Review of the supply & demand of industrial sites & premises in the Plymouth travel-to-work-area.

Issues for consideration & debate.

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By SG Consulting

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Preface

At a time of unprecedented global economic and technological change, this study is designed to provide a fresh perspective on the assessment of the needs of the local engineering and manufacturing sector for industrial sites & premises in the Plymouth travel-to-work-area.

Using a standard methodology of a desktop review of the environmental context; followed by a mix of quantitative and qualitative research, it identifies and draws out a series of issues for further debate and discussion.

The strength of this study is twofold. Firstly, it lies in the breadth of its coverage including, as it does, consideration of the following:

- New Local Government finance and planning tools;
- The likely impact of attempts to re-balance the economy;
- Plymouth's relative competitiveness and its recent success in attracting foreign direct investment (FDI);
- The role of key stakeholders such as the Local Enterprise Partnership (LEP) and the University;
- Contextual issues directly related to manufacturing;
- New production techniques;
- The changing international comparative costs of manufacturing.

And secondly, the extent of its engagement with a wide range of stakeholders. These include:

- Crucially, members of the manufacturing and engineering sector. A questionnaire survey designed specifically for this review achieved a 74% return rate amongst the 50 members of the Plymouth Manufacturers' Group;
- Local industrial site developers;
- Members of the chartered surveyors profession who act as agents to their manufacturing clients;
- Local architects;
- Public sector officers engaged in both planning and economic development activities and importantly,
- The Chair of the Local Economic Partnership.

By examining the full gamut of political and industrial change that is impacting on the manufacturing & engineering sectors with the specific purpose of deducing their implications on the supply and demand of industrial sites & premises, the report provides a unique perspective of this important part of the Plymouth economy at a critical time both locally and nationally.

What this study isn't intended to be, however, is yet another employment land review – in fact, it deliberately doesn't attempt to provide a review and critique of available sites and premises across the City. Instead, it seeks to be thought-provoking and challenges the wisdom of standard approaches to employment land allocation by questioning, amongst other things, whether employment projections based on the past are appropriate at a time when both the economy, post global recession, and the manufacturing sector are each facing a degree of change, the like of which we haven't seen before.

Steve Gerry
SG Consulting

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Executive Summary

Manufacturing is still an important part of the UK economy. It employs two and a half million people nationally and produces output (GVA) worth $231 billion, which ranks the country 9th in the world. It accounts for 50% of all the country's exports and attracts 70% of the nation's R&D spend.

Plymouth's economy remains disproportionately dependent on manufacturing (inclusive of ship repair) as a key component of the local economy. According to baseline forecasts from Oxford Economics, the sector contributed 12.6% of GVA and 10.1% of employment in 2010 compared to the corresponding figures of 10.1% and 8.2% for the UK as a whole.

In 2006, Baker Associates were commissioned by Plymouth City Council (PCC) to undertake an employment land assessment for use in developing the Local Development Framework and informing the long term employment provision in the city. Essentially, this was achieved by way of employment trend analysis – a retrospective means of projecting forward – although some allowance was made at that time for the City's growth plans. What Baker Associates couldn't have foreseen at that time was the impending crash of 2008. Now, from the perspective of the second decade of the new century, attempts to calculate the future need for employment land for industrial use will prove to be much more difficult to predict for many reasons.

After the financial collapse of 2008 and the double dip recession that followed, the government is politically committed to rebalancing the economy in favour of supporting growing industries such as aerospace, pharmaceuticals, high-value manufacturing, hi-tech engineering, low carbon technology. In pursuit of this aim it has launched or modernised a number of initiatives including: Technology and Innovation Centres – renamed *Catapults;* the Manufacturing Advisory Service and a supply chain initiative amongst others. Furthermore, the government has sought to simplify land-use planning regulations and is currently undertaking significant reform of local government finance which is intended, in part at least, to incentivise local authorities to back the growth agenda. This includes:

- Local Enterprise Partnerships to establish collaboration between public and private sector and between authorities to maximise impact of economic decisions on growth;
- Planning reform to support growth, drive local enterprise and deliver wider reduction in regulation;
- Direct support to support particular opportunities for local growth, including the Regional Growth Fund, Growing Places Fund, and Enterprise Zones.
- Strong positive financial incentives for local authorities and communities to support and encourage local housing and business growth; and
- Greater financial flexibility locally so that there is greater scope to support local economic growth through new instruments such as Tax Increment Financing.

The report that follows looks at each of these in turn for their likely implications in relation to the provision of industrial sites and premises.

Issue – what impact will these political actions have on the provision of sites and premises locally here in Plymouth?

The government's actions are just part of the changing landscape. Under the heading, *'Drivers for Change'* this report highlights a number of issues including the following: -

- It may be a passing phase but by *'flexing the workforce'* many firms have reduced their headcount albeit primarily by rationalizing temporary and agency personnel. Some firms have had to rescale their manufacturing – improving efficiencies and reducing costs to deal with volume decline and sudden price erosion, especially in commodity products. *Cash and Working Capital* – As liquidity became scarce companies have focused on cash and working capital. This has been mainly achieved through inventory reductions – i.e. less stock - with implications on warehouse space requirements.

- Some of the most dramatic improvements in resource efficiency locally have been witnessed by firms moving into new premises that observe BREEAM standards – such as Hellermann Tyton and Oakmount Control Systems.
- Meanwhile, the 2011 Energy Act requires that by no later than 2018, and possibly sooner, all secondary properties with F- and G-rated residential and commercial properties will need to get 'greener'. Estimates have suggested that up to 18 per cent of all commercial properties in the UK - around 600,000 - could be caught in the net. The proportion might be even larger in Plymouth. Many feel that it is just not economic to refurbish. This would have a significant impact on the supply of sites.
- Nationally, a new paradigm continues to emerge that increasingly positions Universities at the forefront of the economic development of our Cities. Plymouth University's pivotal role is likely to help shape future developments, particularly within the marine and renewables sector, but also elsewhere too. This should have implications for site selection and location.
- What seems incontrovertible is that products in the future will be built faster and more flexibly than previously. Whilst many existing operations (from a space requirement perspective) may be unaffected, several of these trends point towards smaller scale operations becoming feasible in the future. Conversely, the desire for close proximity working and the co-location of previously distributed functions may in some circumstances call for larger sites.
- It remains to be seen whether the UK will see grand scale repatriation of manufacturing activities that were previously 'off-shored'. Trends occurring in the US and some anecdotal evidence in the UK, including locally here in Plymouth, suggests that this may have some impact on demand for industrial space here in the UK.
- A discernible trend in firms expanding their manufacturing offer to include service provision is having real implications for the use and suitability of existing premises. Many will just need more space than they currently have and an area that was previously suitable for manufacturing may not be suitable for service provision in the future.

Issue – what difference will each of these 'Drivers for Change' have on the provision of sites and premises?

Having considered the environmental context for matters that are likely to change levels of demand for industrial premises, the report focuses on the existing supply of sites & premises. The general consensus is that there is plenty of choice but that it is generally of poor quality. This creates problems because invariably *'there are a fair number of empty buildings around but to find something to meet specific requirements is nigh on impossible'*.
The smaller end of the market is deemed to be operating effectively as there are a few developers operating in the locality. Beyond this, there continues to be market failure that requires public sector support.

Issues regarding the supply of sites & premises are:

- The lack of access to funding from the banks. Several sites in the City, for example, are now lying idle. The problem is getting the commercial funding in place to modernize them
- There is no speculative development
- The fact that the difference in cost between rebuild and refurbish is minimal
- Book value/land value gaps
- Lack of funding for infrastructure
- Using residential cross-subsidy as a source of finance
- Planners understanding that there is a limited 'shelf-life' for industrial buildings
- The phenomena of 'valueless buildings'
- The proximity of EU Convergence Funding
- Public sector ownership of land
- Impending impact of the break-up of London & Westcountry Estates
- Business rates and empty property

- Business Rates and Enterprise Zones
- The role of the Public Sector

Whilst PCC reports that it is currently delivering on average 5.16 hectares per year of employment land within the Plymouth Principal Urban Area and that this is in excess of their target of four hectares per year, a recent study by planning consultancy Nathaniel Lichfield & Partners (NLP), found that almost three-quarters of councils have allocated employment sites that have not seen development in more than a decade. Of these councils, 70 per cent said this has had a "significant" or "very significant" impact on either their economic development aims or employment land supply. People interviewed for this study expressed their frustration at the slow rate of progress that the local authorities had made to date in progressing the city region's key strategic sites.

Moving on to the subject of the **demand** for industrial employment land, the report looks back at Plymouth's heyday in attracting manufacturing investors in the 1950s/60s and attributes success at that time to:

- A clearly identified need arising through the loss of firms and high levels of unemployment;
- The importance of having the Government of the day on board;
- Financial support to incoming firms available through special status;
- People available with the skills that firms were looking for;
- An advertising and marketing plan;
- Appropriate allocation of land.

Issue – What lessons regarding inward investment can we learn from the post war era to replicate today?

More recently between 2006/07 to 2010/11, whilst most Local Authorities in the UK *lost* manufacturing jobs, 28 actually managed to grow their manufacturing base including eight by more than one thousand jobs. Amongst them, perhaps surprisingly, was Cornwall which was ranked third overall with a growth of 1,600 jobs. This seems to imply that a negative trend needn't be inevitable for Plymouth.

Issue – Why is Plymouth suffering a net loss of manufacturing jobs – what would it take to buck the trend?

Issues likely to impact on the City's future demand for industrial employment land:

- Rebalancing the UK Economy
  Even in the most upbeat of forecasts for output growth in UK manufacturing, projections show that because productivity improvements in this sector are relatively strong; manufacturing employment is forecast to increase only modestly but this in itself is a radical departure from the preceding long term decline'.
- 'On-shoring' of manufacturing from China and the far east
  The Boston Consulting Group forecasts that the relocation of manufacturing from China, combined with increased exports due to improved U.S. competitiveness compared with Western Europe and other major developed markets, will repatriate $100 billion in goods production to U.S. shores and directly and indirectly create 2 million to 3 million jobs in the U.S. and reduce unemployment by 1.5 to 2 percentage points over an unspecified period.
- Plymouth's relative competitiveness and in particular the impact of:
  - Employment zones
  - HS2

  Many of those interviewed for this report felt that it wasn't so much the availability of industrial real estate (or the lack of it) that was holding back the local economy – it was other factors. The general attractiveness of Plymouth as a location for investment is lessening. Interviewees identified several problems.
- Foreign Direct Investment and intra-UK investment.

UKTI recently published a table of FDI successes by LEP area which ranked the Heart of the South West 32nd out of 39 LEPs with just 124 jobs created or safeguarded from six projects.

Over 20% of the firms surveyed locally for this report occupied premises that were over fifty years old. Older premises tend to have the following issues and problems associated with them:

- Power and utility requirements
- Energy efficiency
- Warehouse requirements
- Loading docks
- Office: shop floor space allocation
- Heating, ventilation and air conditioning
- Windows
- Lighting
- Height – floor to eaves

Issue – Are we reaching a point at which a critical mass of industrial buildings is becoming no longer 'fit for purpose'?

In addition to the more 'conventional' forms of demand for sites and premises, there is a more subtle, hidden form of demand that can be described as a failure to maximize the economic potential of endogenous growth in the City. This is often the result of a *'logjam in the system'* which would otherwise create a multi-beneficial chain reaction if it was released. An example given in the report typifies the situation that can occur.

Issue – how common is this 'logjam' phenomenon and how should it be tackled?

Members of the Plymouth Manufacturers' Group participated in a survey that took place during May and June 2012. 37 responses were received from the City region's leading manufacturers – that is equivalent to a 74% participation rate. A summary of the findings of this survey is as follows:

- 20% of firms feel that their current premises inhibit their firm's immediate growth or development potential.
- Key reasons for constraint include: poor design/layout; split site and poor energy efficiency.
- 35% of those surveyed anticipated problems with moving – over half cited *'not being able to find the right premises'* as their main concern.
- Of those offering a comment, 70% feel that the supply of local sites and premises is either: *'inadequate; inappropriately located and/or priced'*.
- One in six manufacturers surveyed weren't sure whether their businesses would still be located here in Plymouth in five years time.
- Of the five locational factors ranked most highly in importance by the majority of respondents, only one factor *'Stability and reliability of the workforce'* is matched by being highly achieved or delivered at the manufacturers' present location. The four other factors failing to reach the expected level of requirement being:
  - Access to a main transport spine (road, rail, air and/or shipping)
  - Competitive cost of factors of production – land, labour etc
  - Access to skilled people
  - Access to superfast broadband.

Issue – Amongst other things, the survey reveals dissatisfaction with the current supply of sites & premises available in the local area. What should the authorities be doing about it?

Finally, Plymouth's Core Strategy is due to be reviewed shortly and superseded by the *'Plymouth Plan'* which is expected to be a much broader document integrating with other strategies. This may well provide an opportunity to take a fresh look at the basis for allocating industrial employment space as reflected in this report.