EUKN Policy Lab
Retail Policy and the Functional Urban Area
facilitating optimal distribution and preventing urban sprawl
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Full background document with scoping paper
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European Urban Knowledge Network (EUKN)
www.eukn.eu
Department of Town Planning and Housing of Cyprus
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**EUKN Policy Lab**  
Retail Policy and the Functional Urban Area  
facilitating optimal distribution and preventing urban sprawl

Friday 15 December 2017,  
Department of Town Planning and Housing,  
Lecture room, 5-6 Kinyras street, 1102 Nicosia, Cyprus

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<td>8.30-9.00</td>
<td>Registration and coffee</td>
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<td>9.00-9.15</td>
<td>Welcome statement by the Director of the Department of Town Planning and Housing, Cyprus (tbc)</td>
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<td>9.15-9.30</td>
<td>Introduction to the Policy Lab's topic in the framework of the Urban Agenda for the EU and organisational remarks (Mart Grisel, Director EUKN EGTC)</td>
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<td>9.30-10.00</td>
<td>Main findings of a 2010 study on the state and perspectives of the retail aspects of spatial policy in Cyprus (Anna Caramondani, ALA Planning Ltd, Nicosia, Cyprus)</td>
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<td>10.00-10.30</td>
<td>Retail policy and the Functional Urban Area (Martijn Kanters, Senior Strategy Consultant, Bureau Stedelijke Planning, Amsterdam/Gouda, The Netherlands)</td>
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<td>10.30-10.45</td>
<td>Coffee break with snacks</td>
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<td>10.45-11.30</td>
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<td>11.30-12.00</td>
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<td>Summary of the key questions and challenges faced by the Cypriot planning authorities by a representative of the Department of Town Planning and Housing, Cyprus (tbc)</td>
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<td>12.15-13.30</td>
<td>Moderated discussion session with the audience: discussing good practices and ways towards a retail policy responding to a changing retail reality</td>
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Retail planning increasingly poses significant challenges for municipalities all over Europe. Trends such as the rise of online retail and supply-side innovations (e.g. blurred retail concepts that increasingly blend retail with leisure) are now augmented by the European-wide pick up of economic growth. The key issue (and often central question) facing municipal planning authorities is: “how to balance stimulation of further development & innovation whilst protecting and strengthening the desired retail structure?”.

Functional Urban Areas are shaped by the interplay of behaviour of people and businesses on the one hand and government policies on the other. The resulting urbanisation pattern is a function of these two factors. Getting the balance right is important, as too stringent policy can lead to diminished economic activity and the absence thereof to uncontrolled development and urban sprawl.

Retail infrastructure represents one of the strongest forces of the first factor, as it is led by an intricate business sector (retailers, real estate developers and investors) that responds to consumer demands and behaviour. The nature and evolution of the retail sector has a significant impact on the shape of the Functional Urban Area and the degree of control (public retail policy) determines the extent of urban sprawl. When left unchecked, retailers and real estate developers focus on economies of scale and low land values. This has led to the construction of large-scale out-of-town retail formats, often with negative effects to (small-scale) inner-city retail formats. More often than not, planning authorities realise the need for increased regulation, to both prevent unwanted sprawl but (equally important) protect existing retailers in the urban core.

This Policy Lab will debate the right balance in retail policy-making for Cyprus, based on a discussion of the existing retail policy spectrum in Europe (ranging from extremely restrictive policy frameworks such as in The Netherlands to a complete absence of retail policy in countries such as Georgia). The concrete Cypriot context and its location on this spectrum will be discussed during the Policy Lab. The main goal will be to engage in an informed exchange on potential policy instruments and good practices that can be helpful to design a contemporary retail policy that fits the needs of Cyprus.
RETAIL PLANNING POLICY – WHAT IS IT AND HOW DOES IT LOOK LIKE?

In many countries, retail planning policy is either a novelty or is differently understood. Therefore, it is useful to start with an outline description of the role and shape of a retail policy.

Retail policy is part of an urban planning regime. Depending on the different policy layers, it details urban planning objectives specifically for the retail sector. In this respect, the “retail sector” is defined as the spatial structure of retail businesses, usually with at least the following classifications:

1. City centre retail core: the retail infrastructure (collection of shops) in the downtown area of a city, usually small-scale retail shops in so-called high streets. The strength of the so-called “prime pitch” of the high street is crucial as this usually sits at the top of the “retail hierarchy”, where the international brands are concentrated and the highest rents are achieved. The strength of the “prime pitch” bears an important influence on the retail hierarchy and retail policy;
2. Inner city shopping centres. Larger shopping centres located within the urbanized core;
3. Neighbourhood centres. Small- to medium sized centres serving local residential districts, usually in the shape of an alignment of convenience shops for daily shopping needs supermarket/groceries, drugstores, fruit & vegetables, etc.;
4. Out-of-town retail (retail parks). Larger concentrations of stand-alone big boxes (Hypermarkets, DIY, furniture stores) in peripheral locations, sometimes complemented by a shopping centre.

Any retail policy should identify at least these 4 types of retail and its spatial distribution pattern. Together, they constitute a city’s retail sector.

A retail policy specifies urban planning and economic development objectives for the retail sector. It outlines a “Retail Structure Vision” in which principles for optimal geographic distribution are outlined as well as development objectives and structural improvement. Of specific concern is the protection of existing retailers, which is particularly important in a retail sector that is characterized by a large number of small-scale (often family-owned) shops. The retail sector is typically one of the largest
employers and makes up a significant proportion of a city’s GDP. That fact is the main reason why a specific retail policy is important, in addition to its economic sensitivity.

**WHY A SPECIFIC RETAIL POLICY IS IMPORTANT**

Since retail policy is (almost) always a capacity that resides with planning authorities, its economic aspects are often not sufficiently recognized. Retail planning policy is primarily concerned with both spatial and economic aspects of the retail sector, both of which are equally important. As said, the economic significance of a city’s retail sector cannot be understated: it usually is the largest economic sector in terms of employment and often also in terms of value added.

In addition, it also an economically highly sensitive sector. First, almost all retail markets feature imbalances between demand and supply, varying per segment. The larger these imbalances (which are often in a large part due to the absence of strategic planning) the stronger the need for retail planning policy. Recent developments, such as the rise of online-retail, cause additional pressure on the retail market balance in the offline world.

Second, new entrants can have a highly disruptive impact on the existing retail sector. In this respect, two types of new entrants deserve special attention:

1. Dominant international retailers, sometimes known as “category killers”. These include chains such as IKEA, H&M and Tesco. These are extremely dominant retailers that are market leaders in their segment. Their negotiating power with both planning authorities and property owners/developers is enormous and their interests usually single-minded: their objective is turnover and profit maximization – full stop;

2. Over-sized shopping centres located close to existing retail concentrations, particularly the city centre retail core. Particularly in developing retail markets, the appetite of real estate developers can result in the construction of large shopping centres, which usually offer better conditions to retailers than a typical high street location (larger shop front, lower rent, marketing support, etc.). If planning authorities allow the construction of such shopping centres in central locations in the city, they often have a highly disruptive impact on a city’s high streets.

Given its economic significance and sensitivity, the retail sector needs to be protected from disruptive market forces. This is a key objective of a specific retail policy.
Furthermore, the following spatial factors are highly influenced by the development of the retail sector:

1. Sprawl: in the search for critical mass and low land costs, real estate developers typically focus on out-of-town locations to create large shopping centres or retail parks. If left unchecked by planning authorities, these developments can create sprawl by directing consumer flows to out-of-town locations, often with the added consequence of increasing residential developments;

2. Traffic and mobility: the location pattern of a city’s retail infrastructure has a strong impact on the traffic flows in a city. A smart retail planning policy recognizes this and should stimulate the development of a retail infrastructure that is closely aligned to consumer catchment areas to minimize traffic flows and congestion;

3. Vitality of city centres and neighbourhoods. Retail is a key “footfall driver”, attracting residents and visitors to an area. A balanced and vital retail infrastructure therefore has a major impact on the vitality and Quality of Life in an area, be it a (historic) city centre or a residential neighbourhood.

The combination and significant of these two sets of factors (economic and spatial) emphasize the importance of a specific retail policy. The retail sector is a highly specific sector and cannot be treated similarly as offices, industrial or residential. As outlined above, it has a substantial impact in shaping the Functional Urban Area and should therefore be part and parcel of strategic urban policy making of that area.

**TERMS OF REFERENCE FOR THE PRODUCTION OF A RETAIL POLICY**

Once the need is recognized, the next step is to define the necessary components of a retail planning policy and identify its required inputs. Proper retail policy making can only be accomplished with an in-depth understanding of the retail sector on both the demand and supply side and recognizing its role within the larger urban planning context. In essence, the following 4 components are critical inputs to design a retail policy:

1. Wider spatial and economic development objectives of the area (country, region and/or city) as per the relevant development strategies (e.g. General Land Use Plan, Economic Development Plan, etc.). Retail planning policy will need to be aligned to and fit within these higher-level strategic policy objectives;

2. A detailed survey of the supply side, including at least:
a. A complete overview of all retail concentration areas (high streets, shopping centres, retail parks) with exact volumes (sqm);
b. A categorization of all retail concentration areas (into at least Food and Non-Food) and overview of main retailers (at least all the large chains);
c. Map depicting the above in relation to residential areas (the basis for a catchment area analysis);
d. Overview of planned developments (pipeline, with distinction into at least: (a) under construction and (b) planned);
e. Market conditions: floor productivity ratios (turnover per sqm per year) rent levels and vacancy rates;
f. International benchmark of supply indicators: a comparison with similar areas (countries, regions or cities) to enable an initial assessment of the state of the market.

3. A detailed demand survey
   a. Analysis of statistical demand data: number of inhabitants, total retail expenditures, expenditures via internet, etc.);
   b. Field research: a Consumer Flow Research that analyses the spatial behaviour of consumers and answers questions such as: which areas are visited the most, how far do people travel to their preferred shopping destination, etc.;
   c. Catchment area analysis. Combined with 2.c. above will the Consumer Flow Research provide detailed insight into the different levels of catchment areas generated by the main retail concentration areas. Often a catchment area consists of a Primary Catchment Area (the immediate surroundings, usually within 15 min. travel time), a Secondary Catchment Area (the second ring, usually between 15-30 minutes travel time) and sometimes a Tertiary Catchment area, in the case of large retail concentrations that create demand from tourists or distant locals.

4. A market environment summary: a synthesis of (2) and (3) resulting in a supply-demand balance analysis, exposing under- and oversupply in all segments of the retail market.

The above 4 inputs can then be fed into a retail policy document, which is usually updated every 2-3 years. The outline table of contents looks as follows:
1. Introduction: the rationale of the retail policy and its role in the wider urban planning policy;

2. Recent trends and development in the retail sector:
   a. Sectoral-specific trends such as consumer behaviour, demographic trends, retailer behaviour (expansion, new retail formats, etc.)
   b. Planning trends: relevant policy developments

3. Retail market analysis

4. Main objectives of the retail policy, such as:
   a. Preventing urban sprawl: identification of retail zones and restrictions on retail developments outside these zones;
   b. Protection of small-scale inner city retail
   c. Stimulating more diversity
   d. Etc.
   e. Etc.
   f. Etc.

5. Policy instruments, such as:
   a. Outline development perspectives for the key existing retail concentration areas
   b. Restrictions/requirements for new developments (e.g. by designation in the municipal zoning plan)
   c. Segmentation in zoning plans (which types of retail are allowed on what type of location)
   d. Additional requirements for large new shopping centres/retail parks
   e. Rezoning options for non-retail into retail or vice versa

CONCLUDING REMARKS and RECOMMENDATIONS

We understand that the latest research and policy dates from 2010 and that the need for an update is currently debated. On top of that, the Cypriot planning authorities foresee the possible need for a “new generation” of retail planning. In connection to these questions, the following conclusions and recommendations can be made:

General conclusions and recommendations

1. Proper retail policy making requires an in-depth understanding of the retail market (supply and demand side) an should expose its imbalances

2. The higher the level of retail provision and the stronger the imbalances within the retail sector (mis-alignment of supply and demand) the stronger the need for retail policy. For
this reason, the most advanced retail policy making is found in The Netherlands and Belgium.

3. As a key sector of any (local) economic system and a significant driver of spatial development, retail policy making is ideally a collaborative effort between economic and spatial planning agencies.

On the need to update retail planning policy

1. Given the highly dynamic nature of the retail sector, with a large amount of factors on both the demand and supply side, retail planning policy is regularly updated, typically each 2-3 years.

2. An update to the retail policy is an important moment for both policy makers and the sector and provides an ideal opportunity to strengthen public-private cooperation. In some circumstances, new research may (should) include larger catchment areas and facilitate cooperation between various layers of government (national-regional-local).

A new generation of retail policy for Cyprus?

Sound retail policy making starts with a strategic perspective: it outlines the key challenges of the sector, identifies its imbalances and puts forward a vision for its optimal development, aligning both economic and spatial considerations. A strong and balanced retail sector contributes to an area’s economic competitiveness and spatial structure.

A new generation of retail policy making in Cyprus should assess the current policy’s strategic perspective and avoid a focus on detailed zoning regulations.

As a rough guide, detailed zoning regulations for the retail sector should be evaluated and the potential for reduction assessed. More important is the overall contribution that a retail policy makes to the optimal economic and spatial development strategy of an area (county, region or city), rather than focusing on outlining detailed requirements for retail businesses.

In this policy, a balance should be achieved between regulation and stimulation and related instruments. Achieving the right balance is no easy task, as has been (and still is) revealed by experiences from the most advanced countries in this realm.