others provide only for B2 zones (Cabonne, Blayney, Gilgandra).

Furthermore, we note that many councils which provide for B1 zones in their LEPs permit both “neighbourhood shops” and “shops” in this zone.

Accordingly, any State-wide policy introducing a new definition of a “neighbourhood supermarket” which would apply in all B1 Neighbourhood Centre zones will not have universal relevance because not all LEPs have B1 zones. In addition, there will be differing implications for those LEPs which have B1 zones but do not currently restrict the size of “shops” in these zones.

## 2.3 Characteristics of B1 Centres

In our opinion, an important issue is how well supermarkets developed at the proposed threshold of 1,500m<sup>2</sup> would ‘fit’ into Neighbourhood Centres given that such a store plus parking for say 50 cars would require a site area of at least 2,500 to 3,000m<sup>2</sup>.

In our experience, neighbourhood centres in New South Wales are usually very small in floorspace terms. Furthermore, it is unusual to find a neighbourhood centre with a substantial component of vacant B1

zoned land which could be used to expand the centre to include a 1,500m<sup>2</sup> supermarket.

An appreciation of the small size of some existing neighbourhood centres in the Sydney Metropolitan Area can be obtained from the findings of comparatively recent studies undertaken for Liverpool and Fairfield City Councils.

For instance, a report prepared in 2011 by consultants Hill PDA for Liverpool City Council (*Liverpool Retail Centres Hierarchy Review*) found that Liverpool Local Government Area (LGA) at that time contained 25 small centres with a B1 Neighbourhood Centre zoning. Hill PDA reported these centres in total contained some 17,495m<sup>2</sup> of floorspace with the average being approximately 700m<sup>2</sup> per centre. In floorspace terms, the centres ranged in size from 210m<sup>2</sup> to 2,395m<sup>2</sup> although the majority (15 in total) contained less than 500m<sup>2</sup>.

In 2015, Norling Consulting prepared a report for Fairfield City Council (*Fairfield City Council Centres Study*). The Norling study found that Fairfield contained 32 neighbourhood centres at that time with an average floorspace size of 700m<sup>2</sup>. The largest neighbourhood centre in Fairfield contained about 2,400m<sup>2</sup>. The Norling report identified the two key characteristics of neighbourhood centres in Fairfield LGA as being they:

- ▶ generally contained less than 2,000m<sup>2</sup> of retail floorspace;  
and
- ▶ provided convenience retail services including a small grocery store/supermarket of usually less than 500m<sup>2</sup>.

It is beyond the scope of this Report to undertake an audit of the site area of centres in B1 Neighbourhood Centre zones in areas such as Liverpool and Fairfield. That said, a brief review of some of these centres by way of analysis of Nearmap images indicates generally they occupy at least 60% of the site(s) on which they are located.

Many small neighbourhood centres in Liverpool and Fairfield appear to have been developed on sites of less than 2,000m<sup>2</sup> although we are aware of several B1 zoned centres in Liverpool LGA which occupy sites of 3,500m<sup>2</sup> to 4,800m<sup>2</sup> in a single location (but often spread over several parcels of land). Theoretically centres like these would be large enough to accommodate a 1,500m<sup>2</sup> supermarket with parking for up to 50 cars.

As far as many B1 centres are concerned any planning provision which allowed a supermarket of 1,500m<sup>2</sup> to be developed in B1 Neighbourhood Centre zones is unlikely to be able to be implemented to the fullest extent possible. Simply put most of B1 centres are too small to accommodate a store of this size. Indeed, where sufficient land was available, a supermarket of 1,500m<sup>2</sup> could end up occupying most or all of the land zoned B1 Neighbourhood Centre in a particular locality. While such an outcome would mean local residents gain a relatively large supermarket potentially they would lose other convenience retail and related services.

# 3 SUPERMARKET SCALE

## 3.1 Supermarket Typology

Supermarkets in New South Wales generally can be classified as follows:

- ▶ **Large national chain** – principally stores operated by Coles and Woolworths and generally in the range of 3,200m<sup>2</sup> to 4500m<sup>2</sup>
- ▶ **Medium scale** – generally stores in the range of 1,500m<sup>2</sup> to 3,000m<sup>2</sup> and usually older format stores operated by Coles or Woolworths or more recently developed stores operated by Supa IGA and Foodworks
- ▶ **Discount supermarkets** – generally in the range of 1,500m<sup>2</sup> to 1,800m<sup>2</sup> as operated by Aldi
- ▶ **Small supermarkets** – generally in the range of 600m<sup>2</sup> to 1,500m<sup>2</sup> operated by IGA, SPAR and Foodworks; and
- ▶ **Very small supermarkets** – generally in the range of 250m<sup>2</sup> to 600m<sup>2</sup> operated by IGA, SPAR and Foodworks.

There are also a large number of so-called ‘convenience stores’ which exist in a variety of centres; as a rule these occupy less than 250m<sup>2</sup>. Typically, most industry participants do not consider such stores to be ‘supermarkets’ per se.

## 3.2 Supermarket Performance

The supermarket sector in Australia is highly concentrated. In the year to March, 2017 the various market shares of key operators were estimated to be as follows:

▶	Woolworths	...	35.7%
▶	Coles	...	33.2%
▶	Aldi	...	13.2%
▶	IGA	...	9.3%
▶	Others	...	8.6%.

(Source: *Supermarket Currency report*, May 2017 Roy Morgan Research)

The performance of the supermarket chains also varies substantially. For instance, Coles and Woolworths regularly report average supermarket sales in excess of \$12,000 per m<sup>2</sup> per annum. Aldi, meanwhile, does not publish turnover data although industry experts consider the chain achieves similar average sales levels to Coles and Woolworths.

Unsurprisingly, the average sales levels of independent supermarkets are much lower. The highest turnover level of which we are aware—in the order of \$10,000 per m<sup>2</sup> per annum—was being achieved in 2015 by an individual medium-scale independent supermarket. The store in question enjoyed a monopoly position in a semi-rural locality. Generally, it is our experience that average turnover levels in the independent sector range between \$4,500 and \$8,000 per m<sup>2</sup> per annum at present.

In practical terms, the proposed upper limit of 1,500m<sup>2</sup> on the floorspace of a neighbourhood supermarket would tend to restrict the pool of potential operators to IGA, SPAR and Foodworks or non-aligned food-based stores such as Harris Farm.

Aldi's current 'store model'—namely some 1,800m<sup>2</sup> (net leasable area [NLA])—would slightly exceed the upper limit proposed for the “neighbourhood supermarket” definition.

In some instances, B1 zones may be considered by Coles and Woolworths, particularly in inner urban areas where sites for larger format stores are difficult to achieve. Both major chains are introducing 'metro' style stores in CBDs and inner urban areas; these stores tend to have a footprint of less than 1,000m<sup>2</sup>.

# 4

## IMPACT on HIERARCHY

### 4.1 Required Catchment Population

We have prepared some estimates of the residential population likely to be required to support supermarkets of 500, 1,000 and 1,500m<sup>2</sup> respectively assuming the store in question was operated by one of the independent chains such as IGA, Foodworks or SPAR.

In preparing these estimates we have assumed the largest market share such a supermarket could attract from within its catchment would be 15% of available supermarket spending. This assumption has been made having regard to the market shares held by larger national chain operators—as discussed above.

Our estimates assume, first, a modestly performing independent supermarket achieving sales of approximately \$6,000 per m<sup>2</sup> per annum. We have also prepared estimates on the basis of an independent supermarket achieving a more desirable turnover rate of \$8,000 per m<sup>2</sup> per annum.

As indicated in TABLE 4.1, a modestly performing (average sales rate of \$6,000 per m<sup>2</sup> per annum) independent supermarket could expect to achieve annual sales of between \$3.0 to \$9.0 million (\$2017) depending on its precise footprint. An independent supermarket achieving a more desirable turnover rate (average sales of \$8,000 per m<sup>2</sup> per annum) would have target sales of between \$4.0 and \$12.0 million annually (\$2017).



**TABLE 4.1**  
**ESTIMATED POPULATION REQUIRED to SUPPORT NEIGHBOURHOOD**  
**SUPERMARKETS**

	— Store Floorspace Range —		
	500m <sup>2</sup>	1,000m <sup>2</sup>	1,500m <sup>2</sup>
Low Sales Level ...	500m <sup>2</sup>	1,000m <sup>2</sup>	1,500m <sup>2</sup>
Average Sales Rate (\$ m <sup>2</sup> p.a.)	\$6,000	\$6,000	\$6,000
Annual Sales Target (\$ Mil. p.a.)	\$3.0	\$6.0	\$9.0
Market Share (%)	15%	15%	15%
Indicative Market Size (\$ m <sup>2</sup> p.a.)	\$20.0	\$40.0	\$60.0
Average Per Capita Supermarket Spending (\$ p.a.)	\$3,898	\$3,898	\$3,898
Population Required (No. People)	5,131	10,261	15,392
Preferred Sales Level...			
Average Sales Rate (\$ m <sup>2</sup> p.a.)	\$8,000	\$8,000	\$8,000
Annual Sales Target (\$ Mil. p.a.)	\$4.0	\$8.0	\$12.0
Market Share (%)	15%	15%	15%
Indicative Market Size (\$ m <sup>2</sup> p.a.)	\$27.0	\$53.0	\$80.0
Average Per Capita Supermarket Spending (\$ p.a.)	\$3,898	\$3,898	\$3,898
Population Required (No. People)	6,841	13,682	20,523

Source: Leyshon Consulting Estimates, June 2018.

The estimated population catchments required to support these sales levels have been calculated utilising average per capita spending at supermarkets by New South Wales residents. The data are derived from the 2016 Census which found that per capita supermarket spending in New South Wales was \$3,898 (\$2017).

As indicated in TABLE 4.1, a modestly performing 500m<sup>2</sup> neighbourhood centre supermarket would require a population catchment of around 5,131 people while a modestly performing store of 1,500m<sup>2</sup> would require a catchment of up to 15,392 people.

An independent 500m<sup>2</sup> supermarket at the neighbourhood centre level achieving a more satisfactory sales rate (that is, \$8,000 per m<sup>2</sup> per

annum) would require a catchment population of 6,841 people. A store of 1,500m<sup>2</sup> meanwhile would require a catchment population in the order of 20,523 people.

Having regard to these estimates, we have reviewed selected suburban populations in the Sydney Metropolitan Area to provide some insight into the number of centres which, theoretically, could be supported in a given area (TABLE 4.2 refers).

**TABLE 4.2**  
SELECTED SYDNEY METROPOLITAN AREA SUBURBAN POPULATIONS, 2016

Suburb...	2016 Population (No. People)	Supermarkets in Suburb	Supermarkets in Adjoining Suburbs
Belrose	8,780	W, A, IGA	W, C
Concord	14,533	C, W	IGA
Eastlakes	6,912	W, BKK, IGA	W(2), A, C
Caringbah	11,658	W, C	W, C, A
Greystanes	22,802	W, A	W, C
Prestons	15,313	W, IGA	C, A, W
Menai	10,304	W, A, Supa IGA	C
Randwick	29,986	W, C, HF	W, A, IGA(2)
Strathfield	25,813	W, Numerous Ethnic Stores	W, A
Punchbowl	20,236	W, Numerous Ethnic Stores	W, C

Key:

W=Woolworths, C=Coles, IGA=IGA, BKK=Bangkok Supermarket, A=Aldi, HF=Harris Farm.

Sources: ABS Census 2016; Leyshon Consulting Research, 2018.

As noted in TABLE 4.2 the sample of suburban populations in 2016 (derived from 2016 Census data) range between 6,912 people in Eastlakes to 29,986 in Randwick.

The conclusion we draw from the analysis set out in TABLE 4.2 is that there are only a limited number of suburbs (as defined by the Australian

Bureau of Statistics) in Sydney where an independent supermarket of 1,500m<sup>2</sup> could be supported. This particularly would be the case if the suburban population already has easy access to at least two major chain supermarkets—either in the suburb concerned or immediately adjacent to it. In essence, it is only those suburbs with between 15,000 and 20,000 residents which would be likely to support an independent supermarket of 1,500m<sup>2</sup> in addition to existing national chain supermarkets.

There are a number of suburbs which theoretically could support an independent supermarket of up to 1,000m<sup>2</sup> even if national chain supermarkets are represented in the suburb itself or close to the suburb's boundaries. These suburbs contain between 10,000 and 14,000 residents. The analysis suggests such suburbs could support one 1,000m<sup>2</sup> supermarket if Coles, Woolworths and Aldi were **all** represented in the suburb in question or in an adjoining suburb.

The outlook for neighbourhood supermarkets of only 500m<sup>2</sup> successfully establishing in suburbs in the Sydney Metropolitan Area is much more optimistic. Our analysis indicates such a store could operate viably where it has access to a surrounding residential population of 5,000 to 7,000 people.

It should be noted that if particular suburbs (or rural settlements) do not have a nearby national chain supermarket, independent supermarkets of the sizes analysed in TABLE 4.2 could be viable despite smaller catchment populations than those identified.

The analysis set out in TABLE 4.2 is based on suburban populations not "neighbourhood" populations. This raises the question of whether a suburb or a rural centre with a population of 10,000 to 15,000 people reasonably could be defined as a "neighbourhood".

For example, a large suburb such as Randwick (which had a population of 29,986 at the 2016 Census) encompasses a wide area extending from Queens Park in the north, including part of Kensington, and extending southwards to the boundary of Maroubra Junction. In the east Randwick borders Coogee and South Coogee. It is highly unlikely suburban Randwick would meet the definition of a “neighbourhood” if such a definition were put to the test in the Land and Environment Court.

## 4.2 Potential Impact

Consideration also has been given to the potential impact which would result from development of a neighbourhood supermarket of up to the maximum proposed size of 1,500m<sup>2</sup> (TABLE 4.3 refers).

**TABLE 4.3**  
ESTIMATED POTENTIAL IMPACT of NEIGHBOURHOOD SUPERMARKET  
(\$2017)

Floorspace ...	– Supermarket Size –		
	500m <sup>2</sup>	1,000m <sup>2</sup>	1,500m <sup>2</sup>
Sales Range			
(A) Modest – \$6,000 m <sup>2</sup> p.a.	\$3.0	\$6.0	\$9.0
(B) Preferred – \$8,000 m <sup>2</sup> p.a.	\$4.0	\$8.0	\$12.0
Competitive Supermarket Sales <sup>1</sup> (\$ Mil. p.a.)	\$100.0	\$100.0	\$100.0
General Impact (%)			
(A) Modest	3.0%	6.0%	9.0%
(B) Preferred	4.0%	8.0%	12.0%
Note 1:	Assumes store is competing with Coles, Woolworths and Aldi achieving combined sales of \$100.0 million per annum.		
Source:	Leyshon Consulting Estimates, June 2018.		

This analysis assumes the proposed neighbourhood supermarket was competing with Coles and Woolworths stores each achieving annual sales of \$42 million per annum (\$2017) and an Aldi supermarket with

sales of \$16 million per annum—that is, a total pool of supermarket sales of \$100 million per annum.

As noted in TABLE 4.3, in this example a neighbourhood supermarket of 1,500m<sup>2</sup> achieving annual sales of between \$9 and \$12 million (\$2017) potentially could have an impact of between -9.0% and -12.0% on the combined sales of the theoretical Coles, Woolworths and Aldi stores.

In our experience, an impact ranging between -9.0% and -12.0% would be classed as being in the medium/high category of impact although unlikely insufficient to result in the closure of any one of three hypothetical competitive supermarkets. Nevertheless, such an outcome would involve a significant redirection of supermarket spending away from larger centres (presumably zoned B2 or B3) toward a small neighbourhood centre.

As noted in TABLE 4.3, in the example of a 1,000m<sup>2</sup> neighbourhood supermarket achieving annual sales of between \$6.0 to \$8.0 million, the impact on the theoretical three national chains stores would range between -6.0% and -8.0%.

An impact in this range would fall in the low/medium category of impact and, as such, would have limited adverse implications for the viability of supermarkets in other centres.

In the example of a 500m<sup>2</sup> neighbourhood supermarket achieving annual sales of between \$3.0 and \$4.0 million an impact of between -3.0% and -4.0% likely would be experienced by the theoretical three national chains supermarkets assumed to be located in nearby centres.

An impact in this range would fall in the very low category of impact—namely less than 5%—and hence would have few adverse implications for the viability of supermarkets in other centres.

In summary, the analysis suggests there are some circumstances where there is the potential for supermarkets of 1,500m<sup>2</sup> to compete directly with larger-scale supermarkets located in B2 and B3 centres.

# 5 REVIEW of SUBMISSIONS

A review of the submissions made to the Department in relation to this matter reveals they can be divided into four key categories as set out below.

- ▶ Support for the proposed definition and floorspace control.
- ▶ Concern over the proposed wording of the definition and how the definition will interact with the existing definition of “neighbourhood shop” and “shop” in the Standard Instrument LEP. Some submissions from councils note that shops in their area are not the subject of a floorspace control in the B1 Neighbourhood Centre zone and hence they question the need for a new definition of “Neighbourhood Supermarket”.
- ▶ Concern over the possible impact on other centres of permitting development of 1,500m<sup>2</sup> supermarkets in neighbourhood centres.
- ▶ Concern as to the appropriateness of the potential development of 1,500m<sup>2</sup> neighbourhood supermarkets and their required parking provision in terms of altering the existing role and ambience of small centres.

# 6 CONCLUSIONS

## 6.1 Overview

We consider there is merit in encouraging the greater provision of small supermarkets in neighbourhood centres in New South Wales. Such supermarkets could play an important role in improving convenient access to basic food and grocery services thereby reducing the need for local residents to travel greater distances to larger centres which contain full-line supermarkets.

In our view, the concept of creating a specific definition with an associated floorspace control will overcome the existing floorspace restrictions contained in planning schemes as to the size of shops (that is, neighbourhood shops) in neighbourhood centres particularly in circumstances where “shops” are not a permitted use.

## 6.2 Recommended Floorspace Control

We consider there is a risk that if supermarkets of up to 1,500m<sup>2</sup> are made permissible in B1 neighbourhood centre zones:

- ▶ they will need to draw on a catchment likely to be greater than the surrounding “neighbourhood”; and
- ▶ in some circumstances they could have a material impact on larger supermarkets operating in higher order B2 and B3 shopping centres.



In our opinion, the principal objectives of the proposed policy still could be achieved if the floorspace control was set at a maximum of 1,000m<sup>2</sup> as far as “neighbourhood supermarkets” are concerned. This would allow a small supermarket to be developed which provided a reasonably comprehensive range of food and groceries but its limited size would not result in an unacceptable impact on larger supermarkets in higher-order centres.

A 1,000m<sup>2</sup> floorspace control would still enable smaller supermarkets to be developed by so-called independent operators thereby providing local residents with greater choice, competition and convenience as far as supermarket shopping is concerned than exists, or is permitted, under many planning schemes.

In reality, whatever floorspace control is set to apply to neighbourhood supermarkets, supermarket operators undoubtedly will continue their customary practice of evaluating all potential locations to determine the most appropriate size of any store they might develop. Accordingly, even if a floorspace control of 1,000m<sup>2</sup> was established via an amendment to Clause 5.4 of the Standard Instrument LEP, independent supermarket operators cannot be expected to automatically take up their full potential floorspace entitlement. Rather the size of a store largely will be determined by their assessment of market conditions.

Further, the size of any individual neighbourhood supermarket developed ultimately will be determined by site availability and other factors such as parking requirements, access requirements et cetera.

In our opinion, the establishment of a floorspace control of 1,000m<sup>2</sup> would help ensure a better balance is achieved between increasing market opportunities for independent supermarket operators while

continuing to restrict the role of neighbourhood centres to one of providing local residents access to convenience goods and services.

## 6.3 Metropolitan and Regional Settings

We do not consider there is any legitimate reason for a different floorspace cap to apply in metropolitan as opposed to regional areas of New South Wales.

Irrespective of whether it is in a metropolitan or regional setting, market conditions will be the key determinant of supermarket size at the neighbourhood centre level. For instance, similar population catchments are likely to be required in both metropolitan and regional areas in order to underwrite the sustainability of any supermarket developed in a neighbourhood centre.

