

THE PROVISION OF SMALL INDUSTRIAL PREMISES:
A GEOGRAPHICAL PERSPECTIVE

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ABSTRACT

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by

Martin Perry

This thesis develops the argument that Industrial Geography research could be strengthened and enriched by the use of ideas current in the study of the Social Geography of housing. The analysis of accommodation supply and management, which has provided valuable new insights into residential structure, has so far no counterpart in Industrial Geography, and yet the constraints imposed by property availability obviously fashion the prospectus from which locational choices must be made.

This study therefore examines the spatial pattern of provision of industrial accommodation and the management and allocation of this stock. In particular the work of the main agencies which built small advance factories (5,000 sq.ft. and below) in England between 1976-1981 is examined: these are local authorities, New Towns, the Development Commission and English Estates. In total these organisations are estimated to have supplied about three-quarters of new small industrial premises built during this period. The research also examines private-sector advance provision and includes case studies of five private-sector agencies. A survey of the occupants of 122 small advance factories in Cornwall shows that the character of tenants and estates varies according to the size of units and the estate management policies of developers. The research calls for a more explicit concern with property provision and management in Industrial Geography and a recognition that developers, financial institutions and estate managers play a key role in controlling the supply of industrial accommodation and in shaping the industrial landscape.

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CHAPTER ONE: INTRODUCTION AND OBJECTIVES

1.1 THE SCOPE OF THE STUDY

Spatial contrasts in the provision and availability of industrial accommodation are a neglected theme within Industrial Geography. Geographers have tended to view the evolving economic landscape as the outcome of firms' locational preferences which, in turn, reflect the changing demands of the production process. There has been little consideration of the constraints on industrialists' decisions, particularly in respect of their essential requirement for physical space in which to operate. If the spatial distribution of accommodation precisely reflected the demands of industry, then this omission would not be important. But the pattern of accommodation supply and the workings of the industrial property market mean that the effective location choices open to an individual firm are, at any point in time, constrained by the limited number of suitable sites and premises actually available for occupation. This point has long been recognised by policy makers who have used the building of advance factories as a tool to influence location decisions, but the supply of property has not achieved a similar prominence in the academic literature.

This research seeks to redress some of the imbalance in existing studies through a close examination of the pattern of accommodation supply. The focus of the study is an investigation of the magnitude, nature and spatial distribution of advance factory provision within the context of the objectives of the providing agencies. Closely related to this theme is the examination of the management terms and allocation procedures which determine the types of business eligible for the premises provided by each particular agency. Throughout, this research concentrates on the provision of small advance factories (less than 5,000 sq.ft.) as this sector provides a particularly fertile background on which to test these new ideas on industrial location.

Small manufacturing firms emerged in the 1970s as a major focus of concern for Government policy. Indeed, in terms of job generation and through their postulated role in fostering healthy and diverse local economies, some commentators (for example, Bannock 1976) have viewed small business as a key to economic revival over the long run. By the mid-1980s, the claims made for the small-firms sector had been tempered, both by academics (Lloyd and Dicken 1982, Storey 1982, Rothwell and Zegveld 1982) and by policy makers (West Midlands County

Council 1982; Greater London Council 1983): nonetheless, employment promotion strategies have maintained a strong emphasis on small business.

A principal outcome of the policy focus on small business has been the increasing number of agencies (public and private) which are now providing small factory premises in what has previously been a neglected market. There has developed very rapidly a complex pattern of accommodation supply, whose geographical characteristics have not yet been widely explored.

Indeed the argument developed in this thesis is that the demand or choice perspective which has dominated locational research (on both small and large businesses) has undervalued the importance of accommodation availability and hence has neglected the processes by which the supply of available destinations is controlled through the workings of the property market. Whereas "the new urban sociology" (Harloe 1978) influenced geographers studying the housing market to turn their attention away from individual households to the study of the processes by which houses are built and allocated, a similar reversal has not yet affected Industrial Geography.

An important part of the academic context of this research is, therefore, this contrast in the research methodologies of Social and Industrial Geography. The argument put forward is that explanations of industrial location require an understanding of the workings of the property market and that the supply of available properties can act as an important constraint on the search for premises particularly in the small-business sector. Property for small firms has been in short supply as most small businesses cannot afford to build their own premises and private speculative developers have not looked favourably on this sector. There are, of course, existing studies such as those by Norcliffe (1975) and Falk (1980) which refer to property cost and availability as important influences on industrial location decisions but these fall far short of a wider understanding of how the property market influences the spatial dimensions of industrial development.

This study takes the form of an examination of the principal suppliers of speculative small-factory accommodation in England. The work undertaken provides a detailed discussion of the geography and management of recent public-sector provision. The emphasis is on public developers as their activities far outweigh those of the private sector

in the period covered by the research (1976-1981). The data collected for this thesis are derived from a questionnaire survey of English local authorities and New Towns and from the estates records and annual reports of English Estates and the Development Commission. A more limited review of private-sector provision also forms part of the research and includes case studies of five agencies, which have invested in and/or developed small speculative factories.

This thesis is, therefore, about property supply and about how concepts and approaches derived from the study of residential property markets can be used to explain the pattern of industrial location, particularly with respect to small businesses for which property considerations are crucial. The opening chapter seeks to provide an appropriate foundation and context for this work. It begins with a review of dominant perspectives in Industrial and Social Geography and includes an examination of the development of modern industrial location theory. This body of literature is then contrasted with recent advances in the study of residential patterns. The main conclusion of this comparison is that a property-market approach to industrial location is most relevant to the small-business sector. The chapter, therefore, goes on to provide some basic information about small businesses in terms of their salient characteristics, employment and financing. Recent public policy initiatives aimed at small firms are also reviewed. Finally, the chapter closes by outlining the content and objectives of the research programme.

1.2 INDUSTRIAL GEOGRAPHY

The origin of modern industrial location theory is closely related to Economics and particularly neo-classical Economics. Weber, the accepted founding father of industrial location studies, observed that manufacturing plants will locate at the point where transport costs are minimised (Weber 1909). But this strong focus on the costs of transportation and the assumption in Weber's theory that demand for the firms' product was unaffected by its location were difficult to accept. Isard (1956) extended Weber's basic proposition by incorporating into it a substitution analysis which allowed the modelling of more than one resource input. However, both approaches faced more fundamental problems when the assumption of perfect competition, with large numbers of small independent producers, became more difficult to sustain due to the increasing importance of monopoly capital. The goals of monopolistic producers cannot be understood

exclusively in terms of profit maximisation, but are also related, for example, to strategies to maintain market shares. Moreover, modern communications mean that variations in transport costs are no longer so significant. Frustration with neo-classical theory led students of industrial location to draw on other traditions, inside and outside Economics, in search of explanations for patterns on the ground that were inconsistent with classical prescriptions.

Of the new lines of thought that have developed since the 1960s, the behavioural perspective has been particularly influential. Behavioural studies focus on the firm's locational goals, search methods and information sources as well as the actual selection or decision-taking procedure. Industrial location studies have not, however, become entirely bound by behavioural considerations and Keeble (1977) has distinguished between three significant themes in contemporary Industrial Geography. These are neo-classical theory, behavioural analysis and empirical statistical analysis and modelling.

Of the first Keeble stated:

"...one of the most interesting conclusions evident from any review of the recent literature is how limited is current geographical research based on neo-classical industrial location theory."

Nonetheless, a few examples of work in this tradition can still be found. Smith (1970) put forward the idea of "the spatial margins to profitability". The margins are the points in space where total costs are equal to total revenue. Outside the margins production is not profitable: within them, the firm can locate anywhere, the actual choice being influenced by the decision-maker's goals and information levels. This concept continues to attract academic attention and Chalmers and Beckhelm (1976), for example, have attempted to statistically model location patterns within the margins of profitable production.

Behavioural studies, by contrast, are more numerous and worthy of more detailed consideration. Townroe (1979), one of the leading exponents of behavioural studies in Industrial Geography, has identified four strands within the study of the location process. The first strand examines the goals of firms' location decisions and the extent to which they are maximised. Studies within this theme have emphasised the importance of non-profit goals such as the growth of sales and share of the market, long-run survival, prestige and psychic income (i.e. social, environmental and other non-pecuniary satisfactions).

The second element involves the study of locational decision-making procedures, typically based on surveys of recently moved plants. Townroe (1971), for example, examined firms in the West Midlands area. He made a comprehensive analysis of their decision-making process, beginning with the decision to move or to establish a branch plant, and ending with the post-move assessment of the selection made. This, and similar surveys (for example, Walker 1971 and Cooper 1975) have drawn attention to the problems of uncertainty which beset locational decision-makers and which tend to induce conservative location choices.

A third strand within behavioural studies has examined the information base on which location decisions are made. Decision-makers are seen as possessing both limited knowledge and limited power to use such knowledge. Consequently search behaviour is seen as satisfying in character, meaning that it is concerned with the discovery and selection of satisfactory rather than optimal strategies. One direct implication for policy making is that the provision by Government of locational information could help steer firms towards the Government's preferred areas. Green (1977), in a study of industrialists' information levels of regional incentives, found widespread misunderstanding and suggested that better relocation counselling from Government was called for, especially for small firms.

Finally, Townroe identified studies of the corporate strategies of multi-plant firms as a further important strand within behaviourist approaches. Contrasts between industrial plants, their markets and sources, for long regarded as providing a rationale for the spatial structure of manufacturing, have been shown to be influenced not only by distance and its associated costs, but also by patterns of company organisation. McDermott (1976), for example, found that membership of a multi-plant group tends to be associated with higher levels of non-local sales.

After neo-classical models and behaviourism, the third principal research area identified by Keeble (1977) was empirical statistic analysis which, in his view, rivalled behavioural investigation as the single most common current approach to research in Industrial Geography. Within this statistical approach three main trends emerged during the 1970s. One approach focuses on locational change including, for example, the regression-based analyses of manufacturing movements in Britain (Sant 1975, Keeble 1976). A second approach is to investigate the costs facing firms in different locations so as to determine which

places are more profitable for manufacturing production (Moore and Rhodes 1980, Lever 1981). The third area of investigation which has recently achieved particular prominence is components of change analysis. This measures the contribution of business openings, closures, expansions and contractions so that the component(s) contributing most to employment changes in any location can be identified and investigated further. This type of investigation has been much used in research on unemployment decline in the inner cities (Dennis 1978, Lloyd 1980).

For the purposes of this thesis the components of change methodology is of particular interest in that in examining local and regional economies it seeks to place individual firms' economic performances and locational changes within a wider framework. Massey (1978) has also argued that locational behaviour cannot be divorced from broader economic pressures and technological developments. Further work by North (1981) in a study of industrial change in London has underlined the view that explanations of local economic trends must entail an understanding of sectoral conditions at national and even inter-national levels.

Criticism of "positivistic quantitative geography" has also been forthcoming from Sayer (1982) who states:

"The traditional habit of analysing industrial location separately from location decisions (whether they involved moves or decisions to locate further capital in situ) presuppose investment decisions (or disinvestment decisions) and since the determinants of these lie in the economy outside the firm, the latter cannot be ignored".

But Sayer has warned against the adoption of simplistic structural models. Whilst agreeing that behavioural studies have overlooked the fact that people do not just act as they please, in conditions of their own choosing, Sayer feels that there exist important processes which mediate between the wider structure and the particular organisation. The exact nature of these processes has, however, still to be outlined.

Modern Industrial Geographers are, therefore, expressing the view that the focus of attention should move away from individual firms to an understanding of the economic context within which they operate. So far this new approach has emphasised the importance of economic conditions at the national and international levels (Massey 1978, 1979, 1980). But this work neglects a key element in the firms' external environment, namely the property market within which location searches are conditioned and selections made. It is assumed, implicitly at least, that the supply of property is a perfect response to the needs

of industry. In practice, however, time lags, the inherited stock of old accommodation, planning controls, financial and institutional constraints and the inability of speculative builders to predict precisely future needs make it inevitable that there is a considerable mismatch between supply and demand. Several surveys have, for example, revealed a high level of dissatisfaction with sites and premises (Keeble 1968, Dennis 1978, Leigh and North 1983).

In developing this property-market perspective on industrial location the next section considers recent advances in the geography of housing. It is clear that studies of the spatial decisions of households are far more advanced than those in Industrial Geography in terms of an understanding of the constraints imposed upon decision choices by the operation of the property market and by the various institutions controlling accommodation provision. The review of the social geography of housing indicates a rich area of concepts, theories and research strategies as yet largely untapped by Industrial Geographers.

1.3 SOCIAL GEOGRAPHY AND THE STUDY OF INDUSTRIAL LOCATION

Industrial and Social Geography are both concerned with the spatial organisation of society, principally in terms of firms and households, yet to date it has not been fully appreciated that this broad similarity of purpose offers opportunities for a considerable sharing of concepts and approaches. There are, of course, important differences between firms and households in their size, function and locational needs, and no attempt is made here to embrace the whole of Social and Industrial Geography in a unified conceptual framework (for a broader discussion of these issues see Chalkley and Perry 1982). This review is more modest, concentrating on ideas which stem from research into the residential property market and applying these ideas to industrial activity. The study of residential structure has been approached from a variety of perspectives (Bassett and Short 1980) including traditional ecological models (Park et al 1925), behaviourism (Clerk and Gleave 1973) and ideas based on the role of housing institutions and social conflict in capitalist societies (Harvey 1977, Cox 1978).

Behaviourism, as applied to studies of housing choice, was in early phases responsible for the development of a range of concepts such as "aspiration levels", "subjectively determined thresholds", "bounded rationality" and "place utility". Thus, when considering behavioural aspects of the decision to migrate, the starting point was an intendedly rational man who sought to differentiate between alternative courses of action according to their expected utility.

For each individual there was assumed to be an aspiration level which functioned as an evaluative mechanism for distinguishing between satisfactory and unsatisfactory housing vacancies. The outcome of this type of approach was a large number of studies which emphasised individual choice as the most important variable determining change in the residential patterns. Geographers set out to collect empirical data to identify the principal stages in consumer decision-making and sought to assess how these decisions varied with household characteristics, time and place (Wolpert 1965, Brown and Moore 1970; Michelson 1977).

It was the rise of the new Urban Sociology and particularly the study of the housing market in inner Birmingham by Rex and Moore (1967) which marked the beginning of a debate which has radically altered the focus of residential research in Geography. The work of Rex and Moore brought to the forefront a concern with the distribution of power in the city, with the control of access to scarce urban resources and hence with the actions of the managers of the process of housing allocation.

The concern with questions of availability and eligibility is illustrated by research on the role of estate agents (Williams 1976) and on the allocation of Council housing (Gray 1976). This new institutional emphasis, some of it Marxist (Harvey 1977, Bassett and Short 1980) is based on the argument that human spatial behaviour cannot be explained by reference to goals and preferences alone since these can only be realised if resources and opportunities permit. Gray (1975) for example, argues that:

"We need to understand that the housing market process can only be understood as part of the national allocation of resources, and not as the outcome of demand from individual household units."

Household choices are, therefore, conditioned and controlled by the institutional forces which shape the housing market. Moreover, the supply of available accommodation is far from a perfect response to the pattern of demand. Williams (1976), for example, has shown that the policies of financial agencies have worked to prevent many of the occupants of private rented accommodation from gaining control of their own accommodation. Moreover, he observed that Government action with regard to rent control has exacerbated the vulnerability of tenants in the private rented sector. More generally, Bourne (1976) suggests that all the various institutional groups in the housing market pursue policies which best serve their own interests rather than satisfying the aspirations of their clients. These agencies include

building societies, banks, estate agents, property developers, insurance companies, planners and all levels of Government.

Pahl (1975) refers to these kinds of groups as "urban managers" and this managerialist perspective has gathered considerable academic momentum in recent years. Norman (1975) has distinguished between early managerialism which focused upon the specific actions of particular agencies and more recent forms of managerialism "from which emerges a far more explicit concern with power relations, the nature of cities and their social and economic structure." The competition for housing is increasingly viewed as one element in a much wider conflict between social groups over scarce resources and an expression of the distribution of wealth and power in society (Lambert et al 1978). Thus the adoption of a property-market perspective has not only provided a better understanding of residential patterns but has also been the source of a radical infusion of new ideas into Social Geography.

That Industrial Geographers have generally failed to explore questions of property supply may be explained by the view that regards industry as omnipotent and immune from influence by lesser capital concerns or mediating agencies. Certainly decision-making studies (Townroe 1971; Rees 1973, North 1974) have tended to focus on multi-national and very large companies: these enterprises in seeking new sites are not restricted to the available stock of existing premises as they have the resources to purchase purpose-designed accommodation. In addition, they may possess political influence, particularly during periods of recession, to overcome planning and land-use constraints. Alternatively, large industrial groups may be seen as the equivalents of wealthy households whose money and power enables them to obtain attractive accommodation with relative ease. However, the degree of choice open to large firms can be circumscribed by their needing large sites, which are less numerous than small ones and by the difficulties of transferring complex plant installations to new locations: so the study of the property-market can still be worthwhile even in the case of wealthy corporations. And for small firms, of course, characterised by limited financial resources and a low rent-paying capacity, the constraints on the kinds of property they can obtain will generally be appreciably higher.

Until recently within Industrial Geography, Bale's work (1972, 1974, 1977) on post-war industrial estates and Slowe's study (1979) of advance factories stood as the only substantial and well-known

programmes of research which have clearly recognised the importance of examining the supply of premises. Boddy and Barrett (1980) had also provided some interesting findings on the terms and conditions on which the private sector becomes involved in industrial property, but otherwise the existing literature was limited to surveys of the "why did you come here" variety. These surveys (for example, Katona and Morgan 1951, Ruddy and Smith 1961, Logan 1970) indicate that between 5% and 50% of firms considered property availability was a key influence on their location decision but it is difficult to know what such figures really mean. Whether or not the interviewed entrepreneurs makes the obvious point that they (like all other such decision-makers) had to select a site which was available may well depend on the wording of the survey question, the individual's approach to explaining their decision (which may have been taken many years previous to the interview), or even chance in the course of the interview conversation.

One might have expected academic departments of land and estate management to have produced substantial research programmes on the roles of different agencies in the property market, but this is not so. The literature emanating from these departments is almost entirely limited to general introductory texts (Green 1981, Cadman and Austin-Crowe 1983) or deals with financial and legal aspects of property provision (Cadman and Catalano 1982, Scarrett 1983). One notable exception however, is the work of CALUS (1979) on the technical suitability of new speculatively built factory units which includes a discussion of the agencies responsible for advance-factory provision. In addition, estate agents and developers have produced descriptive analyses of market trends. But these studies (for example King and Co. 1976 onwards, Hillier Parker 1980 onwards) tend to concentrate on short-term trends in the property market, or on other aspects that are particularly relevant to the decision-making of property companies, such as rates of return on alternative investments.

Since the research for this thesis commenced, other studies have begun to examine the provision of industrial premises in more detail. Work by the Buildings Research Team (1980, 1981) has examined the character and suitability of small advance-factory provision in two rural areas: Shropshire and the former County of Herefordshire. There have also been local studies of the industrial building stock in Birmingham (Williams et al 1980) and the supply of new industrial premises in the Northern region (Dabinett 1982).

More recently Fothergill et al (1984) have identified property availability as a major cause behind the urban-rural contrast in manufacturing employment change. This work has proposed an explanation of job losses and gains which takes account of the supply of land and buildings for industry, and national trends in output and technology. The essence of the explanation is that a decline in employment density tends to occur on existing factory floorspace (concentrated in the cities) and leads to large job losses, while variations in the supply of available land mean that increases in the stock of floorspace are concentrated in small towns and rural areas. In cities manufacturing employment falls because difficulties in assembling sites for new property and the lack of space to extend existing premises preclude new accommodation provision sufficient to offset job losses. In small towns and rural areas job losses on existing floorspace also occur but they are offset by new employment made available through increases in the property stock enabled by the plentiful supply of readily-developed sites and the room for expansion of existing premises.

The work of Fothergill et al (1984) indicates the marked spatial variations in property supply and the importance of readily available sites in influencing the location of new manufacturing investment. Their research has, however, been based on national aggregate data of floorspace and employment and has not considered the role of particular agencies in shaping the pattern of provision. A more detailed explanation must take account of the workings of the property development industry as it may be the conservatism of developers and funding institutions that explains the under supply of new property in congested urban environments, as well as physical difficulties in assembling sites.

A further aspect of the location process so far ignored is the way in which "sites select businesses". Thus those firms which do find a suitable property may be prevented from obtaining it by estate management practices designed to exclude bad-neighbour, financially risky or other "undesirable" tenants. Although admission policies are a general feature of the industrial property market, the rules have been especially strict for small businesses principally because of the high failure rate characteristic of the small-firms' sector. Of course, during periods of recession it is likely that screening procedures will be relaxed reflecting the fall in demand for property, nonetheless differences in the detail and objectives of tenant-selection

policies remain. For example, whereas private developers look for tenants likely to yield a secure and attractive financial return, public-sector developers are principally concerned with increasing economic activity and employment. The degree of financial vetting also varies between different agencies (Buildings Research Team 1980). These admission procedures are, at a very broad level, comparable with the eligibility barriers operative in the housing market. There are, of course, no direct equivalents to the Council house waiting list or to the points system but as the case study in Chapter Eight demonstrates eligibility rules and the financial screening of applicant firms certainly help to decide "who gets what and where".

But if most Industrial Geographers have nonetheless tended to neglect the role of property in influencing manufacturing location, the same cannot be said of Governments. Both at regional and local levels, planning agencies have used the construction of advance factories - factories built speculatively on behalf of a Government agency in the hope of finding an occupant - to entice industrialists to particular areas. And certainly places with a shortage of attractive industrial accommodation see this as a major obstacle to employment growth. Similarly, in the inner-urban areas of our major conurbations, the obsolete stock of industrial premises has been identified as one of the main reasons for the pattern of economic decline (McIntosh and Keddie 1979, Fothergill and Gudgin 1982).

The new interest in the inner cities is one of several signposts pointing to the need for a more explicit and detailed property-market dimension in Industrial Geography. The new priority afforded to small business by policy makers, and particularly the emphasis given to property provision as a means of stimulating new and small firms is a further signpost. The small-business sector would seem to offer especially fertile ground for the development of a property market approach to industrial location. Consequently, this study focuses on the supply of premises to small firms. To set this work in context, the next section discusses the geography of small-business activity and the prominence of small firms in public policy initiatives.

1.4 THE SMALL-BUSINESS SECTOR

During the 1960s, politicians and economists tended to view small firms as an outdated form of economic organisation: it seemed that the needs of a modern economy required complex technological processes

and large units of production (Lloyd 1980). As small firms were considered inappropriate to advanced technological systems they were even regarded as an obstacle to growth. But if the 1960s were a decade of belief in large-scale production, the 1970s witnessed the rehabilitation of the private small firm in terms of their perceived role in stimulating innovation, creating wealth and generating employment.

The Bolton Committee of Inquiry on small firms (1971) began the revival of interest in this sector. In working towards a definition of a "small" enterprise it highlighted the importance of three criteria: owner-management, a level of output too small to influence market prices, and an absence of outside control in decision-making (the unit should be independent and not form part of a larger organisation). By using these criteria the Committee came to adopt a definition of a small firm in manufacturing as having fewer than 200 employees, thereby including 71% of UK manufacturing firms in 1971 (Curran and Stanworth 1983). For other sectors such as retailing and wholesalers, smaller size thresholds were used.

The Bolton Report drew attention to a number of valuable roles which small firms can perform: they offer the most efficient form of organisation in industries where the optimum size of unit is small; they provide a means of entry into business for new entrepreneurial talent, thereby representing the seedbed from which large companies can grow; they contribute to the variety of consumer choice, provide competition and act as a check on monopoly profits; they provide specialist services for larger firms and provide an important source of innovation in products, technologies and services. These particular roles point collectively to the importance of small firms in the expansion and revitalisation of the economy. The Bolton Committee noted that small businesses can make a significant contribution to local economic development as independent small firms tend to have deep roots in the areas they serve. Despite the valuable roles small businesses are able to perform, Bolton found that the sector had been in long-term decline: between 1935 and 1963 (the latest date on which figures were available to Bolton) the number of manufacturing enterprises with less than 200 employees fell from 136,000 to 60,000. More recently, the decline in small-firm employment, as a proportion of all manufacturing employment, appears to have ceased. During the 1970s small firms provided over a fifth of all manufacturing jobs (Curran and Stanworth 1983).

But while small firms have maintained their share of manufacturing employment, there has been considerable comment on the particular constraints and problems faced by small manufacturing businesses. For example, large-scale redevelopment schemes in inner-city areas have been identified as an important cause of the decline of small firms in such areas. Although fears about the fate of these displaced businesses may have been exaggerated, there can be no doubt that the major redevelopment programmes of the 1960s and early 1970s substantially reduced the inner cities stock of small-business premises (Thomas 1976, Chalkley 1978).

Closely associated with the fashion for comprehensive redevelopment schemes in the 1960s and 1970s were planning policies designed to eradicate non-conforming uses. As many small enterprises have traditionally favoured locations in old properties interspersed amongst residential and other non-industrial areas, planning policies aimed at restricting these mixed-activity areas were particularly detrimental to small firms.

Finance is a crucial area for any business but it can be especially difficult for small firms as they tend to lack the assets with which to secure loans. Small businesses typically lack the expertise and experience to put forward convincing development proposals capable of attracting outside investment and where they are involved in the development of new products they are viewed as high risks. The tax system has also been singled out for criticism. Bannock (1976) claims that the UK rates of taxation have diminished the ability and incentives of individuals to save and invest in small firms and have inevitably led to a decline in the small-firms' sector.(1)

The Wilson Committee (1980) set up to review the functioning of financial institutions argued that the disadvantages in raising finance experienced by small enterprise were partly inevitable given the high failure rate characteristic of the small-business sector. But the Committee also noted that the assessment of risk was often over-estimated. For instance, the level of security demanded typically by their bank enabled only relatively small loans to be raised against the particular value of the company's assets. Moreover, it is not only the amount of security required relative to any given loan, but also the kind of security that constitutes a serious burden. Owner-managers of small firms are often required to give personal guarantees and/or the deeds of their houses as part of the security on a loan. It is not surprising, therefore, that most new establishments rely on the personal savings of the enterprise's proprietor to implement

their business ambitions (Storey 1982). The limitations on finance greatly restrict the accommodation choices open to small businesses and gives a strong preference for cheap, leasehold premises. Chalkley (1978) found that even amongst a sample of established businesses faced with the need to relocate, only a quarter were prepared to consider buying their own property.

Of course, the ability of small firms to raise finance will vary greatly between enterprises. Goffee and Scase (1980) identified four types of small business, each of which experience specific and different problems; these are the self-employed, small employers who work alongside their employees, owner-controllers and owner-directors.

The self-employed make up the largest proportion of small-business owners and in 1983 they provided 9.3% of all jobs (Central Statistical Office 1985). For additional labour these enterprises rely typically on the unpaid services of family members. Goffee and Scase state that a large number of the self-employed:

"trade on their skill, and any finance that is required for expansion is normally obtained from personal savings within the family or by bank overdrafts. What is more important than capital for the self-employed is the availability of suitable small working premises and straightforward advice on paperwork and general administration".

The second type of enterprise is that run by a small employer who works alongside his/her workers but, in addition, undertake the administrative and managerial tasks of running their own business. For these businesses, Goffee and Scase identify problems relating to the administration and management of employees as their major difficulties.

Owner-controllers do not work alongside their employees but, instead, are solely and singularly responsible for the management of their business. Goffee and Scase claim that:

"Whereas the self-employed and small employers try to protect themselves from the market by cultivating networks of regular customers, the larger size of owner-controllers' business restricts them from doing this. At the same time their market position is more vulnerable than that of larger enterprises since the latter often have greater access to cash resources that enable them to survive periods of economic difficulty and recession".

Employment in small firms

The most important issue with regard to Government initiatives concerns the role of small firms in regenerating the economy and, specifically, in providing increased employment opportunities. The existing regional distribution of small firms indicates that there is little variation in the proportion of employment in small manufacturing enterprises. The only notable exception is the Northern region where there is a clear under-representation of small-firm activity (Table 1.1), reflecting the area's traditional dependence on large-scale heavy industries.

TABLE 1.1

Regional distribution of small manufacturing establishments⁽¹⁾ 1979

Region	North	Yorks & Humber-side	Midlands	East Anglia	South East	South West	West Midlands	North West	Total
No. of small manufacturing establishments	3,821	10,455	8,478	3,040	38,673	6,372	12,340	14,121	97,300
Employment in small manufacturing establishments	98,031	261,346	226,208	69,097	695,271	152,838	309,435	328,468	2,140,684
% of all manufacturing establishments	90.4	93.7	93.5	93.1	96.0	94.1	93.4	93.7	94.5
% of all manufacturing employment	24.4	38.9	39.8	36.0	41.6	37.3	34.0	35.1	37.2

(1)

Note: small firm defined as one employing fewer than 200 persons
(Source: Business Monitor PA1003, 1979)

Of course, figures for the stock of small business give no impression of the dynamics of the economy as measured by annual births and deaths of small firms. Using data derived from VAT registrations in 1980, for all types of enterprise (manufacturing and service), Ganguly (1982) shows that net percentage changes across the regions fall within a fairly narrow band, varying between a net gain of 1.2% of the stock in the West Midlands and a net loss of 2.1% in the North. Gross changes are greatest in the South East: here annual births and deaths ran at almost 10% of the stock, compared with equivalent figures of 7.5% in the South West where gross changes were lowest.

Inter-regional studies have revealed significant spatial differences in new-firm formation rates. Fothergill and Gudgin (1979, 1982) have shown that firm formation rates are significantly higher in the rural areas of the East Midlands than in that region's cities and large towns. In addition to this urban-rural contrast, there is a marked negative relationship between the rate of firm formation and the proportion of an area's employees working in large factories. Mason's work in South Hampshire has revealed a similar urban-rural contrast (Mason 1982). Firm formation rates between 1971-1979 are shown to have been lowest in the cities of Portsmouth and Southampton and highest in the New Forest area.

Within the UK manufacturing sector as a whole (2), Ganguly (1983) estimates that of the stock of enterprises existing in 1973 plus the new firms entering production between 1973 and 1982, two-thirds only remained in operation in 1982. There are problems with VAT data as not all new registrations are genuine births and not all births are registered; conversely the same is true for deregistration. Nonetheless the significant point remains that within any area large numbers of new firms are being established and others closing with concomitant pressures (new demand) and opportunities (vacant properties) within the market for industrial premises.

The distribution of small-manufacturing establishments between sectors of the economy reflects the fewer opportunities for small-business formation in capital intensive industries. Table 1.2 underestimates the amount of variation between sectors as data for firms of under 20 employees are not included, nonetheless it is possible to identify four areas in the manufacturing sector where small enterprises are most numerous. Firstly, industries where small firms have traditionally predominated such as textiles, footwear and leather goods and also printing and publishing. Secondly, engineering and metal-working industries where small businesses often act as specialist suppliers to larger concerns. Thirdly, those sectors which have long favoured the small entrepreneur producing consumer goods with a high labour content and a high fashion component such as furniture and clothing. Finally, a new generation of small firms are exploiting such areas as plastics and instrument engineering.

TABLE 1.2

Distribution of small manufacturing establishments by type of activity
1982 (1)

Sic Order	31	32,34,37	33	35	36	41/42	43,44,45	46	47	48	49
% of all establishments	90.5	81.5	73.0	73.5	72.0	75.6	86.9	94.5	85.6	84.2	93.1
% of all employment	53.0	29.0	19.6	12.1	8.6	25.6	62.6	70.8	39.4	38.0	58.9

(1) Note: data include all businesses with less than 200 employees and a minimum of 20

(Source: Business Monitor PA1003, 1982)

Key to SIC classes

31 Manufacture of metal goods not elsewhere specified	41/42 Food, drink & tobacco manufacturing industries
32 Mechanical engineering	43 Textile industry
34 Electrical and electronic	44 Manufacture of leather and leather goods
37 Instrument engineering	45 Footwear & clothing industries
33 Manufacture of office machinery & data processing equipment	46 Timber and wooden furniture industries
35 Manufacture of motor vehicles & parts thereof	47 Manufacture of paper and paper products, printing and publishing
36 Manufacture of other transport equipment	48 Processing of rubber & plastics
	49 Other manufacturing industries

Recent research on small firms

Not all recent research has been persuaded of the alleged advantages of small business. Fothergill and Gudgin (1979), for example, have challenged the recent priority given to small firms in industrial policy. Specifically they have questioned the importance of the influential work of Birch (1979) which found that in the USA two-thirds of net new jobs were created in firms employing less than 20 people. Fothergill and Gudgin suggest that job gains and job losses occur across the whole range of manufacturing firms. Although new and small firms are seen to be a better bet for employment growth than larger firms, small enterprises do not by themselves offer a basis for regenerating British industry.

Storey (1982) has emphasised how small-firm policies risk being regionally divisive. Successful entrepreneurs very often have managerial experience in the industry in which they commence their own business. Typically they have high educational qualifications, are able to offer their home as collateral to a bank if needed, and they sell their

product into a buoyant local market. On all those grounds the average entrepreneur in the North, Storey argues, is at a disadvantage compared to those in the South East. The Northern region has a high proportion of the labour force in large-scale heavy industry, plus a lower proportion with managerial experience and educational qualifications. It has the lowest house price values and highest proportion of Council tenants (who cannot provide their house as collateral). Furthermore, the Northern entrepreneur is less likely to be selling into a buoyant local market. Hence, Storey concludes, a regional dimension to new and small-firms' policy must be provided otherwise it will be of relatively little assistance in areas of high unemployment.

Similarly the hypothesis that inner-city areas function as fertile incubators for new firms, as was first proposed by Hoover and Vernon (1959), has been questioned. Hoover and Vernon suggest that the external economies offered by inner-city locations are particularly favourable to new small firms - second-hand floorspace is available to rent, a supply of labour with various skills is available and firms providing many kinds of services are located nearby. Nicholson et al (1981), however, found that amongst new firms in London there was no evidence to suggest that the inner-city provided a particularly favourable location. Nicholson et al, nonetheless, did support the observation of Fagg (1980) that new manufacturing firms seek old premises - whether in inner or outer areas - and because the inner-city has a greater concentration of second-hand property it inevitably accommodates more new firms.

The image of small firms as important sources of new innovation has also been challenged by some researchers. Rothwell and Zegveld (1982) have shown that most innovative ideas originate from the company's founder, rather than from the research efforts of the company. In the USA, Smith (1967) observed that there were two characteristic types of entrepreneur, the craftsman and the opportunist, which provide a contrast to each other in almost every sense. Opportunistic entrepreneurs are fewer in number but are more likely to seek new products and markets reflecting the founder's long-term ambition to enter business. Smith found much faster growth rates amongst enterprises run by opportunistic businessmen, whilst craftsmen entrepreneurs typically operate within very limited horizons and constrained ambitions being satisfied simply to practice their practical skills.

Policy initiatives for small business

Studies of the performance of small firms in the UK relate to the 1960s and 1970s before many of the recent policy initiatives. With the much greater assistance now available the performance of the small-firm sector may improve. Moreover, in the context of continuing job losses amongst large employers such as British Rail and the coal-mining industry, small firms and particularly those in new technologies offer some of the few prospects for job generation. It is likely, therefore, that small firms will retain a prominent place in economic policy for some time to come.

Beesley and Wilson (1981) have catalogued the range of measures now aimed at the small-business sector. Their analysis shows that the introduction of new policies has accelerated under the Conservative Government elected in 1979, to whom the cause of the small entrepreneur is an integral part of the Party's political and economic ideology. Two-thirds of all the assistance to small business is aimed at manufacturing enterprise, directly reflecting official concern at this sector's steep decline. The initiatives introduced have been implemented by extending the activities of public agencies and by legislative changes and financial incentives.

Public agencies

The economic planning machinery has increasingly tailored its policies to support the small-firms sector. The Department of Industry has, for example, formed within it a small-firms division to provide information and advice to small businessmen. The Department of Industry's factory-building agent, English Estates, has expanded its role to provide small-business accommodation in urban areas, whilst the Development Commission has extended the resources and activities of its agent the Council for Small Industries in Rural Areas (COSIRA) (see Chapter Six).

The decentralisation of Government assistance for economic development down to the local-authority level had its origins in the Bolton Report. Following Bolton's recommendations, the Local Government Act 1972, broadened the scope for local authority industrial development policies, and the power given under Section 137 of this Act, to incur expenditure up to the proceeds of a 2p rate for any purpose in the interests of their area, has been widely used to support small firms (Lyons 1983). Many local authorities and New Towns have now moved

beyond conventional industrial promotion and the provision of land to the active encouragement of new ventures and small firms through premise provision, competitions, enterprise agencies and direct financial assistance (Lawless 1980). For example, in September 1979 Peterborough Development Corporation launched a competition to discover the best application of a microprocessor in a new business with prizes including free factory space, cash, marketing advice and access to venture capital. In 1980, Hull City Council opened an "innovation centre" to assist entrepreneurs with new products and ideas. The centre provides workspace and various business services, including technical assistance. Developments of this kind can now be found in many of Britain's large towns.

In June 1980 the Government set up a review group under the chairmanship of Sir Wilfred Burns to examine the role of local authorities in assisting commerce and industry. The Government was concerned that the proliferation of local authority programmes might represent a duplication of effort which was redistributing activity from one area to another rather than adding to the overall performance of the economy (Burns 1982). The outcome of the Burns review was, however, to reaffirm local authorities' ability to support economic development.

Legislative changes and specific schemes of assistance

Legislative changes have involved both the removal of discrimination against small firms as well as the provision of resources and inducements to encourage small-business activity. The management of a small business relies often on the resources of the proprietor only and this places them at a disadvantage relative to large companies with respect to any given commitment requiring administrative attention. Government has recognised this problem by, for example, replacing the disclosures required under the Companies Act 1967, and by exempting many small firms from statistical inquiries by Government departments. Small businesses have also been excluded from some of the provisions of the Employment Protection Act 1975.

Examples of the financial incentives aimed at the small-firms sector are shown in Table 1.3. One major innovation is the loan guarantee scheme introduced on the recommendation of the Wilson Committee (1980) to benefit firms with insufficient security and business experience to satisfy the requirements of banks to obtain loan finance. Under this scheme the Government guarantees 80% of the

loan made to a small business by a funding agency registered as part of the programme. A pilot loan guarantee scheme was implemented after the Finance Act 1981, in cooperation with the clearing banks and the Industrial and Commercial Finance Corporation. Several other financial institutions have since joined the scheme, which is covered by funds provided under Section 8 of the Industry Act 1982. In an attempt to encourage new firm formation in recession-hit areas, the Finance Act 1981 raised the tax level on redundancy payments for persons starting a business.

Revised town planning procedures have also sought to assist the small-firm sector. Following a Government circular (Department of the Environment 1977) local authorities were urged to pay particular attention to the needs of small firms. The Inner Urban Areas Act 1978 introduced a number of measures to support small business including, for example, power to declare "Industrial Improvement Areas" to stimulate the rehabilitation of older premises and in this way to provide accommodation for small firms. A further Government circular in 1980 was critical of the rigid application of zoning policies because of their damaging effect on small enterprise and it called on planning authorities to favour the location of small firms in residential areas, where there are no specific and convincing objections (Department of the Environment 1980). The introduction of "Enterprise Zones" in the Finance Act 1980 provides a further channel for assistance to small firms through a simplified planning procedure and tax and rate concessions, although these benefits are also available to large firms.

TABLE 1.3

Government financial assistance to small firms in Britain 1979-1982

1. Venture capital scheme: Introduced in the Finance Act 1980 to encourage private investment in small companies. Capital losses on shares in unquoted trading companies can be off-set against income. The 1981 Act extended the provisions of the scheme to investments by companies.
2. Industrial buildings allowance: The Finance Act 1980 enable capital expenditure on the construction, improvement, alteration or extension of industrial building of 2,500 sq.ft. or less to qualify for a 100% initial allowance.
3. Corporation tax: The Finance Act 1980 reduced the small companies rate to 40% and the lower and upper limits on profits have been progressively amended in the Finance Acts.
4. Loan guarantee scheme: Government will guarantee 80% of new loans for between 2 and 7 years, on values of up to £75,000. The remaining 20% is carried by the financial institutions making the loan.
5. Redundancy payments: The Finance Act 1981 increased the limit up to which redundancy payments are not liable to tax from £10,000 to £25,000.
6. Rating Relief: From April 1981 local authorities were required by the Government to assist small firms by allowing the payment of rates by instalment.
7. Value added tax: The VAT threshold has been gradually raised and trading losses can be off-set against tax more generously. VAT procedures have been simplified to assist small business.
8. Business start-up scheme: The Finance Act 1981 allowed an individual investor to obtain relief against taxable income on investments between £1,000 and £10,000 in any one year in a new independent business.
9. Small-firms employment subsidy: Introduced by the Department of Employment, applying initially to manufacturing firms with fewer than 50 employees in Special Development Areas. It was subsequently extended to firms with fewer than 200 employees in the Assisted Areas and inner-city partnership areas. The subsidy provides an allowance of £20 per week for 6 months for each additional full-time job created.

(Source: Beesley and Wilson 1981; Storey 1983)

1.5 OUTLINE AND OBJECTIVES OF THE STUDY

Aims

The new priority which the Government attaches to stimulating the small-business sector makes this a significant and topical area for consideration. The aim here, however, is not to reassess the employment and technological potential of small business, but rather to use the small-firm sector as the stage on which to explore some new ideas on industrial location. These ideas, outlined earlier in the chapter, focus on the role of property developers and funding institutions in the workings of industrial-accommodation markets. The detailed specification of property is not addressed. Rather this study concentrates on an examination of the locational policies and practices of providing agencies and how these developers manage their property and select tenants. The thesis is an exercise in data collection, description and explanation rather than the testing of any specific hypothesis. In assembling this overview the principal aims are:

- (i) to estimate the relative contributions of public and private sector agencies to the total stock of new small premises;
- (ii) to describe and explain the spatial distribution of recent small-factory provision;
- (iii) to identify the management policies and tenant-selection procedures employed by each of the principal factory developers;
- (iv) to consider how these management practices influence the tenant profile of each agency's estates and to determine if there are significant variations between agencies.

Overview of the methodology

For each development agency considered in the study (local authorities, the Development Commission, English Estates and the private sector) data on building activity, management policies and letting procedures have been collected through a combination of postal questionnaires and personal interviews. This enables a comprehensive picture to be compiled of who has built what, where and for whom. To gain a statistical overview of changes in the industrial property market Department of the Environment floorspace data are utilised which provide a picture of annual additions and subtractions to the stock of premises.

The research is concerned only with England because to include the additional agencies active in other parts of the UK (for example,

the Welsh Development Agency, the Development Board of Rural Wales, the Scottish Development Agency and the Highlands and Islands Development Board) would have been beyond the resources of this study without a considerable loss of detail. Moreover, there are no national floor-space statistics available for Scotland making it difficult to assess the scale of recent provision in this country.

There is a particular focus within the study on the policies of local authorities because their total contribution has been greater than that of any other sector between 1976 - 1981. Moreover, relatively little was known about the building work of local authorities for small firms, unlike other agencies for which more published information in the form of annual reports is available. A further reason for focussing on local authorities is that it was anticipated that there would be significant geographical variation in the activities of individual agencies. Hence a postal questionnaire survey was conducted that covered all English local authorities and New Towns. Postal surveys can suffer from low response rates, which leave the interpretation of the results in some doubt, but local authorities are generally cooperative, particularly where the questions asked are of interest to the authority and the reply period is fairly elastic.

Due to the difficulty of compiling a comprehensive list of private-sector agencies with an interest in small-factory provision, a different approach has been adopted to the study of their activity. To build up a picture of the level and character of private speculative development, a number of case studies of representative organisations have been undertaken. The agencies examined range from major financial investors to relatively small-scale development companies. In addition, an estimate of the overall importance of private provision during the study period is derived by comparing the public-sector provision with the national floorspace data published by the Department of the Environment.

A case-study approach is also adopted to examine the impact of management policies on the tenant profiles of each developer. The location selected for the case-study is Cornwall. To have conducted this aspect of the research on a national basis would have been beyond the resources of the study as estate managers' records provide inadequate information on the background of their tenants. This means that original survey work is required. Cornwall provides a particularly appropriate area for the case-study as examples of recent provision by all the agencies covered in the research can be found in close proximity to each other.

The research concentrates on speculatively provided leasehold properties. The supply of purpose-designed premises built for or by a particular occupant is not examined, but this study shows that this type of provision is only a minor component of the new factory stock.

For the purpose of this research a small factory has been defined as one of 5,000 sq.ft. and below. Any size limit is to some extent arbitrary, but extensive consultations were taken on this point with local authority officers, academics and representatives of private-sector agencies. Thus although Coopers and Lybrand's influential study on the provision of small premises (1980) had taken an upper threshold of 2,500 sq.ft., their advice was to give more diversity to the study by taking a larger size limit (3). Until very recently few private developers have been prepared to build units of smaller than this, 5,000 sq.ft. representing the traditional cut-off point for private investment. Moreover, the pilot survey of Welsh local authorities (Chapter Three) indicated that local authorities included units of between 2,500 sq.ft. and 5,000 sq.ft. in their development programmes.

For the purposes of this research small factories are defined as premises provided for industrial establishments. Properties designed exclusively for warehousing and/or retailing activities are excluded. However, dual-purpose buildings designed to accommodate both service and manufacturing activities are included. Factories designed for industrial use may actually be occupied by service or distribution activities. It is, however, the use for which the building is primarily intended, not the nature of the industry that occupies it, that accounts for its exclusion from the research.

The study focusses on new factories built between 1976 and the end of 1981. The local authority survey was conducted in Spring 1982 and asked for details of factory provision in the previous five years. The data on English Estates and the Development Commission cover a marginally different time period from April 1976 to March 1982 to conform with the annual reporting periods of these agencies. The year 1976 was taken as the starting point because from that time on there developed a greater variety in the market for new small premises, commencing with the increase in public-sector awareness of the needs of small firms. For research purposes, recent and new factories are the most accessible to gain information on as the providers are readily identified. The assembly of data up to 1982 reflects the period when the main data collection period of the research commenced.

The study covers the principal providers of new accommodation but it has omitted some smaller suppliers. One sector of the market excluded from the study is provision by large manufacturing companies which have established job creation agencies or have supported joint economic development ventures, partly to ameliorate some of the effects of their redundancy programmes. The most important of these initiatives is British Steel Corporation (Industry) Limited, which is an off-shoot of the British Steel Corporation. Although this organisation is a significant supplier of small premises in a few steel closure areas (Coopers and Lybrand 1980a, BSC (Industry) 1982) it does not rank nationally alongside the level of activity of the other property providers considered in the study.

Summary of contents

The study commences with a broad overview of the small-firms' industrial property market. This includes a review of the property problems experienced by small firms and a discussion of the characteristic types of new provision. The recent growth in small-factory investment is illustrated by reference to national floorspace data. Finally the chapter describes a model of the development process through which property is typically supplied.

After an introduction to the context of recent building activity, the thesis is structured around the findings relating to each agency commencing with three chapters covering the structure of local authority (including New Town) provision, the geography of local authority investment in small factories and the management and letting of the premises. The information in these chapters (Three to Five) is drawn largely from the postal questionnaire survey of English local authorities and New Towns. The survey provides data on a range of issues connected with small-factory development programmes, including the number and type of premises supplied and the estate management and tenant selection policies pursued. The survey achieved a high response rate and consequently the results provide a reliable indication of the nature and extent of local-authority activity.

Chapter Six proceeds with an examination of the other two most important public providers in England, namely the Development Commission and English Estates. This chapter outlines the geography and character of these agencies' provision between 1976 - 1982 and is based on information drawn from interviews with officials of the organisations

and published data from annual reports and the research findings of other studies. The chapter highlights the policy changes introduced by the agencies following recent Government reviews of their activities.

Chapter Seven examines private-sector provision of small premises. Different types of property developer are distinguished and the influential role of estate agents is drawn attention to. Recent trends in industrial property development are discussed and the case studies in the second half of the chapter provide a detailed breakdown of the investment patterns of five agencies. The impact of the Government's tax allowance scheme to encourage small-factory provision is also discussed.

Chapter Eight takes the research a stage further by examining the character of the tenants of different developers' premises. This part of the thesis is based on the case-study of the Cornish property market which examines the aggregate pattern of new factory provision in the county and tests the importance of building and letting policies on the distribution of small-firm activity at the local scale.

Finally, Chapter Nine reviews the principal empirical findings of the study and makes certain policy recommendations. It is argued that property initiatives should continue to play a key part within public policy, although with a greater focus on specific sections of the market and with greater monitoring of the local accommodation needs of industry. The conclusions emphasise the importance of the mediating influence of the property industry in interpreting the needs of industry. The role of estate management policies and allocation procedures in fashioning the local distribution of small-business activity is also highlighted.

The inspiration for this thesis was the comparison between Social and Industrial Geography. In progressing the study it became evident that there was little existing data with which to test the relevance of housing concepts to the small-firms' property market. It was, therefore, necessary to assemble an original data base through questionnaire and field surveys. The extent of empirical data collection required necessarily limited the scope for examining specific conceptual models. At several stages during the research links are made between the two disciplines: in Chapter Four, for example, reference is made to the role of decision-makers in influencing levels of supply; in Chapter Five the allocation policies of estate managers are related to the goals of these "gatekeepers" and in Chapter Eight the influence of selection policies on the tenant profiles of industrial estates

NOTES ON CHAPTER ONE

- (1) For an alternative viewpoint on this issue see Fothergill and Gudgin (1979) and Storey (1980).
- (2) The VAT data distinguish "production" activities, which is roughly equivalent to manufacturing: the other sectors distinguished in the VAT records are construction, transport, wholesale, retail, finance, property and professional services, catering, motor trades, agriculture and other services. For a discussion of these data see appendix to Ganguly (1983).
- (3) View expressed by Alan Barlow, Coopers and Lybrand (December 1980).

CHAPTER ONE cont.

is examined to test whether it is choice or constraint that determines where small firms locate. The main result of the research nonetheless remains the collection of new data which points the way to further studies which draw on the housing literature to advance our understanding of the industrial location process.

CHAPTER TWO: THE SMALL-FIRMS' INDUSTRIAL PROPERTY MARKET

2.1 INTRODUCTION

The small-firms' industrial property market has been undergoing rapid change since the mid-1970s. Until then the issue of advance factory provision had been viewed largely in regional terms as an incentive to encourage inward investment into Assisted Areas. The availability of suitable sites and premises was shown consistently to be a major influence on the location decisions of established firms transferring production or opening new branches (Department of Trade and Industry 1974, Townroe 1979). Subsequently, however, the increase in awareness of the importance of small firms, and the decline in local economies, focussed attention on the supply of small premises throughout the country. The idea that small-firm activity had been constrained by a shortage of suitable accommodation now became prevalent, and this led to a rapid expansion in the level of speculative provision for small firms.

This chapter provides a general review of the small-firms' industrial property market commencing with an examination of the accommodation problems faced by small firms and the types of new property that are available. The chapter examines national floorspace data to indicate the proportion of the industrial stock in small premises, and also considers spatial variations in its distribution. Finally, a general model of the development process is put forward in order to outline the stages involved in the conversion of vacant sites into factory estates. This model indicates the agents typically involved in the provision of premises and their respective contributions to building projects.

2.2. SMALL FIRMS AND THE PROBLEM OF PROPERTY PROVISION

Undoubtedly the major issue regarding the availability of premises for smaller companies has been the suggestion that a shortage of suitable accommodation has constrained the development of small-business activity. A report for Central Government has argued that:

"...there is clear evidence that the shortage of premises has constrained the establishment and development of small firms; the provision of premises on suitable terms has undoubtedly itself had the effect of stimulating the formation of new firms and the growth of existing small firms".

(Coopers and Lybrand 1980 p.ii)

No direct measures exist of the demand-supply balance of small units, and consequently Coopers and Lybrand based their conclusions on a number of indirect indicators. Firstly, they observed that the number of enquiries and applications substantially exceeded the number of small premises coming on to the market. They quoted, for example, the case of an inner-London borough where over a 6 month period there were 34 enquiries for every unit below 2,500 sq.ft. advertised. Secondly, the ease with which small units had been let and the low incidence of voids were noted. Finally, the ability of developers to increase rents without cutting off demand was taken to indicate the strength of demand for small factories.

The importance of property considerations has been supported in various surveys of small entrepreneurs' opinions on the principal problems faced by their business. Commonly, accommodation problems have been ranked high amongst the list of constraints on their firms (Thomas 1978, Randall and Barrow 1981, Glyn-Jones 1982). But surveys which rely solely on entrepreneurs' own views are difficult to evaluate, particularly as businessmen are likely to be reluctant to admit to their weaknesses as managers, which may be a more fundamental cause for business failure. In a comparative study of small-business activity in Merseyside and Manchester, Lloyd and Dicken (1982) suggested that accommodation difficulties were secondary problems that only became apparent after more pressing needs of survival had been resolved. Nonetheless, Lloyd and Dicken identified a need to enhance the property stock, particularly to assist new ventures and the relocation of expanding firms.

At the root of the accommodation problem is the fact that most small firms are unable to add to the stock of premises by building their own new property, because of shortages of capital and the difficulty in obtaining long-term loans. This is compounded by the fact that in the past industrial property developers have not been favourably disposed towards the building of small units, since they are more expensive to manage and involve greater risk of non-payment of rent and of poor maintenance by the tenant. They also suffer from high building costs in relation to the amount of saleable space. In addition, it is clear that the private sector has failed to invest in industrial rehabilitation. The availability, especially in the inner cities, of a stock of large vacant premises has not produced a strong programme of conversion and sub-division to meet the demand for small units. Such work as has been undertaken has commonly depended

on funding from local authorities and charitable trusts and has often resulted from the efforts of "architect-initiators" (Topham 1978). Falk (1978) reported that although there was over 1.4 million sq.ft. of vacant industrial floorspace in the planning district of North Southwark in London, privately funded conversion schemes were very rare. Refurbished premises have attracted a high level of small-business demand (Green and Foley 1982), but whether because of high building costs and planning uncertainties, or as Worthington and Eley (1978) suggest, because of the extreme conservatism of financial institutions, relatively few schemes have been undertaken. Certain inner-city manufacturing areas may have been suffering from the industrial equivalent of "red-lining".

It is not simply in cities that the development of small firms has been circumscribed by shortages of premises. In New Towns, and particularly those developed on greenfield sites, the absence of an inherited stock of cheap, old premises has been a particular difficulty for the development of small businesses. An examination of the 1971 Census data reveals that while 7.5% of total jobs were in self-employment amongst New Towns in Britain the average was only 3.5% (1). Beyond this, similar shortages have been identified in villages and shire towns. The planning system in its efforts to protect good agricultural land and to conserve the visual qualities of village and rural landscape has provided an important check on industrial property development. For example, in Cornwall the Development Commission's advance factory programme has at various times suffered significant setbacks because of difficulty in finding sites acceptable to county and district planners and the public (Chapter Eight). Although local authority policies have been becoming more sympathetic to the needs of small business and employers generally (JURUE 1983), the planning system is still often regarded as a serious obstacle to small-firm development.

While there are undoubtedly supply problems in both urban and rural locations, it is also arguable that the behaviour of small firms imposes additional limitations. For example, it is normally the firm's owner-manager who undertakes the search for new accommodation and, in order to minimise disruption to the normal round of business duties, searching is often combined with other personal and work journeys. Informal contacts with employees, suppliers and customers may, therefore, be the important source of information on vacant properties and it may well be somewhat haphazard (see Malinowski and Kinnard 1961 and

Chalkley 1978). Furthermore, a characteristic of small firms is that when seeking premises the search area is typically very constrained. Chalkley (1978) found that amongst a sample of small firms in Leeds faced with the need to relocate, over half defined search areas of less than 10 square kilometres and a third gave areas of less than 5 square kilometres. Coopers and Lybrand (1980) suggest that small businessmen are reluctant to consider locations beyond 30 minutes travelling time of their home. This strong preference to remain within local areas is related to their dependence on local labour and customers and to this extent their decisions are rational. It does, however, impose pressures on the locally available factory stock.

Reflecting the strength of demand for cheap premises in local areas, there is a great diversity in the property utilised by small business. The traditional image of small firms is that they occupy the worst premises, the sweatshops, the backyards and the rooms above shops in the poorer quarters of towns (Goss 1961). Much of this property was never designed for manufacturing use. In some larger towns and cities areas of specialised activity can also be found. In Birmingham, for example, the Jewellery Quarter grew as established businesses multiplied by a process of sub-division, usually on the basis of component trades, and through the occupation of adjoining premises often converted from domestic property (Wise 1950).

2.3 THE MAIN TYPES OF SMALL-BUSINESS PROPERTY PROVISION

Although problems of supply have been widespread, local authorities and other public development agencies are responding to the demand for small premises. The growth in local authority provision is indicated by three surveys undertaken at different times over a ten year period. Camina (1974) found that advance factory building by local authorities was largely confined to county councils in the Assisted Areas supplying units above 5,000 sq.ft. At the end of the decade, Urbed (1979) found that amongst authorities in urban areas, well over half had small-factory programmes. The Association of District Councils (1980) found a similar proportion of active district councils in England and Wales. The survey undertaken for this study (Chapter Three) indicates that local authority provision is now widespread and no longer confined to the traditional problem areas.

Reflecting both the decline in mobile investment and the recognition of the employment importance of small firms, New Towns have been enlarging their stocks of small premises. Some Development Corporations have been especially innovative in developing new forms of accommodation provision. For example, Milton Keynes has built a centre (CONE: Creation of New Enterprise) consisting of workshops, shared office services and reception space to provide accommodation for new ventures while Peterborough was amongst the first developers to implement a mini-factory scheme designed to accommodate businesses with little trading experience (Goodrun 1980).

Other public developers which now have important small-factory programmes are the Development Commission and English Estates. The Commission gives priority to small towns and villages in remoter rural areas while English Estates concentrates on the larger towns in the Assisted Areas. In addition, recent Government tax incentives (discussed in Chapter Seven) and loan-guarantee schemes (Jarrett and Wright 1982) have attracted more private investment to small-unit construction.

The pattern of accommodation supply should ideally reflect the diversity of firms' requirements. Given, however, the impossibility of designing "one-off" units for each individual firm, speculative developers think in terms of common types of accommodation. These typical types of property do not form neat discrete groups. The following categorisation simply identifies the more characteristic forms of property being supplied and the types of tenants whose needs they are intended to meet:

(i) Refurbished accommodation. A limited number of developers, primarily from the public sector, have refurbished old premises to provide small-firm accommodation. Some have deliberately undertaken a minimum amount of refurbishment to provide very cheap and basic accommodation: in Devon for example, a former army camp was made available by the local authority after little adaption of the original property. In London, old warehouse accommodation in multi-storey properties has been converted to provide working communities of different enterprises under one roof. The Clerkenwell Workshops provide an example of this: Urban Small Space Ltd. obtained a lease from the Greater London Council on a disused warehouse and converted it to 75 workshops for units of up to 10 people (Franklin and Stafford 1977). As well as providing accommodation for small enterprises, this type

of scheme may also bring the additional benefits of conserving historic buildings and environments. Another form of rehabilitation involves the conversion and sub-division of space currently under-utilised by existing occupants of buildings. This provides a useful additional source of income to the industrialist letting or sub-letting part of his floorspace (Green and Foley 1984).

Rehabilitation is normally only worthwhile where the conversion work can be carried out at a cost appreciably below that required to provide an equivalent new property. The process of converting an old building can be especially difficult if the property has fallen into disrepair or if the original layout needs major alteration. Duffy et al (1980) note that much of inner-city stock is unsuitable for refurbishment, being too large to service the requirements of small firms at a cost they can afford. The necessity of conforming to modern building and fire regulations can add considerably to the costs of converting old premises (Topham 1978). Nonetheless, where the conversion costs can be kept low, Green and Foley (1982) have shown that rehabilitation is a feasible means of providing accommodation: their figures indicate conversion costs to be on average £2.17 per sq.ft. whereas English Estates estimate a cost of £15 per sq.ft. for building new units. Consequently converted premises can be made available at much cheaper rentals than those for new buildings.

In many cases converted property is associated with flexible management terms that allow short-term tenancies. This, combined with lower rentals, make refurbished units particularly attractive for new ventures entering the property market for the first time. Fagg (1973 p.405) suggested that as new ventures need to devote their financial resources to production, they are particularly anxious to rent small, very cheap premises. Similarly, Thomas (1976 p.255) indicated that modern "nursery" units play a less important role than older premises in the establishment of new firms.

(2) New start-up or "nursery" accommodation. The idea behind the provision of nursery accommodation is to build very small premises of only a few hundred square feet suitable for new businesses. One of the most progressive developers in this type of accommodation has been Peterborough Development Corporation which has been building mini-factories since 1974. By 1980, this New Town had supplied over 100 units up to 1,500 sq.ft. in size

in 4 nursery-factory schemes (Goodrun 1980). Each scheme consists of terraces of small units built around shared parking and service areas. To minimise rents, design and construction have been kept simple; even so rentals in 1980 at £2.00 per sq.ft. were double those Green and Foley (1982) found for converted premises in West Yorkshire. The profile of tenants occupying the mini-factories bears out the suggestion of Thomas (1976) that few occupants would be genuinely new businesses: for less than a quarter of tenants was a mini-factory their first industrial property (Goodrun 1980). Nonetheless, most tenants had only a few years trading experience gained within the Peterborough area, indicating the particular role played by this property in furthering the development of youthful enterprises.

(3) Shared-service accommodation. The rationale behind this type of provision is that small firms, and particularly new starts, need certain services that they could not afford to buy on their own account for their exclusive use, and that provision of these services at an affordable price could contribute significantly to ensuring the survival and growth of enterprises. A few developers have recognised this potential by providing accommodation plus supporting services available to tenant firms on a shared basis. The majority of schemes implemented have relied wholly or in large part on finance provided by the private sector (Department of Industry and Shell UK 1982).

There have been two broad categories of shared-service schemes: one aimed at conventional business, and the other directed at high-technology industries. In the former group, the common services typically comprise secretarial facilities, business advice, physical facilities (for example, conference rooms and canteen services) and in some schemes access to computer resources has also been provided. One example is Birmingham's New Enterprise Workshops, where shared facilities have been made available as part of a refurbishment project. Tenants pay a licence fee which was a maximum of £4.75 per sq.ft. (in 1982) and includes charges for both accommodation and service use.

A more specialised form of property provision is the shared-service scheme directed at new innovative companies working in advanced technologies. This type of development is usually associated with a University-based science park and provides conventional shared services and access to the University's facilities.

One example, is the incubator building at Warwick University's science park provided with finance from local authorities and Barclays Bank. The building provides 12,000 sq.ft. of lettable space in units of 1,000 sq.ft. and upwards which are reserved for entrepreneurs directly from the University and outside ventures engaged in advanced technologies that wish to draw on the resources of the University (LEDIS 1983).

(4) Flatted factories. In certain industries - textiles, furniture and clothing in particular - it has been traditionally the case that small firms rented factory space in a larger, multi-storey building. In the clothing industry there are many cases of flatted factories built by private developers between the two wars or of larger firms building premises with the clear intention of letting a substantial part of it to smaller firms (Goss 1961). Later flatted factories were seen by town planners as a solution to urban industrial problems as they reduce the impact of land costs in central areas and are capable of accommodating many firms on a small site. One of the earliest examples is the two separate blocks of flatted factories erected in central Birmingham in 1958. These were a response to the relocation of small firms that were being displaced by city redevelopment schemes. But flatted factories in Birmingham, and elsewhere, were found not to be popular with displaced firms who prefer ground-floor premises, and the lower rentals usually available for premises in less-central locations. In effect, flatted factories have been occupied predominantly by those enterprises which might normally be housed in office accommodation (for example, photographers' workshops). For these reasons flatted-factory accommodation is rarely built today, except where it is provided through the rehabilitation of old, multi-storey buildings.

(5) Terraced factories. Undoubtedly the most common form of new provision for small firms has been the building of standard industrial units between 1,000 sq.ft. to 4,000 sq.ft. in terraced form. This reduces building costs and allows some flexibility in the partitioning of space so that the size of individual properties can be changed. The terraced form is not a new idea; examples can be found on some of the earliest trading estates including Trafford Park and Slough, but the design is particularly suited to small businesses looking for relatively low-cost

accommodation without the need for distinctive premises or adjoining land for possible expansion. Terraces are usually single storey, but the individual specification of units can vary quite widely. Public developers may take a "bare-shell" approach, allowing the occupant to adapt the property as the needs of the business change. The private developer tends to prefer a high standard of unit with, for example, separate office accommodation and multiple access to the property.

(6) Detached and semi-detached factories. Towards the larger end of the small-factory market, detached and semi-detached premises have been supplied. This type of provision tends to be relatively rare because of the high building costs compared with terraced construction. Examples can be found within the Development Commission's advance factory programme which has included the supply of detached and semi-detached factories in remote locations. A few private developers have also included small premises on their estates, aiming to attract established small businesses that are seeking individualistic premises.

(7) Science park and high-technology parks. The concept of a science park has evolved from changing technologies in industry and the property requirements which flow from these. Derived from the American example, British science parks have been set up in cooperation with Universities and concentrate on providing accommodation to research-based activities. Two long established University science parks are those at Heriot-Watt (Edinburgh) and Cambridge. In Cambridge, the common arrangement is for Trinity College (the owner and developer) to construct units to tenants' specifications (including large factories) who then take a lease on the completed property. Smaller units of up to 2,000 sq.ft. have also been developed on a speculative basis, but all tenants must demonstrate research links with the University (Williams 1984). Rents on these small units were £3.00 to £3.50 in 1982.

Other science parks, for example, Birchwood (Warrington) and Aztec West (Bristol) have no formal links with Universities and are similar to high-technology estates. The objective is to provide buildings with flexible designs to allow a mixture of research and manufacturing activities within an environment close to establishments working in similar technologies. The mix of uses within individual buildings differs markedly from

those on a traditional estate because of a much higher proportion of office and laboratory space. High-technology estates require the granting of special planning permission to allow multiple activities. The 1983 Finance Act recognised the demand for this type of property by increasing the proportion of office space in factories eligible for Industrial Building Allowances from 10% to 25% of total floorspace (see Chapter Seven). High-technology parks tend to be characterised by high quality development, often of futuristic design, set in a well-landscaped environment. Whilst the "pure" science park tends to rely on public finance, high-technology estates have attracted significant private investment.

2.4 THE QUANTITATIVE DIMENSION TO THE PROVISION OF PREMISES

The overall contribution made by these various types of property to the expansion of the small-factory stock can be gauged through an examination of national floorspace statistics (although this does not allow individual categories of property to be identified). Department of the Environment floorspace data are the best available source of information on industrial property, even though they present the researcher with certain problems: namely;

(i) the data are collected from District Valuer's rating records returned to the Department of the Environment who compile the statistics. The means of collection lead to a tendency for the data to relate to the particular times of the year when individual District Valuers undertake their survey work, rather than to actual building completion dates.

(ii) The data do not distinguish the developer responsible for the units.

(iii) The definition of use classes is based upon the occupant rather than the type of property. This means that hereditaments may be classified as warehouses even if manufacturing is undertaken in the premises, as long as it is not the main use. Consequently a full examination of the extent of small-industrial accommodation needs to take note of the possibility of some small businesses obtaining "warehousing" property. (2)

(iv) The floorspace data are deemed inappropriate for extensive operations such as iron and steel plants, refineries and flour mills which are, therefore, excluded from the data.

(v) The statistics do not distinguish between occupied and vacated premises; both are included.

The provision of new premises

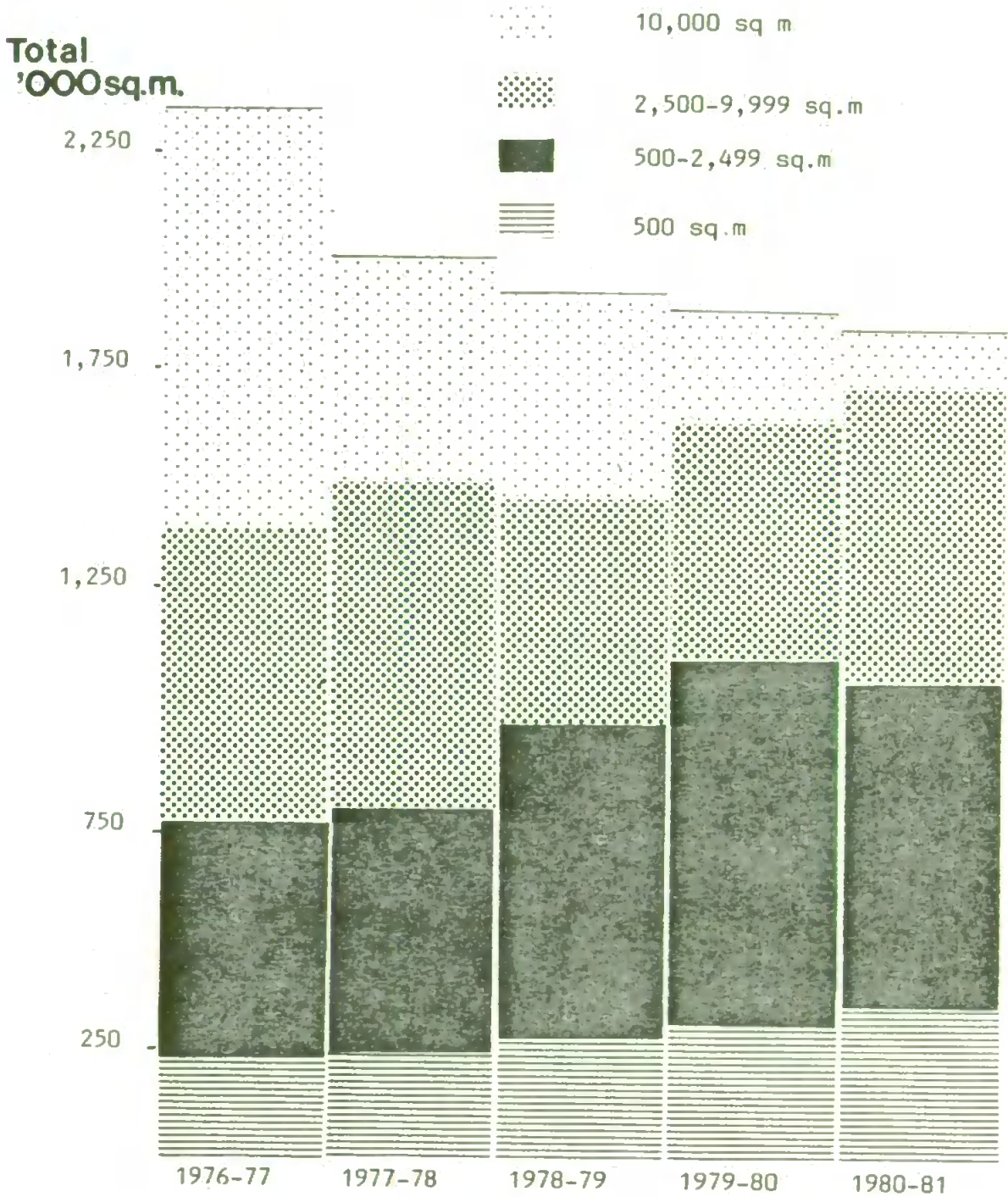
Despite these difficulties it is clear that there has been a genuine expansion in the supply of new units below 500 sq.m. (5,382 sq.ft.). Within the context of an overall decline in the level of new building activity, the growth in the small-business sector assumes a relatively important role (Figure 2.1). Indeed, between 1979 - 1981 the total amount of floorspace provided in new units of under 500 sq.m. was greater than the total new floorspace in hereditaments of over 10,000 sq.m. (107,640 sq.ft.). In England as a whole, floorspace provided in premises of under 500 sq.m. was 10.5% of the total new floor area built in 1976/77 but this had risen to 18.5% in 1980/81.

The increase in small-unit provision has occurred in all parts of the country, albeit less emphatically in the Northern region and in Yorkshire and Humberside (Table 2.1). The Northern region is characterised by a low incidence of small-business activity (Northern Regional Strategy Team 1977) and the comparatively low proportion of new small-factory space is, therefore, not surprising. It is less clear why Yorkshire and Humberside should have a similarly low proportion of new floorspace in small units, although this may partly be related to the large amounts of old mill accommodation available at low prices in the region. The East Midlands has the highest concentration of new factory space in small premises continuing this area's traditional dependence on the small-business sector for a large number of its jobs (Fothergill and Gudgin 1982).

But despite the growth in provision, Table 2.1 also shows that the annual increments in new small properties have had a marginal impact on the overall proportion of small factories in the property stock; this figure only changed from 4.8% to 5% between 1976 - 1981. Despite the 1.73 million square metres of new provision (which represents 16% of the total stock of small-industrial floorspace existing in 1981) it is clear that changes in the property stock as a whole take place relatively slowly. The life-span of industrial buildings and the acceptance of accommodation in very old properties has produced a large pool of inherited factories which far outweigh modern buildings.

FIGURE 2.1

Floorspace of New Industrial Buildings by Size Group, 1976-81



(Source: Department of the Environment 1976-1981)

TABLE 2.1

New industrial floorspace in units of less than 500 sq.m. (5,382 sq.ft.)
by region 1976 - 1981

Region	Proportion of total floorspace in units < 500 sq.m.		Total new floorspace in units < 500 sq.m. 1976-1981 (sq.m.)	Proportion of all new floorspace in units < 500 sq.m. 1976-1981
	1976	%		
Northern	2.5	3.0	132,936	8.5%
Yorks & Humberside	3.8	3.8	131,183	8.3%
North West	3.4	3.4	252,678	13.1%
East Midlands	4.8	5.0	204,563	19.2%
West Midlands	4.5	4.8	351,374	15.3%
East Anglia	3.8	4.0	66,576	14.6%
South East	7.6	8.0	474,788	16.6%
South West	4.4	4.9	167,105	16.5%
England	4.8	5.0	1,781,203	14.0%

(Source: Department of the Environment 1976 - 1981)

A possible additional source of new floorspace for small industries derives from the potential of interchange between the industrial and warehouse sectors. Within the latter, the proportion of new floorspace in small units has remained fairly constant in all regions (Table 2.2). Within the warehousing sector purpose-built accommodation for owner-occupation is a more important feature compared with industry, as many premises will be occupied by branches of national distributors. The warehouse sector also includes certain types of "super-stores" which sell, for example, furnishings or "do-it-yourself" items. Only a small proportion of new warehousing is, therefore, available but it does provide a minor additional source of property for those small industries with significant distribution and storage activities.

TABLE 2.2

Estimated new warehousing floorspace in units of less than 500 sq.m. (5,382 sq.ft.) by region 1976 - 1981 (1)

Region	Proportion of total floorspace in units 500 sq.m. in 1976	Total new floorspace in units < 500 sq.m. 1976-1981 (sq.m.)	Proportion of all new floorspace in units < 500 sq.m. 1976-1981
Northern	18.0%	159,337	18.5%
Yorks & Humberside	18.6%	239,952	15.5%
North West	14.5%	331,042	17.4%
East Midlands	20.0%	210,758	19.5%
West Midlands	16.0%	406,786	19.2%
East Anglia	17.2%	167,241	19.9%
South East	13.5%	954,454	17.5%
South West	22.4%	324,050	23.0%
England	18.4%	2,793,620	18.4%

(1) Note: warehouse floorspace data record units of < 200 sq.m. and units of 200-999 sq.m.; the estimate of units < 500 sq.m. is calculated by adding the former to $\frac{3}{8}$ of the latter total.

(Source: Department of the Environment 1976 - 1981)

Given this background of increasing provision for small firms, one further question remains. To what extent is this development attributable to the provision of advance units by public sector authorities? The answer to this is difficult to establish with precision, but an estimate can be derived by comparing the national floorspace data with the provision by the principal public developers (local authorities, New Towns, the Development Commission and English Estates) and by making the reasonable assumption that the deficit has been supplied largely by private developers. This comparison (Table 2.3) utilises the data collected on local authority and New Town activity (see Chapter Three) and the annual reports of the Development Commission and English Estates.

TABLE 2.3

Public and private sector contributions to new small-factory development
1976 - 1981

Agency	Total floorspace in new small buildings (sq.m.)	Proportion of all new floorspace in small units	
		industrial	industrial & warehouse(1)
Local authorities & New Towns (2)	1,176,031	66%	25.0%
Development Commission (3)	110,544	6%	2.5%
English Estates (4)	58,357	3%	1.0%
Total public sector	1,344,932	75%	28.5%
Balance potentially attributable to private sector	436,271- 3,229,895	25%	71.5%

Notes: (1) Source: Department of the Environment, National floorspace statistics 1976 - 1981

(2) Source: Survey of English local authorities and New Towns

(3) Source: Development Commission 1982

(4) Source: English Estates 1981 (this total includes units financed by the Department of Industry exclusively and also in partnership with the private sector)

Overall public developers have supplied by far the greatest proportion of new small industrial floorspace. But in considering the findings given in Table 2.3 a number of qualifications need to be re-emphasised:

(i) there is the possibility of some interchange between the warehousing and industrial sectors. As a proportion of new floorspace in both sectors recent public activity is of less significance.

(ii) The data under-record actual provision in two ways: first, delays in the collection of national statistics mean that annual additions are under-represented, particularly during a period when provision has been accelerating: second, the data on local authority and New Town provision are drawn from a questionnaire survey that achieved a 76.5% response rate.

(iii) The private sector contribution is composed of speculative provision and purpose-built accommodation.

Nonetheless, it is reasonable to conclude that local authorities and New Towns were the main source of new small industrial accommodation between 1976 - 1981. The data also suggest that although private industrial provision has been on a much smaller scale, it was still

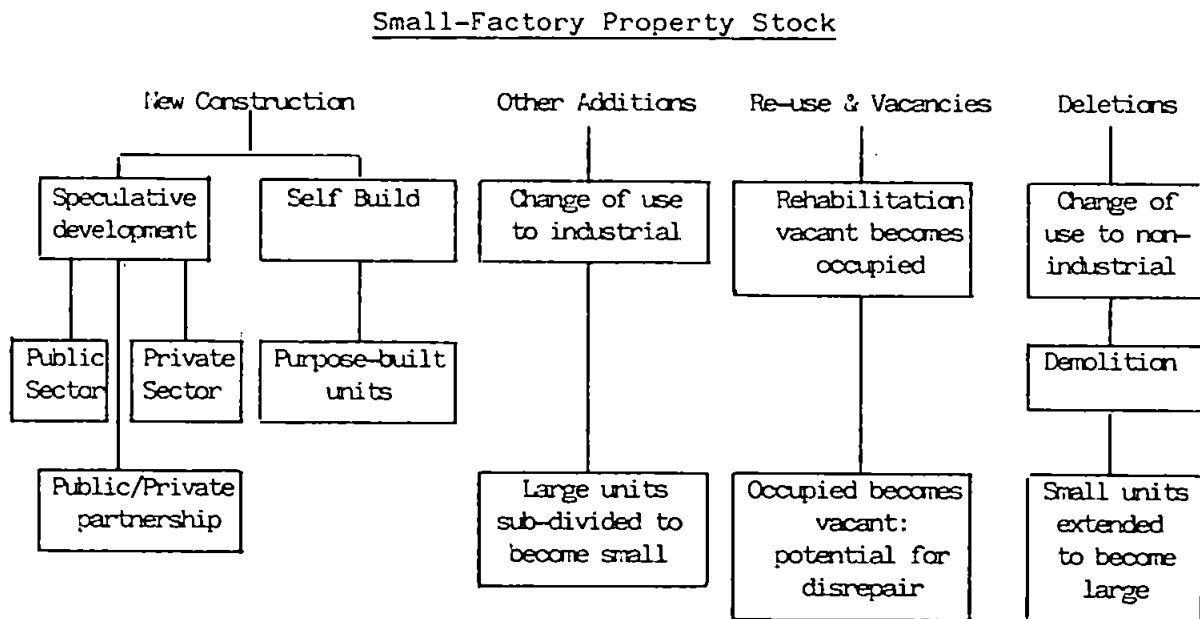
of some significance.

Changes within the property stock

Finally in this section, it should be noted that new factory construction is only one of the processes in which the stock of small-business accommodation is changed. The range of possible modifications are indicated in Figure 2.2. This shows that additions to the stock of premises occur through new building and through modifications in the form and usage of existing properties. Thus changes in the use of property may add or delete units from the industrial sector; vacated premises may be removed from the stock if lack of maintenance causes disrepair, while the sub-division of larger units adds to the stock and the extension of existing small factories may transfer them to a larger size category. Whilst these various processes have been fairly well-documented in the residential market (Bourne 1981), virtually no comparable research has been undertaken of modifications in the stock of industrial property.

FIGURE 2.2

Change in the small-firms' industrial property stock



The Department of the Environment statistics measure the incidence of floorspace changes and changes of use but they do not record qualitative variations or distinguish vacant properties (these are included within the data). From the national data, new constructions in the small-firms sector are indicated to be the most important source of additional floor area (Table 2.4). In comparison to the 1.78 million sq.m. (19.2 million sq.ft.) of accommodation that has been provided in new small properties between 1976 - 1981, only 800,000 sq.m. (8.6 million sq.ft.) has been supplied through the conversion of buildings in other uses. In addition, just over 250,000 sq.m. (2.7 million sq.ft.) has been made available by extensions of existing factories. Enlargements of factories can also take them beyond the 500 sq.m. definition of small units, thereby contributing to the loss of floor space in the small-factory category shown in Table 2.4.

TABLE 2.4

Change in the small-factory stock 1976 - 1981

New Build	Additions (sq.m.)		Reductions (sq.m.)	
	Extensions	Change of Use	Demolitions	Other(1)
1,781,203	268,178	831,157	524,501	3,013,423

(1) Note: other reductions comprise (i) a change of use to another use class (ii) total floorspace area of buildings affected by partial demolition, extension (includes cases where units remain below 500 sq.m. or transfer to larger size band) and internal alterations.

(Source: Department of the Environment 1976 - 1981)

2.5 THE DEVELOPMENT PROCESS

The development of new small-factory premises is accomplished through a similar process to that which operates in other sectors of the property market. Land may be visualised as passing through a series of stages from an initial undeveloped stage through different periods of negotiation, active site preparation, and building construction, to a final stage in which the product (a small factory) is let to a business. Each stage involves the participation of particular actors who behave according to their own objectives but with each dependent on what went before and what is intended to come after. The development process has been described as a "pipeline" in which there are barriers (such as planning approvals) and pumps (priming actions such as investment decisions) between each stage (Barratt et al 1978).

A generalised illustration of the sequence of land development for small factory premises is shown in Figure 2.3. The actual outline of events will vary depending, for example, on the funding arrangements, the geographical area and time period under study. Nonetheless, the Pilcher Report on commercial property development (Department of the Environment 1975) described six typical stages involved in achieving a commercial development:

- " i) the perception and estimation of demand for new commercial buildings of different types;
- ii) the identification and securing of sites on which buildings might be constructed to meet the demands;
- iii) the design of accommodation to meet the demand on the sites identified;
- iv) the arrangement of short and long-term finance to fund site acquisition and construction;
- v) the management of design and construction; and
- vi) the letting and management of the completed buildings."

(Department of the Environment 1975 p.49-50)

The key roles in the supply of new property are performed and combined in a variety of ways by a range of agents, including landowners, builders, developers, financial institutions and market professions (estate agents, surveyors, architects). Within the development process, some agencies have primary roles (for example, developers and funding institutions) while others play more secondary roles (for example, surveyors and architects) in that their participation is often indirect and supportive of other actors. The principal contributions of the agents involved in development may be summarised as follows:

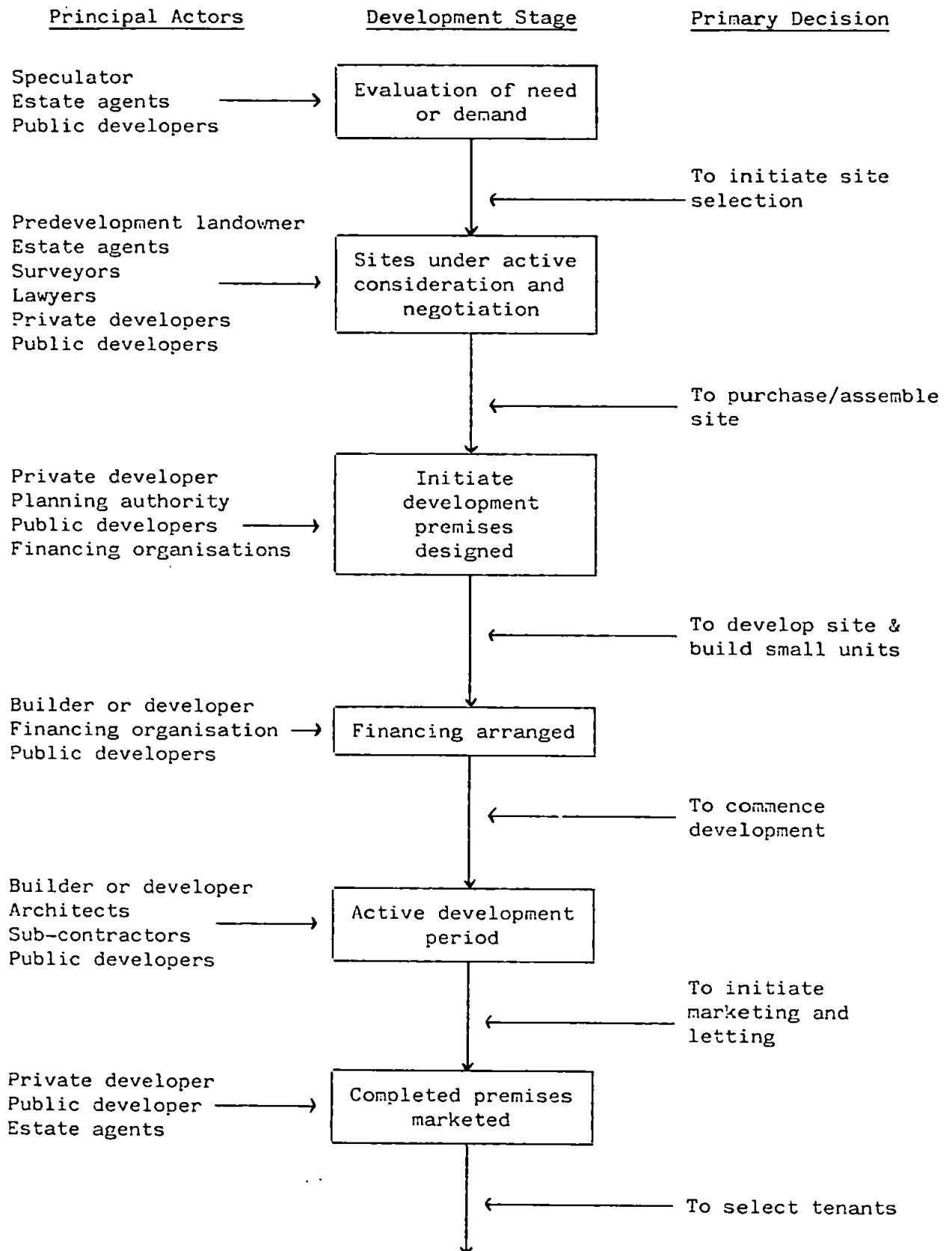
The developer: the key actor who orchestrates the assembly of inputs (sites, finance, advice, construction).

The funder: a distinction may be drawn between agencies providing short-term finance for land acquisition and construction and agencies supplying longer-term investment finance. Short-term development finance may be raised by developers internally, or be obtained from a bank or other financial institution. Long-term investment finance typically involves the sale of completed developments to institutions such as insurance companies and pension funds.

The builder: who is responsible for the construction of the scheme.

FIGURE 2.3

Actors and sequences in the development of advance small factories



(Adapted from Bourne 1981 p.110)

The advisers: who provide professional advice and services to the other agents, for example, financial appraisal, design, assistance in obtaining planning approval and legal guidance.

The public sector: planning authorities operate to regulate the use of land through the control of planning permission. Public agencies may also act as developers and/or be involved in land assembly for development sites and in the provision of infrastructure.

To understand the manner in which these participants relate to each other, and the influences which determine their involvement, their overall attitudes and objectives must be examined. The extent of the risks accepted by individual agents reflect the strength of their bargaining power. Whoever has least power is liable to face the most risk or, to put it another way, those upon whose resources the process most depends will be in the position of greatest bargaining strength (Barrett and Whitting 1983). Financial institutions, for example, are able to extract relatively risk-free terms from local authorities in partnership schemes. Within local authorities there are also varying attitudes to the risks and rewards of participation in the provision of new development, as compared with other forms of economic promotion. These issues are further explored in the next three Chapters which provide a detailed discussion of local authority (and New Town) small-factory programmes which, it has been shown, were the most important source of new property 1976 - 1981.

NOTES ON CHAPTER TWO

- (1) The 1981 Census shows that the rate of self-employment in New Towns has increased to 6.2%, compared with a national increase from 7.5% to 9.3% 1971 to 1981.
- (2) Also included in the warehousing category are workshops occupied by "craftsmen and artisans": workshops defined in the Factories and Workshops Act 1901 - 1920 are included in the industrial sector.

CHAPTER THREE: LOCAL-AUTHORITIES' SMALL FACTORY PREMISES:

THE STRUCTURE OF PROVISION

3.1 INTRODUCTION

The subject of this chapter is the provision of small factory premises by local authorities and New Towns in England from 1976 - 1981. The previous chapter indicated that during this period local authorities were the major providers of small factories. To determine the precise extent of their activity and the spatial variations in the pattern of provision, a postal questionnaire survey was conducted which covered all English local authorities and New Towns. In reviewing the findings of the survey, the information is presented in three chapters concerned in turn with the structure of provision (Chapter Three), the geographical pattern of investment (Chapter Four) and finally, the management of the premises (Chapter Five). These chapters are based largely on the findings of the survey, but other sources are utilised to discuss contextual issues (for example, local-authority finance) and for comparative purposes.

About one-third of the total number of small factories provided by local authorities and New Towns between 1976 - 1981 have resulted from partnership agreements with either a private or public agency. These units are included in the overall total of premises throughout this chapter but, because of their special character these developments are also considered separately in Section 3.5. Similarly, about 12% of the total provision takes the form of rehabilitated properties: these units are also included in the overall discussion and aggregate tables but are also dealt with separately in Section 3.6.

Before the dispatch of the survey in March, 1982 considerable effort was taken to ensure that the questionnaire would elicit a good response. Early drafts of the questionnaire were shown to academics and local government officials for their comments. The questions were then tested in a pilot survey of all Welsh local authorities (45) and New Towns (2). Wales was selected to test the survey because it allowed a large sample to be taken without conflicting with the coverage of English authorities. The pilot survey produced some findings in its own right (Perry 1982), but more importantly it resolved a number of issues relating to the conduct and design of the main survey. For example, the success of the survey depended on it reaching an officer with knowledge of the provision and management of small units who may be an official connected with planning, economic development or estate

management. As no general information was available to indicate which was the relevant section in each authority, the questionnaire was addressed to the "chief executive for the attention of the industrial development officer". This approach proved successful in Wales, where it achieved an 80% response rate, and so it was maintained in the main survey and it produced similarly good results.

The pilot survey also indicated the degree of detail that could be requested without deterring potential respondents. In the pilot survey information on floorspace sizes by type of provision (sole local-authority units, partnership developments with private or public agencies) was requested in an optional question placed at the end of the questionnaire. It was feared that if this detail was made "compulsory" the work involved might deter respondents from participating in the survey at all. In practice, however, all respondents with factory programmes were able to provide these detailed data, and consequently the question was included as an integral part of the main survey. A copy of the final questionnaire used can be found in Appendix One.

The overall final level of response to the questionnaire was 76.5%, the variations between different kinds of authority are shown in Table 3.1. To maximise the response rate, after a period of six weeks from the dispatch of the questionnaire a follow-up letter was sent to 140 non-respondents and this resulted in a further 50 replies; of these 31 had provided premises. Finally, to increase the information received from authorities in the Northern region and New Towns, where there was a noticeable short fall, the original questionnaire was dispatched again and was followed by a telephone call to encourage its completion. The result of all these various kinds of follow-up was to increase the response rate from 63% to 76.5%. This is considered a satisfactory rate of return, with the single reservation that the responses from New Towns remained comparatively low (1). Overall, however, in reviewing the response rate from the five different kinds of authority (see Table 3.1) there appears to be no statistically significant bias in the distribution of replies.

TABLE 3.1

Response rate by type of authority

Type of authority	No. of authorities	Level of response	
		No.	Percentage
County council	46	36	78.0%
District council	297	230	77.5%
Metropolitan B.C.	36	25	69.5%
London B.C.	33	29	88.0%
New Towns	21	11	52.0%
All	433	331	76.5%

$\chi^2 = 4.19$; critical value at 95% level is 9.488 with 4 degrees of freedom

Table 3.2 indicates the regional distribution of responses. Although there are inevitably some variations, the overall picture is one of a reasonably balanced return which does not markedly under-represent any area.

TABLE 3.2

Regional distribution of responses

Standard economic Regions	No. of authorities	Level of response	
		No.	Percentage
Northern	37	23	62.0%
Yorks & Humberside	30	25	83.5%
North West	45	29	64.5%
East Midlands	47	35	74.5%
West Midlands	43	36	84.0%
East Anglia	24	22	92.0%
South East	152	122	80.0%
South West	54	39	72.0%
All Regions	433	331	76.5%

$\chi^2 = 3.45$; critical value of 95% significance level is 14.067 with 7 degrees of freedom

The overall response rate of 76.5% bears comparison with those achieved by the three most comparable surveys. Camina (1974) based her research on an 84% return from counties, an 82% return from county boroughs and a 62% return from the more numerous lower-tier authorities. Urbed's study (1979) was based on a 50% response rate from a sample of 300 authorities located throughout Britain. The Association of District Councils (1980) review of local-authority assistance to industry achieved a 70% response from the 333 districts in England and Wales.

In reviewing the findings of the questionnaire survey, this chapter firstly examines the objectives and financing of local-authority small-factory programmes and proceeds to discuss the propensity for different categories of authority to be engaged in factory provision. The chapter then examines the special contribution made by partnership and rehabilitation schemes and also the size of the premises supplied.

3.2 THE OBJECTIVES AND PROCESS OF SMALL-FACTORY PROVISION

It is generally recognised that the predominant reason for local authorities' concern with industrial development is unemployment. Urbed (1979) found that, in particular, it was rising levels of male and youth unemployment that explained the recent growth in local economic promotion. To generate employment, local authorities have three main target groups in the private sector, these are new firms, existing indigenous firms and exogenous firms with "mobile" investment plans. In order to assess the goals of local-authority small-factory provision, authorities in the present survey were asked to indicate the relative importance attached to these types of enterprise in their employment promotion, and any other objectives of their factory programmes. The results are shown in Table 3.3.

TABLE 3.3

The objectives of small-factory provision

Objectives	Order of Importance(1)								
	Assisted Areas			Non-Assstd Areas			Total		
	1st	2nd	3rd	1st	2nd	3rd	1st	2nd	3rd
Attract firms from elsewhere	9%	7.0%	88%	10%	5.5%	88.5%	10%	6.0%	88%
Help existing firms to survive and grow	45%	46.5%	6%	50%	42.5%	4.5%	47%	43.5%	5%
Encourage new firms to start-up	46%	46.5%	6%	40%	52.0%	7.0%	43%	50.5%	7%

(1) Note: figures add to 100% down the columns

Overall, 47% of authorities felt that the first priority of their small-factory programme was "to help existing firms to survive and grow"; 43% "to encourage new firms to start-up"; and only 10% "to attract firms from elsewhere". In both Assisted and Non-Assisted Areas the emphasis appears, therefore, to be on assisting local enterprises, although Chapter Five suggests that in practice local authorities do let units to a wider range of tenants. Only a few authorities suggested

additional goals for their factory programmes, and these were principally related to physical improvements in the industrial environment.

The impetus for developing small industrial units may come from a variety of sources. Many authorities now have specially appointed industrial development officers. These officers have often taken a leading role in the initiation of factory-building programmes as they view the availability of industrial accommodation as important for the promotion of the area (see Cameron et al 1982). Urbed (1979) found that counties in the Assisted Areas were the most likely to have appointed an industrial development officer, closely followed by the metropolitan and inner London boroughs. With the rise of this professional group it is possible to discern the emergence of an industrial lobby that may encourage greater activity amongst these particular categories of authority.

Where there is no specifically appointed industrial development officer, the role of coordinating factory building programmes and related economic policies is most commonly the responsibility of the planning or estates departments (Association of District Councils 1980). Clearly, detailed behavioural research would be required to determine whether the pattern of activity varies according to which department is responsible for industrial development, but there are some grounds for speculating that this may influence provision in certain areas. Thus planners, in their role as economic development officers, are concerned to ameliorate the impact of economic recession. Consequently they tend to view the provision of speculative units as important, even if existing lettings are slow. By comparison, the objectives of estate departments are related to the efficient management of property, and they are often more cautious about supplying premises for which there is not a strong demand.

Interviews with a small number of local-authority officers involved in small-unit provision suggest that where authorities have provided premises, they have rarely undertaken detailed market research to establish the potential demand for small premises within the locality. Plymouth City Council for example "tested" the market for small firms by phasing their provision, commencing with only 5 units and gradually adding to the programme as the extent of demand for the completed units became apparent. Only one respondent to the survey referred to market studies conducted prior to the building of units (2) and, in general, authorities have not undertaken any special research and have relied

on local knowledge of the need for small premises. In consequence, the impressions and perceptions of individuals may well have been important influences on the initiation of a building programme. This is further suggested by Chapter Four which shows that the spatial distribution of local-authority factory investment is not closely related to geographical variations in economic and environmental conditions.

In addition to the views of individual officers, other studies have shown that councillors can also play an important role in determining the level of priority which a local authority accords to assisting local economic development. However, Chandler and Templeton (1980) concluded that the influence of councillors is unlikely to affect the detailed choice of particular policies because they generally have no clear idea as to the relative merits of alternative means of economic intervention. Indeed Chandler and Templeton suggest that for some councillors, as long as the local authority is seen to be doing something, it does not greatly matter which policy is pursued.

The selection of particular sites for small premises will normally be in line with the planning policies of the authority, while issues relating to the size and number of the units to be provided are usually decided by negotiations between the industrial development officer (where one exists), planners and representatives from the treasurer's and estates departments. The development of factory premises, therefore, requires the coordination of a number of traditionally separate departmental interests and, according to Chandler and Templeton;

"...the problems of coordinating departments within compartmentalised authorities may deter officers from strongly promoting this element of employment creation as opposed to more easily implemented activities" (1980 p.27)

The proposals to erect factory units will be implemented either by turning all or part of the scheme to a private developer or alternatively by enlisting the services of the corporation's own architects and engineers. This aspect of small-factory provision presents few technical problems to local authorities, most of which have experience of developing property. The building programme will usually be overseen by a committee or sub-committee with responsibility for industry and employment promotion, but it is officers who are principally concerned with the detailed design and implementation of the development. One general consideration affecting all authorities is the level of finance available for factory development: this issue is examined in the following section before presenting the detailed survey findings.

3.3 FINANCIAL RESOURCES FOR FACTORY PROVISION

The decision to build small factories cannot be considered separately from the resources available for this activity. However, the postal questionnaire did not seek information on the funding mechanisms (except insofar as authorities were asked to identify partnership schemes) or the precise financial arrangements. This was partly because of the complexity and possible sensitivity of these matters and partly because in general terms the procedures for funding small units are already well known.

Apart from the inner cities programme, there is no specific provision in the system of local-authority finance for expenditure on economic development. This means that where a local authority chooses to incur such expenditure it must either reduce other spending programmes or increase rates. A typical local-authority factory of 2,000 sq.ft. cost up to about £40,000 to provide in 1981 (3), implying a total expenditure of around £250 million on the units identified in the survey. Of this total sum, about one-third has been provided by the private sector through partnership agreements. Local authorities have utilised both their capital and revenue accounts for their contribution. During the period covered by the survey, there was an increasing reliance on revenue funds, although since the 1982 Local Government Act, increasing pressure on these sources (through the introduction of expenditure targets and grant penalties) has reduced their use for factory provision.

The Locally Determined Sector finance was the principal source of capital expenditure for local-authority activity in the economic field. This money was allocated to local authorities in the form of a right to borrow. The breakdown of the total Locally Determined Sector allocation for 1979/80 is given in Table 3.4. The finance available for factory provision and other economic policies was largely under the heading of "other environmental services" and was in competition with expenditure on, for example, refuse collection, the fire service, consumer protection and various recreational services, so the amount spent on building factories cannot be identified. The Locally Determined Sector was considerably reduced during the last decade, from a total (at 1978 prices) of £899 million in 1973/74 to £484 million in 1979/80 (Boddy and Barratt 1980 p.20). The Local Government Planning and Land Act 1980, introduced a new system for controlling capital allocations which was implemented in 1981 (Department of the Environment 1981).

The Secretary of State now specifies annually an amount of prescribed expenditure for each local authority. Expenditure is distributed in five blocks, namely, education, social services, transport, housing and other services, but local authorities are free to transfer an allocation from one block to another. Expenditure on industrial premises falls within the other services block and it is for authorities to decide from year to year whether this should be supplemented by allocations from other blocks. However, the extent of transfers from one account to another is likely to be limited, as extensive transfers from, say, the housing block might prejudice the Department of the Environment's attitude towards the size of that allocation in future years (Association of District Councils 1983).

TABLE 3.4

Locally Determined Sector finance 1979/80

Locally Determined Sector	1979-1980 £m (1978 survey prices)
Agriculture, fisheries, food & forestry	-
Trade, industry, energy & employment	4
Road transport	136
Housing	27
Other environment services	232
Law, order and protective services	7
Education and libraries, science & arts	70
Health & personal social services	8
TOTAL	484

(Source: Cmnd. 7439 1979, quoted in Boddy and Barratt 1980)

With respect to capital accounts, an important option that has always been available to local authorities is their ability to supplement capital allocations by use of their own capital receipts. These capital receipts are generated by the sale of existing assets including, for example, the disposal of the head lease of previously built factories to a financial institution. Previously, local authorities have been able to transfer all of their receipts into capital projects but the Local Government, Planning and Land Act 1980, allows the Secretary of State to prescribe the proportion of receipts derived from particular assets that can be applied to capital expenditure.

The Secretary of State has exercised this power and, following regulations introduced in 1983 (Department of the Environment 1983), for most forms of receipt 50% only was available for capital expenditure in any one year (4).

During the 1970s local authorities made increasing use of their revenue income from rate support grant, rates and services charges to finance economic policies as a consequence of the reduction in capital resources. Formerly, economic initiatives of a revenue nature were primarily restricted to research activities and financial assistance to companies, voluntary or other organisations as a contribution towards their revenue costs and training initiatives. Many authorities have now also used revenue resources indirectly to sponsor capital developments by entering some form of leaseback scheme with a private institution. Under this type of arrangement (which is considered in more detail in Section 3.5) local authorities avoid development costs as these are met by the developer.

The carrying out of partnership schemes has, however, been complicated by Section 80 of the 1980 Act, which provides that where a local authority acquires a financial interest in land for a period exceeding one year, other than by the outright purchase of the freehold, then the authority will be regarded as having paid the freehold or market value of the land. There are certain exceptions to this rule, of which the most important is for leases of not more than 20 years. But leaseback arrangements, even when for less than 20 years, are now subject to special control whereby transactions are treated as notional capital receipts or payments against local authorities' capital allocation. Subsequent sub-letting to industrialists generates an income to the local authority which is regarded as a capital receipt and, therefore, is subject to certain restrictions on its use (Association of District Councils 1983 p.7).

An important source of selective financial assistance is available to those authorities designated under the inner-city programme. In the 1977 Budget a £100 million construction package for the inner cities was announced, and two-thirds went to partnership authorities to be spent over a two-year period. About half of this finance was invested in small-factory provision (Richardson 1983). The Inner Urban Areas Act 1978, gave selected local authorities more powers and resources to support economic development. For government-approved projects, which can include the provision of factory premises, the Urban Programme provides local authorities with additional capital allocations to cover

75% of the loan charges incurred. In addition, in April 1982 the Government introduced the Urban Development Grant payable to local authorities to subsidise private-sector schemes in the 43 designated districts.

Of wider interest, however, is the ability of any local authority to apply for grant aid under the Urban Programme Aid Scheme. This grant was introduced in 1980 as a supplement to the Urban Programme for authorities outside the most deprived areas. The programme is an annual one and funds are distributed on a competitive basis. For schemes of an industrial regeneration nature, 75% grant aid is available and borrowing approval for the local authority share (25%) is granted outside the capital spending control system. However, eligible projects were subject to a total capital cost of £140,000 (Department of the Environment 1980a) so that these grants will only support small-scale factory provision.

A small number of authorities have established economic development companies to implement some of their employment initiatives, including factory provision. Local authorities have financed these companies by using their power under section 137 of the Local Government Act 1972 to raise revenue finance. This Act allows authorities to spend each year up to the product of a two-penny rate for any purpose for the benefit of their area. Most of these development companies were established in 1980/81 to avoid the capital expenditure restrictions contained in the Local Government, Planning and Land Act, 1980, but notable examples which have been operating since the late 1970s include the Greater Manchester Economic Development Corporation and the Wigan Metropolitan Development Company Limited. Both these companies have funded new small units.

Local authorities in the Assisted Areas are eligible to receive regional development grants against the cost of providing new or refurbished premises. To be eligible individual factories must cost at least £5,000 (virtually all new small units, therefore, easily qualify) and are payable to the developer when the unit is occupied by a qualifying activity. These activities fall within orders III - XIX of the Standard Industrial Classification which cover a range of manufacturing activities, but which exclude a wide range of service industries such as firms engaged in repair and maintenance work and in distribution activities. In practice, therefore, this finance has not been freely available to subsidise local-authority small-factory programmes (5). Moreover, many authorities use the regional development

grant as a means of offering rental concessions rather than as a source of finance for factory construction (see section two of Chapter Five). The new regional policy regime announced in November 1984 has widened the number of qualifying activities, so that this finance may become of more importance, albeit in the context of new regulations that link assistance more closely to job generation and increase the discretionary element of awards (Department of Trade and Industry 1984).

The funding of local-authority units is, therefore, a complex matter and one which has been subject to significant change in recent years. However, most of the units enumerated in the present survey will either have been financed under the former Locally Determined Allocation, for solely local-authority funded units, or from revenue income for partnership schemes organised with the private sector. The major exceptions to this pattern are in the inner city areas where specific grants have been available to assist factory provision. A precise breakdown of the proportion of the survey units built through the various funds is not, however, available.

In New Towns, finance for property development comes from 60 year government loans and receipts from capital sales and New Town services. Each Development Corporation submits an annual report to Parliament, including a statement of accounts and financial plans, and the Government controls the overall loan finance available for New Town development through legislation. Until 1982, a 10% initial return on the costs of industrial development was required. Where projected returns were below this figure, permission to undertake the investment was required from the Department of the Environment.

3.4 THE PATTERN OF PROVISION

Having considered the objectives of local-authority' small-factory provision and the financial resources available, this section begins to outline the survey findings. The pattern of building activity can be examined in two ways; according to the type of local authority responsible for the units, and in terms of spatial contrasts and variations. This chapter takes the former perspective, while questions of geographical distribution are addressed in Chapter Four.

Active and non-active local authorities

Table 3.5 shows that overall 54% of authorities responding to the survey had provided premises between 1976 and 1981. The different

categories of authority, however, varied significantly in their activity. The average was exceeded by metropolitan boroughs and New Towns, and to a lesser extent by London boroughs. By comparison, district and county councils showed a lower than average propensity to supply premises. This pattern may indicate that the overall survey figure for the number of active authorities (54%) may be a slight underestimate, because the New Town and to a lesser extent the metropolitan authorities are under-represented in the survey (see Table 3.1) while they have had the greatest propensity to be factory providers.

TABLE 3.5

Small-unit provision by type of authority

Type of authority	Factory providing authorities	
	No. of authorities	Percentage of all respondents
County council	15	42.0%
District council	114	49.5%
Metropolitan B.C.	21	92.0%
London B.C.	19	65.5%
New Towns	9	82.0%
All	178	54.0%

$\chi^2 = 11.6$; critical value at 95% significance level is 9.488 with 4 degrees of freedom

It is interesting to compare the survey findings with those of the previous studies of local economic activity referred to earlier. Camina (1974) found that about 35% of county boroughs (now comparable with the more populous district councils) had made units available. The proportion of active district authorities in the present survey is somewhat higher at 49.5%, reflecting the new interest in local economic development due to the impact of recession in Britain. Moreover, these figures probably underestimate the extent of the increase in factory provision as Camina's survey included as "active" authorities those willing to erect a factory to a firm's specifications as well as those who had already built advance speculative units. It is also important to note that Camina did not specify the size of unit. The present study, therefore, focusses on a much narrower range of factory-building authorities than Camina, but nonetheless shows a larger number of active councils.

Urbed's more recent survey (1979) found that 57% of authorities had provided premises of 5,000 sq.ft. and below. This study was weighted

to favour councils in the major urban areas which were thought likely to have an active industrial development programme. However, the Association of District Council's survey (1980) found that amongst all English and Welsh district councils, 55.5% had erected factories. This is a very similar proportion to that found in the present study even though the Association of District councils counted units up to 10,000 sq.ft. compared with this survey's limit of 5,000 sq.ft.

Taken together the previous surveys and the present one point to a notable change in the balance of activity between different kinds of authority. Camina suggested that county councils were the most likely tier of administration to have provided new factories, while today they have the lowest propensity to provide. This change reflects the switch in emphasis from units in excess of 5,000 sq.ft. to small premises. County councils are primarily concerned with issues that have a strategic importance for the whole of their area, and substantial factories aimed at attracting large established businesses fit into this role. Small premises, on the other hand, are a more limited investment often designed to accommodate local enterprises and these schemes are generally seen as more appropriate to district authorities.

Amongst the county councils, the metropolitan authorities have been the most active. Although no reply was received from Tyne and Wear, it is known that this authority has supplied small-factories (Cameron et al 1982); this leaves the West Midlands as the only non-providing metropolitan county. Even the West Midlands, however, offered in the late 1970s a rent- and rate-rebate scheme giving new manufacturing firms a grant of 50% (to a maximum of £1,000) of their rent and rate overheads for the first two years of operation.

About half of all district authorities have provided small premises but at this level of administration it is the London and metropolitan boroughs which have been particularly active. Many of these urban authorities experience particular economic problems, and in consequence have been designated for special assistance under the Inner Urban Areas Act 1978. Information from 26 of the 42 designated authorities showed that only two had not provided premises. A higher proportion of metropolitan areas are designated under the inner-city programme and this no doubt helps to explain their greater proportion of factory-providing authorities compared with the London boroughs. Another factor in London is that the willingness of the private sector to develop speculative units has led some authorities, particularly in outer

London, not to intervene directly. For example, the North East Thames Industrial Consultative Group, comprising representatives from three London boroughs has studied the need for small premises in the north east area of London and has concluded that, with some encouragement, the private sector can fulfill the area's property needs (NETICG 1981).

New Town authorities have shown a high propensity to develop small-factory premises, even though factory provision is an activity that can be hived-off to the private sector. Developers and institutions have been reluctant to finance small units and JURUE (1983a) suggest that private investment in New Towns has been further discouraged by the non-commercial criteria operated by Development Corporations when developing property, making private competition difficult. Consequently, the English New Towns have been responsible for the development of over 100 million square feet of factory floorspace up to 1981 (Blake 1981). The only New Towns in this survey found not to have included some small premises in their recent factory programmes were Bracknell and Crawley. Bracknell was scaling down its activities during the study period, ready for the transfer of their assets to the Commission for the New Towns, while Crawley had already been transferred prior to the study period.

Number of units provided

So far this review of the survey's findings has focussed on whether public authorities have provided any small units; the discussion now moves on to consider the number of units built, using data from 170 authorities. (Eight responses used in the previous section - three counties and five district councils - were incomplete in this respect).

Table 3.6 indicates the total, mean and median number of units provided by each type of authority. The mean and median figures have been calculated by including only active authorities. The inclusion of non-providing councils would, of course, have made these figures smaller, particularly for the county and district authorities. Given that there are many more district councils than other kinds of local authority, it is not surprising that they have supplied the largest number of small premises. Table 3.6 shows that they account for 44% of the overall provision of local authorities, while county councils have made the smallest contribution (9%) and other categories have each contributed between 15% and 17% of the overall total. However, these figures reflect the numbers of authorities in each category. It is important, therefore, to consider the typical level of activity

per providing authority, and these figures are also shown in Table 3.6.

TABLE 3.6

Number of units provided by types of authority

Type of Authority	No. of providing authorities	No. of Units	Percentage of total	Units Provided	
				Mean	Median
County councils	12	582	9%	48.5	45
District councils	109	2,787	44%	25.5	20
Metropolitan B.C.	21	1,059	17%	50.5	41
London B.C.	19	948	15%	49.0	47
New Towns	9	959	15%	106.0	100
All	170(1)	6,335(2)	100%	37.0	25
Designated inner city authorities	26	1,574	25%	60.5	45

Notes (1) There are 8 fewer providing authorities compared with Table 3.5 as these authorities did not provide details of their factory programmes

(2) This total includes a small element of double counting caused by joint county and district schemes which have been responsible for 80 units

The use of the mean highlights the exceptionally high provision in New Towns, which average over 100 units. This activity represents an attempt to compensate for the virtual absence of a reserve of old premises suitable for young enterprises which New Towns recognised as a particular problem constraining small-firm employment (see discussion in Chapter Two). Amongst local authorities, those designated under the inner city programme have had the most extensive programmes.

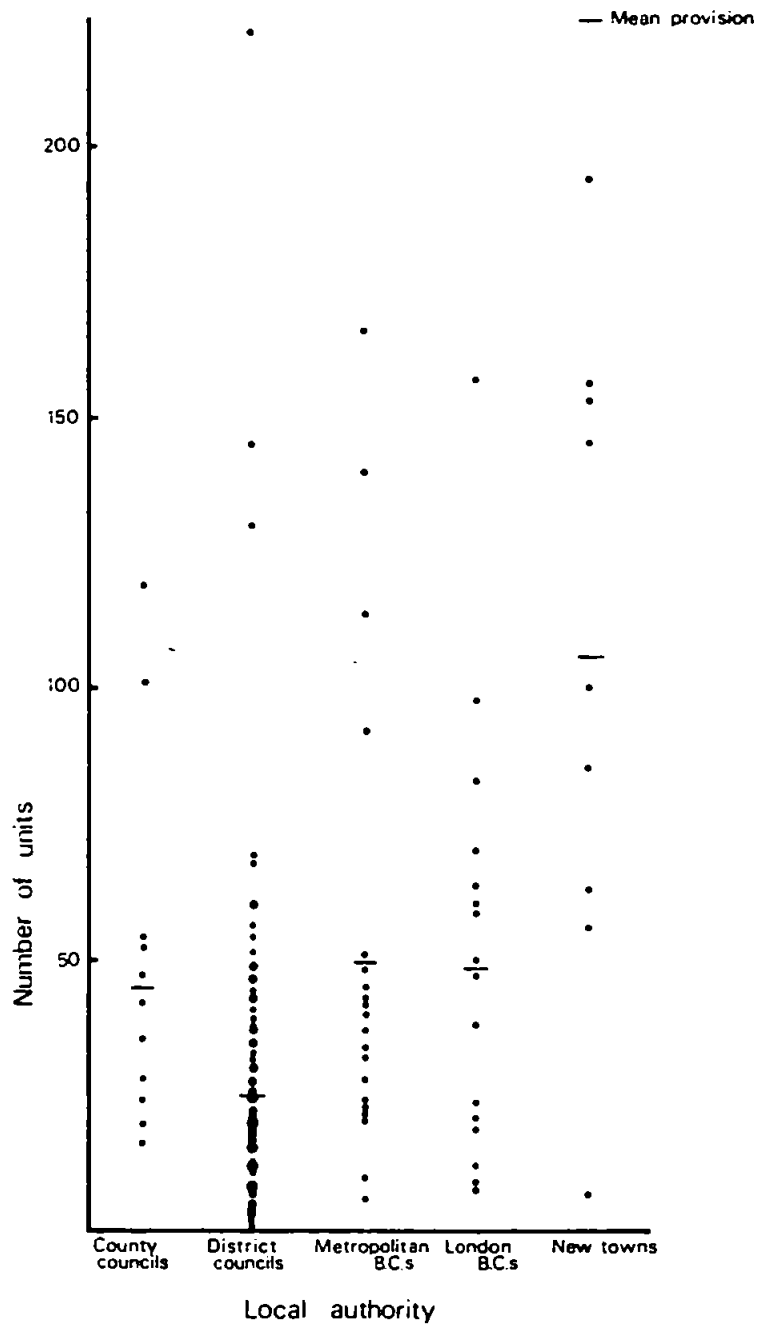
Table 3.6 and Figure 3.1 show that the mean and median figures per authority are closely related, the mean being only slightly higher because of the influence of the relatively modest number of high-providing authorities. For example, three metropolitan authorities (Birmingham, Bradford and Wolverhampton) have provided over 100 units each, while Bolton (10 units) and Stockport (6 units) have had very limited factory programmes.

3.5 PARTNERSHIP DEVELOPMENTS

So far this chapter has not emphasised the distinction between units funded solely by local authorities and those provided jointly

FIGURE 3.1

Distribution of numbers of units provided



with another agency. Partnership schemes have long been common between local authorities and private developers as a means of implementing town centre redevelopment schemes (see Marriott 1967 pp.72-81) and interest has recently grown in their use for industrial projects for similar reasons. These are related to savings in resources and the ability to maintain control over schemes which might otherwise not take place, or be solely in the hands of another agency. Partnership deals with the private sector are the most important, but schemes with other public bodies have also been undertaken. This section looks at local-authority partnerships, first, with the private sector and then with other public bodies.

Local-authority/private-sector partnerships

Of the 170 factory-providing authorities in the survey, 92 have provided some or all of their units in partnership with the private sector. The number of units provided in this way is over one-third of the total provision. From a financial perspective, the essence of a partnership agreement between a local authority and the private sector is some sharing of the risk associated with the project and the return from it. This means that the authority's investment is not recouped before development commences as would normally be the case when an authority sells industrial land freehold, or sells a leasehold interest for a fixed premium.

The most common form of agreement entered into between a local authority and the private sector is a leaseback arrangement. This generally involves the authority leasing a site at a peppercorn rent to a developer who undertakes to construct and complete a scheme already agreed, subject to a commitment from the authority to leaseback the finished project. The developer will usually sell the freehold of the completed scheme to a financial institution which will also take over the ground lease. The local authority will sub-let the premises to rent-paying tenants. In leaseback schemes the local authority and the private sector recoup their investment over time as rental income is earned, but whereas the income is guaranteed to the developer and/or institution, the authority bears disproportionately the risk involved with the only element of uncertainty facing the private partner being the level of future rental growth.

Where the industrial development is reckoned to be a more secure investment, the private partner may not require the authority to take a leaseback: instead the developer will pay a peppercorn rent for a site assembled by a local authority, which in return receives a share of the market rent from the developer. As the private partner retains the leasehold it usually maintains full control of the letting and management of the units, leaving the local authority less scope to implement its employment objectives. For these and other reasons, equity-sharing schemes are significantly less common than leaseback schemes for the provision of small premises.

Whatever the type of partnership, the initiative for the development may originate from either the local authority or the private partner. However, the local authority is unlikely to be persuaded to enter a joint scheme without a previous commitment to the provision of industrial accommodation. The advantages to a specific authority of a partnership depend on its individual circumstances, its particular policy objectives and the alternative ways open to it of pursuing these objectives. In general, however, the benefits are as follows:

- (i) The provision of small industrial units which might otherwise not be built. In many cases the local-authority guarantee on rental income may make the difference between a development going ahead or not.
- (ii) The attraction of private-sector funds for development. Partnerships allow councils to conserve their dwindling finances for other uses while retaining a degree of control over the form of development, and its management.
- (iii) The control of lettings. In comparison with private developments, a leaseback arrangement gives the local authority some scope to select tenants in accordance with its employment and economic development policies.
- (iv) Increasing the financial return. Compared with the disposal of a ground lease, a partnership approach may allow the authority to share in the rental income (although most authorities are unlikely to regard this income as a significant attraction given that their main and immediate objective is simply to provide small industrial units).
- (v) Planning and environmental benefits. Local authorities may, by providing rental guarantees or by entering equity-sharing schemes, facilitate the development of vacant or derelict sites which would not otherwise take place.

Where private developers and institutions have cooperated with local authorities it has usually only been where a number of conditions have been met. At the local level, funds prefer their developments to have good access for servicing and to be accessible to the largest possible labour force. The appearance and upkeep of their estates is also a priority, and this is associated with a tendency to seek a building of high quality. The principal goal of the private partner is to ensure a long life from their investments, which would be prejudiced by poor estate management, lower building standards and designing buildings exclusively for manufacturing. By comparison, local authorities are more concerned with the employment benefits of small-factory schemes, and this leads them to prefer the provision of "bare shells" so that building costs and rentals are kept at as low a level as possible. Consequently, the design and financial aspects are crucial in determining whether a joint project can be agreed which will reconcile with the aims of each partner.

A related area of conflict concerns the size of the units to be provided. Private investors generally avoid very small premises as they find it more lucrative to build larger units occupied by more established businesses. This is obviously at variance with the local authorities goals of assisting the emergence of new businesses. In the present survey 34% of the local authority/private units were greater than 2,500 sq.ft. compared with only 22% of the solely local-authority financed units.

The quality of the local-authority estate management can also inhibit investors if standards on existing properties are poor, and if units are let to unsightly or noxious businesses. Also, some institutions are concerned that a local authority's employment priorities may lead it to reject more secure and cleaner enterprises in favour of perhaps more risky or "bad neighbour" tenants which potentially offer more jobs. This view has been expressed, for example, by the National Coal Board Pension Fund, which has deliberately avoided any partnership agreements with local authorities, preferring to work only with other private companies (see case study in Chapter Seven). But this concern does not appear to be as strongly felt by many other financial institutions as it is predominantly with Pension Funds and Insurance Companies that local authorities have concluded joint investments.

The questionnaire asked authorities to indicate both the number and size of their partnership units. In addition, authorities were requested to give details of the nature of the partnership. Of the 92 authorities with joint private schemes, 62 provided detailed information on the character of their partnership agreements; three quarters of these indicated that they had entered a leaseback deal. Other forms of agreement have been varied in character, but most have left the authority with less influence over the letting and management of the units provided. Greater Manchester MCC has simply guaranteed to purchase or rent factories which are still vacant at an agreed date, while Newcastle-under-Lyne DC has agreed only to take a leaseback until the first lettings are taken up. As an example of an equity-sharing scheme, Dudley MBC assembled a site for a local development company (A. & J. Mucklow Ltd.) who were granted a 125 year ground lease (see case study in Chapter Seven). Dudley MBC receives a percentage share of the eventual rental income, but has little influence over the selection of tenants.

As in the case of units provided exclusively by local authorities, Table 3.7 shows that the kinds of authority most commonly involved in private partnership schemes are the New Towns and the London and metropolitan boroughs. But although over 45% of New Town units have been built through partnership schemes, Table 3.8 shows that it is very unusual for these to be the only form of provision in the New Towns. By contrast for almost half the district councils with partnership schemes, these units are their sole provision.

TABLE 3.7

Local-authority/private partnership schemes by type of authority

Type of authority	Proportion of factory-providing authorities with LA/private units	Average no. of LA/private units per partnership auth.	Partnership units as a proportion of total
County council	42.0%	21	18.0%
District council	49.5%	21	41.0%
Metropolitan B.C.	62.0%	19.5	24.0%
London B.C.	68.5%	29	39.5%
New Towns	78.0%	62	45.5%
All	54.0%	25	36.5%

$\chi^2 = 17.30$; critical value at 95% level is 9.488 with 4 degrees of freedom

TABLE 3.8

Authorities with only local-authority/private partnership units

Type of authority	No. of authorities	Proportion of providing authorities with joint schemes whose sole provision are partnership units
County council	1	20.0%
District council	25	46.0%
Metropolitan B.C.	1	8.0%
London B.C.	5	38.5%
New Towns	1	14.0%

Local-authority/public sector partnership

Local authorities have also built small factories jointly with other public agencies, easily the most popular strategies being to link with other local authorities or with the Development Commission, through their agent CoSIRA. Table 3.9 shows that eleven district authorities have cooperated with their respective county councils, while ten have built in partnership with the Development Commission. It must be stressed, however, that so far the contribution of these schemes has not been substantial; in all they account for less than 4% of the total local authority provision.

TABLE 3.9

Participation in local-authority/public partnership schemes

Type of authority	Type of partner	
	Local authority(1)	Development Commission
County council	3	1
District council	6	9
Metropolitan B.C.	1	0
London B.C.	1	0
New Towns	0	0

(1) Note that because not all local authority partners responded to the survey the total is an odd number

Since the present survey was undertaken, the Development Commission has extended its programme of joint developments with local authorities by the introduction of a 50/50 funding scheme. Under this arrangement, the Commission will contribute up to 50% of the cost of new or refurbished small premises provided and managed by local authorities. This programme was announced in February 1981, and within a year 15 projects had been approved for 100 workshops in ten counties totalling

110,000 sq.ft. (Development Commission 1982). In the following year a further 167 jointly-funded workshops were approved, indicating that partnership schemes with the Development Commission have further increased in importance.

3.6 REFURBISHED PREMISES

One of the problems of accommodating small enterprise that was highlighted in Chapter Two is that they may find new premises expensive to rent, so they often prefer cheaper alternatives. Part of this demand can be satisfied by the refurbishment of old, redundant buildings. Of the total units supplied by local authorities and New Towns, 12% are in converted premises (Table 3.10). Over a quarter (215 units) of these properties are to be found within London. The inner London boroughs have been the most actively involved in refurbishment schemes, and this may partly reflect the difficulty of assembling sites for new developments. Probably a more important influence, however, is the decline of the industrial economies of inner cities which has left large areas of redundant buildings which have potential for conversion into smaller premises. Moreover, in historic industrial areas such as London's docklands, rehabilitation schemes have been a valuable means of conserving part of the economic heritage by finding new uses for old buildings. Throughout London there have been a number of conservation groups and "social entrepreneurs" active who have not only initiated schemes themselves, but have also brought pressure on local authorities to become more involved in conversion programmes. The Rotherhithe Workshops provide a good example; this project was commenced by the Industrial Building Preservation Trust, but when it ran into financial difficulties Southwark was persuaded to buy the building and to continue the restoration work.

TABLE 3.10

Provision of refurbished premises by local authorities

Type of authority	Proportion of all factory-providing authorities with refurbishment schemes	No. of Units	Proportion of total provision
County council	50%	69	12.0%
District council	23%	372	13.0%
Metropolitan B.C.	48%	106	10.0%
London B.C.	42%	215	23.0%
New Towns	33%	25	2.5%
All	31%	787	12.5%

The renovation of old industrial buildings is, of course, given particular emphasis by those authorities designated under the inner cities programme which are able to declare Industrial Improvement Areas. Within these areas, authorities have certain additional powers and resources to tackle the problems of older industrial environments by carrying out work themselves, or by giving grant and loan assistance to industrialists for specified improvement work (Taylor 1982). New premises have also been built by local authorities in Industrial Improvement Areas but the main emphasis has been on refurbishment both to improve premises already in industrial use and to bring into use previously redundant buildings.

In addition to the schemes carried out in the major urban centres, a number of rural authorities have converted premises for industrial use. The types of property which have been refurbished in these areas vary considerably; East Devon DC, for example, has acquired a former army training camp in Honiton to provide 37 small premises. Fareham BC has restored Fort Fareham, a nineteenth century defence installation and converted it to provide 25 workshops for small industries. It has been suggested also that many old farm buildings are suitable for conversion into small industrial premises (Development Commission 1982). In practice, this survey found that no local authorities have so far been involved with farm properties possibly because of their generally isolated situation. In an attempt to encourage more conversion work in the remoter rural areas, the Development Commission announced in March 1982 a scheme to grant aid local authorities and other bodies to undertake the conversion of farm buildings for craft and light industrial use. The grant has subsequently been extended to cover all types of redundant property, and by 1984 200 projects had been approved (Milne 1984).

3.7 THE SIZE OF UNITS PROVIDED

Having examined the pattern of activity in terms of the numbers of units provided and the contribution of partnership and conversion schemes, this section now considers the size of units that have been built. The questionnaire specified three size groups into which authorities were asked to apportion their units. The smallest size category was units of less than 500 sq.ft. which are considered especially appropriate for recently formed enterprises. The second group was premises between 500 and 2,500 sq.ft., which typically suit businesses that are starting to increase production and take on more

workers. The final group was units greater than 2,500 sq.ft. and up to 5,000 sq.ft. which will tend to be popular with more established companies.

It is recognised that factory size is only an approximate guide as to the characteristics of the occupant firms. Consequently, a separate question was asked in the questionnaire on whether the authority had provided any "small starter workshops". Table 3.11 shows that while only 20% of authorities with small-factory programmes have provided units of less than 500 sq.ft., almost 70% have supplied what they considered to be "starter" premises for new businesses. This indicates that most local authorities feel that starter units can be larger than the size indicated in the survey, but if the object is to attract more new businesses it appears that local authorities have built too large for most small firms. For example, Peterborough Development Corporation's well-publicised mini-factory schemes (Goodrun 1980) of units between 500 and 1,500 sq.ft. were occupied predominantly by firms with several years trading experience.

TABLE 3.11

The provision of "starter units"

Type of authority	Number of authorities with:-			
	Units <500 sq.ft.	% of all providing authorities	"Small starter units"	% of all providing authorities
	No.		No.	
County council	3	25.0%	5	41%
District council	18	16.5%	74	68%
Metropolitan B.C.	5	24.0%	18	86%
London B.C.	5	26.0%	12	63%
New Town	3	30.0%	9	100%
All	34	20.0%	118	69.5%

Units of less than 500 sq.ft. are only a fraction of the local authorities' overall provision. Around two-thirds of all the units provided have been between 500-2,500 sq.ft. (see Table 3.12) and a further quarter have been between 2,501 sq.ft. and 5,000 sq.ft. This size distribution may well reflect two considerations: the first is that the under 500 sq.ft. category has a much smaller size range than the other groups and obviously has fewer units in it for this reason. The second is that the over 2,500 sq.ft. range is moving closer to the size of property where one might expect profitable private sector

development: therefore, in seeking to fill a gap in the market, local authorities have tended to build rather smaller units.

TABLE 3.12

Size of units provided by local authorities and New Towns

Type of authority	< 500 sq.ft.		500-2,500 sq.ft.		2,501-5,000 sq.ft.	
	No.	% of total	No.	% of total	No.	% of total
County council	28	5%	306	52%	248	43%
District council	166	6%	2,034	73%	587	21%
Metropolitan B.C.	76	7%	838	79%	145	14%
London B.C.	131	14%	516	58%	291	31%
New Towns	24	3%	515	54%	410	43%
All (1)	425	7%	4,209	67%	1,681	26%

(1) Note the overall total is smaller than that given in 3.4 because of 20 unapportioned rehabilitated units.

Amongst the various types of authority, the London boroughs have the highest proportion of units under 500 sq.ft. (Table 3.12). This may reflect the difficulty of assembling large sites in congested urban areas. Also, some London boroughs, and particularly Camden, have a policy of incorporating small workshops into many of their residential schemes. By contrast the New Towns and counties have built many more of their units in the 2,501-5,000 sq.ft. range. In the case of New Towns, this may reflect their traditional role in accommodating existing businesses moving out from a major city and into the New Town. In the case of counties, their interest in strategic issues and large-scale industrial schemes is reflected in the building of relatively large factories.

The overall pattern of activity discovered by the survey is summarised in Table 3.13: this shows the provision in terms of the three size ranges and the three ways in which they have been financed. Of the nine cells in the table two stand out as being of major importance; those relating to units of between 500-2,500 sq.ft. provided by local authorities acting alone, and units of the same size built by local authorities working in conjunction with the private sector. Together these account for two-thirds of all accommodation, while nearly all the remainder is provided by the same agencies in the form of rather larger premises (2,501-5,000 sq.ft.).

TABLE 3.13

Summary of new small-factory provision by local authorities

	Size of unit			Total
	< 500 sq.ft.	500-2,500 sq.ft.	2,501-5,000 sq.ft.	
Local authority	3.0%	35.0%	13.0%	51.0%
Local authority/public	0.5%	5.5%	1.5%	7.5%
Local authority/private	1.0%	26.6%	14.0%	41.5%
Total	4.5%	67.0%	28.5%	100.0%

When reviewing the contribution of the various types of authority, this chapter has indicated the particularly strong position of the metropolitan and London authorities. Most of the New Towns have also been active, but by contrast the figure drops to below 50% for both the shire counties and district councils. If we look at the mean number of units provided a slightly different picture emerges which highlights the dominance of New Towns, which average over 100 units. But in considering the total stock of new small units, the district councils, being so much more numerous than other kinds of authority, have inevitably made the largest contribution (44%). The next chapter now goes on to examine how these variations between the different types of authority have influenced the spatial pattern of building activity.

NOTES ON CHAPTER THREE

- (1) Two influences help explain the relatively low response from New Towns. The questionnaire was sent to all English New Towns, including those whose assets had been transferred to the Commission for the New Towns which is primarily a management agency. Both Hatfield and Welwyn had been transferred to the Commission in 1966 and little small-factory provision by the New Town would be expected in the study period. (In Hemel Hempstead, transferred 1962, only 7 units were supplied 1976-1981). In 1981 two New Towns - Runcorn and Warrington - were merged, and the non-response is recorded against both towns.
- (2) This issue was not raised directly in the questionnaire, but Malvern Hills DC provided details of their pre-development research as part of their discussion of the success and failures of their factory programmes. Malvern Hills DC surveyed small businesses that had previously contacted the authority seeking accommodation to ascertain the level of demand for small units and the type of property preferred.
- (3) Estimate given by Chief Estates Officer, Plymouth District Council for typical new unit built in 1981. Green and Foley (1982) indicate a lower estimate for new factories built by English Estates; their figure suggests a typical building costs of £15 per sq.ft. (i.e. £30,000 for a 2,000 sq.ft. factory).
- (4) This proportion was reduced to 30% in 1984/85.
- (5) The 1979/80 Treasury Supply Estimates indicate that the total regional development allocation was £529 million for 1980/81. Of this total, £0.5 million only was allocated for distribution to local authorities for all capital projects (Supply Estimates, Class Four Vote One, H.M. Treasury 1981). No information is available on what proportion of the £0.5 million was allocated for local-authority factory provision.

CHAPTER FOUR: LOCAL-AUTHORITIES' SMALL FACTORY PREMISES:
THE GEOGRAPHY OF PROVISION

4.1 INTRODUCTION

The previous chapter considered the propensity for different kinds of authority to be engaged in small-factory provision and the types of unit provided. But, in addition to examining variations between different tiers of local authority, it is important to consider geographical variations in the level of their provision. In this chapter, this is done first for the overall building pattern and second for the special contribution made by private partnership schemes. The final section of the chapter relates the spatial pattern of provision to the level of activity of other providing agencies and to the economic and environmental characteristics of the local authorities.

4.2 THE SPATIAL PATTERN OF PROVISION

The spatial distribution of providing authorities is illustrated in Figure 4.1 and 4.2 which, with two major exceptions, shows a widespread pattern of provision. These exceptions are a broad band from Cumbria to Humberside and around London. The area of inactivity around the capital stretches westwards to Oxfordshire, southwards and eastwards to the coasts of West Sussex and Essex and northwards to Northamptonshire. Table 4.1 shows the variations at regional level using the standard economic regions (Figure 4.3).

TABLE 4.1

Regional distribution of small-factory provision

Region	No. of authorities and New Towns	No. of replies	Providing authorities	Providers as % of total replies
Northern	37	23	19	82.5%
Yorks & Humberside	30	25	11	44.0%
North West	45	29	23	79.0%
East Midlands	47	35	24	68.5%
West Midlands	43	36	21	58.5%
East Anglia	24	22	14	63.5%
South East	152	122	45	37.0%
South West	54	39	21	54.0%

FIGURE 4.1

The Spatial Pattern of Providing Authorities:
District Councils and London B.C.'s

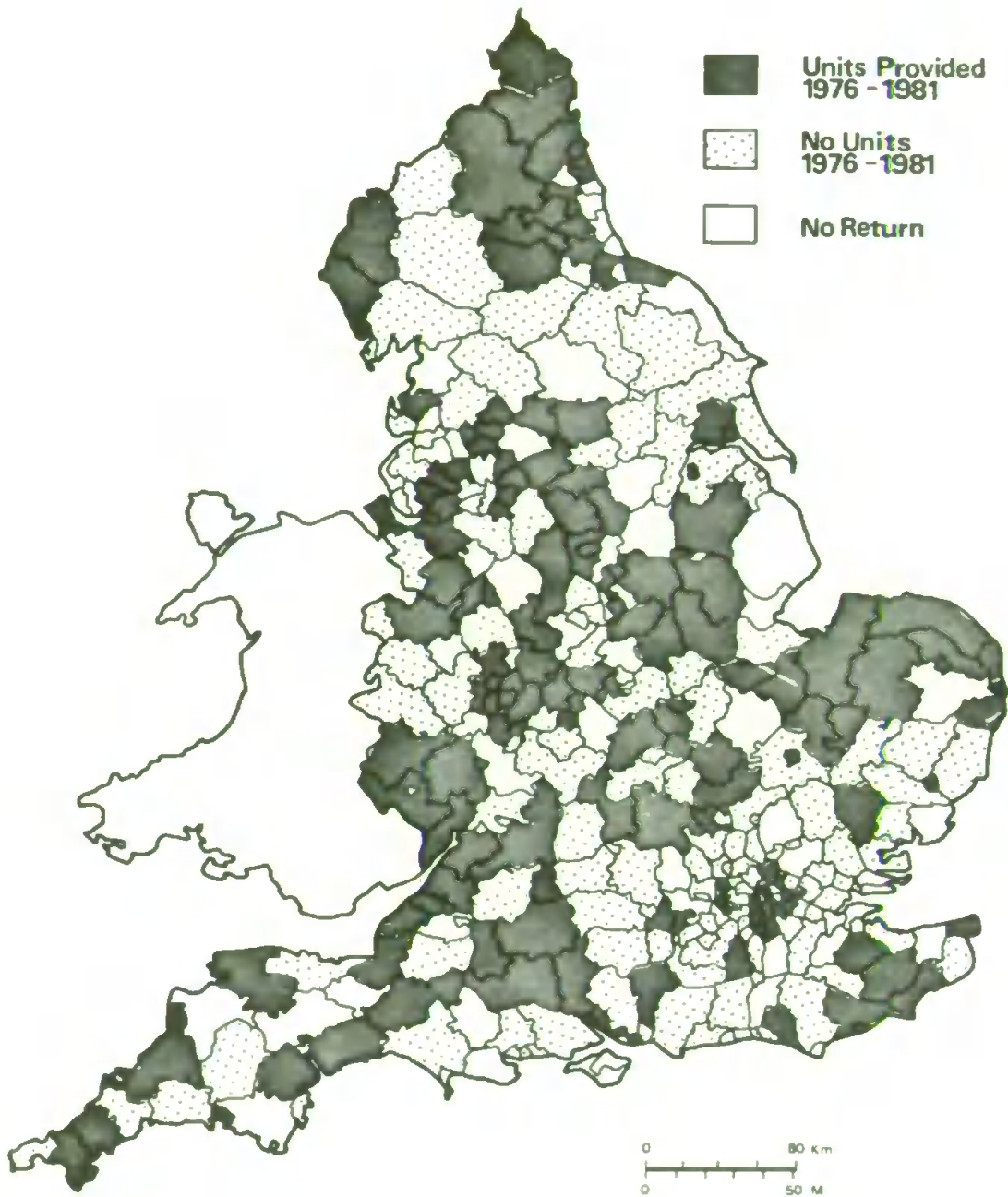


FIGURE 4.2

The Spatial Pattern of Providing Authorities:
County Councils and New Towns

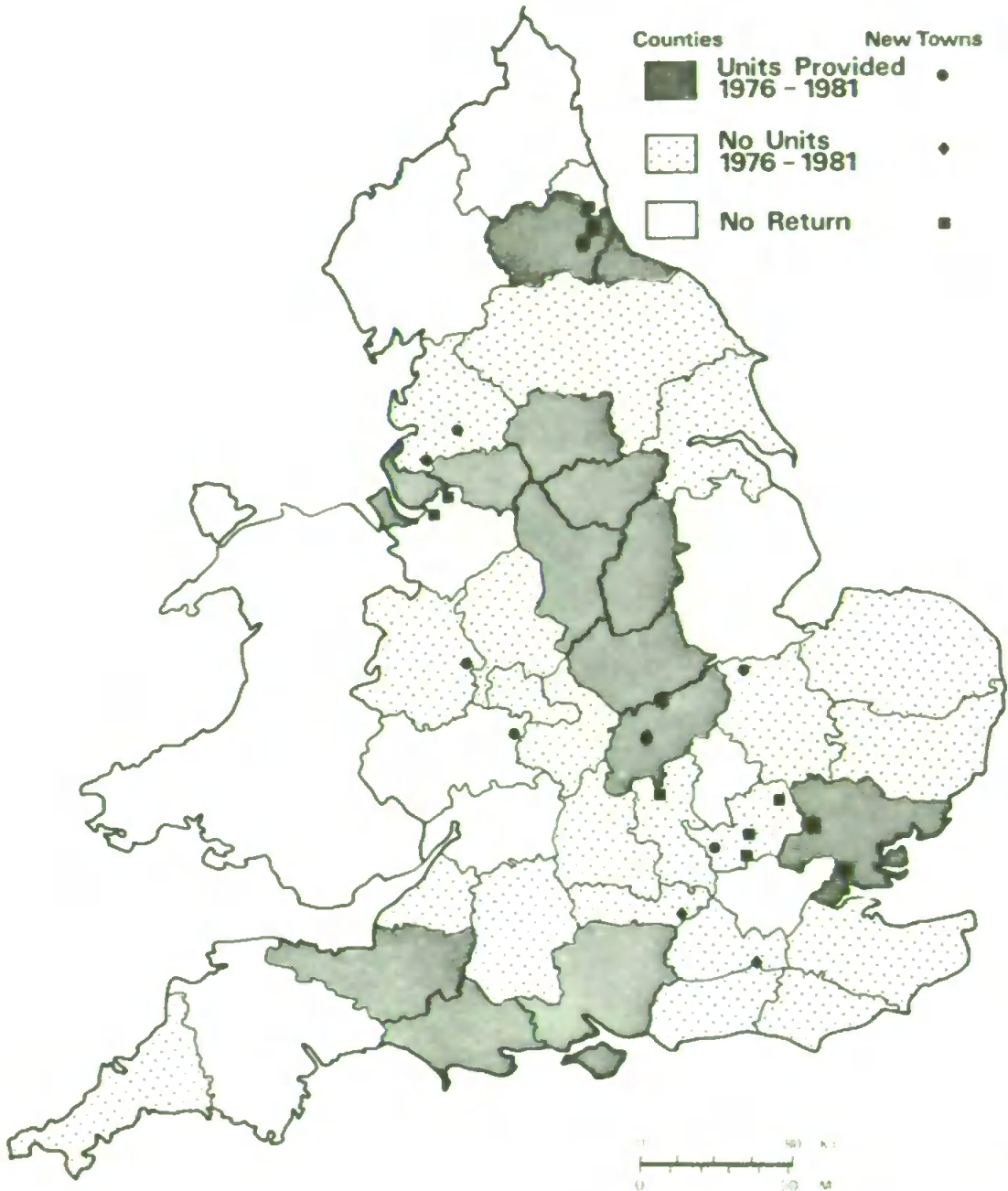


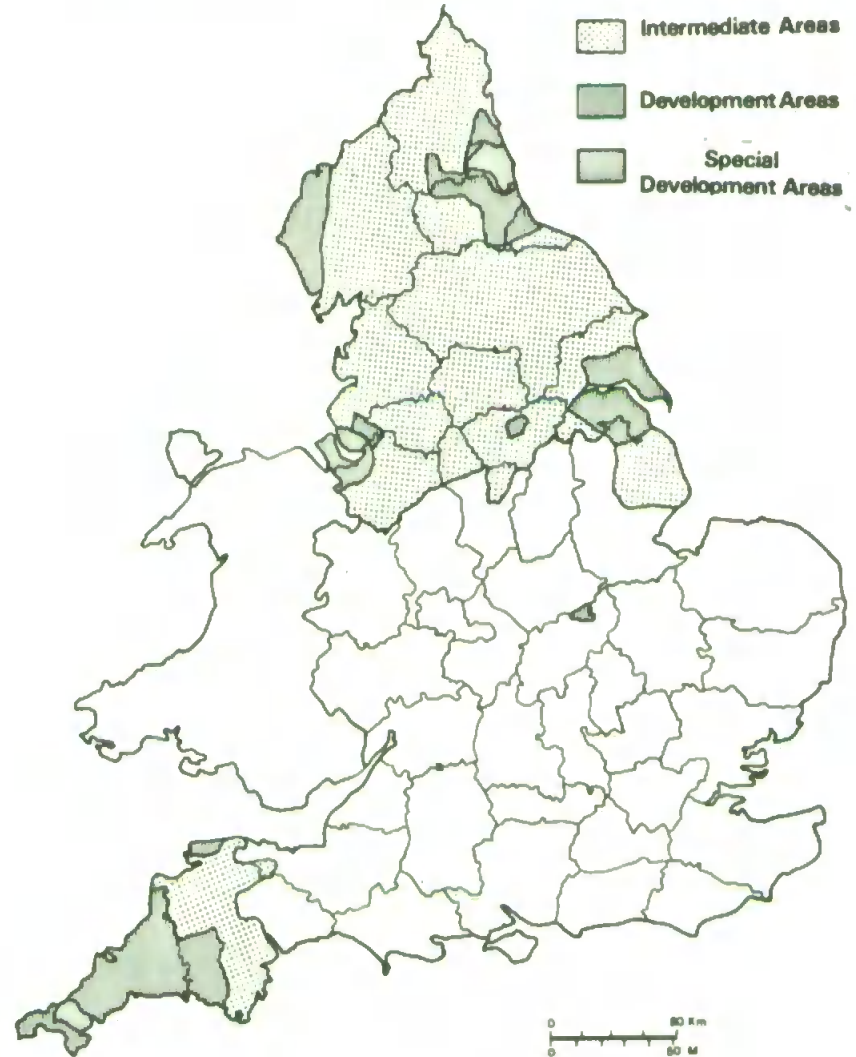
FIGURE 4.3

Standard economic regions in England



FIGURE 4.4

The Assisted Areas, England, 1980



The spatial pattern of provision is complex. Without detaining the reader with too much detail, the following section concentrates on the salient characteristics of each region. The regional distribution of the number of small factories is indicated in Table 4.2 and the spatial variations are shown in Figures 4.5 and 4.6(1). To take account of the variation in response rate between regions, Table 4.2 also shows the average provision per authority. The same table shows the provision per head of population (2).

TABLE 4.2

Regional distribution of number of small factories provided

Region	Population 1981	No.	Units Provided			
			% of total	Per all responding authorities	Per providing authority	Factories per 10,000 population
Northern	3,104,353	367	6.0%	16	19.5	1.18
Yorks & Humberside	4,860,484	426	6.5%	17	42.5	0.88
North West	6,414,168	747	12.0%	26	32.5	1.16
East Midlands	3,819,187	1,423	22.5%	41	64.5	3.72
West Midlands	5,148,345	525	8.0%	14.5	25	1.02
East Anglia	1,871,635	566	9.0%	26	47	3.03
South East	16,795,756	1,869	29.5%	15	42.5	1.11
South West	4,348,908	412	6.5%	10.5	21.5	0.95
All	46,362,836	6,335	100%	19	37	1.37

The South East region has the lowest proportion of active authorities, although because of the population of this area the actual number of factory-providing authorities is more than twice that of most other regions. The areas without factory programmes form a broad ring around London where planning policies in the 1970s often restricted further industrial development. This restrictive attitude, motivated by a concern to protect designated green belt and existing industry (by reducing competition for labour), partly explains the low level of provision in the Home Counties.

The large number, but low proportion, of providing authorities affords the South East a distinctive position in the pattern of provision. Over a quarter of all local-authority small premises are in the South East, but the number of factories provided per head of population is amongst the lowest of all the regions. Within the South East, the inner London boroughs have tended to build the most and outside Greater London only Aylesbury Vale (145 units) and North Bedfordshire (68 units) have been particularly active. The evidence available

FIGURE 4.5

Provision of Factory Premises of 5000 sq. ft. and below
by District Authorities and London Borough Councils

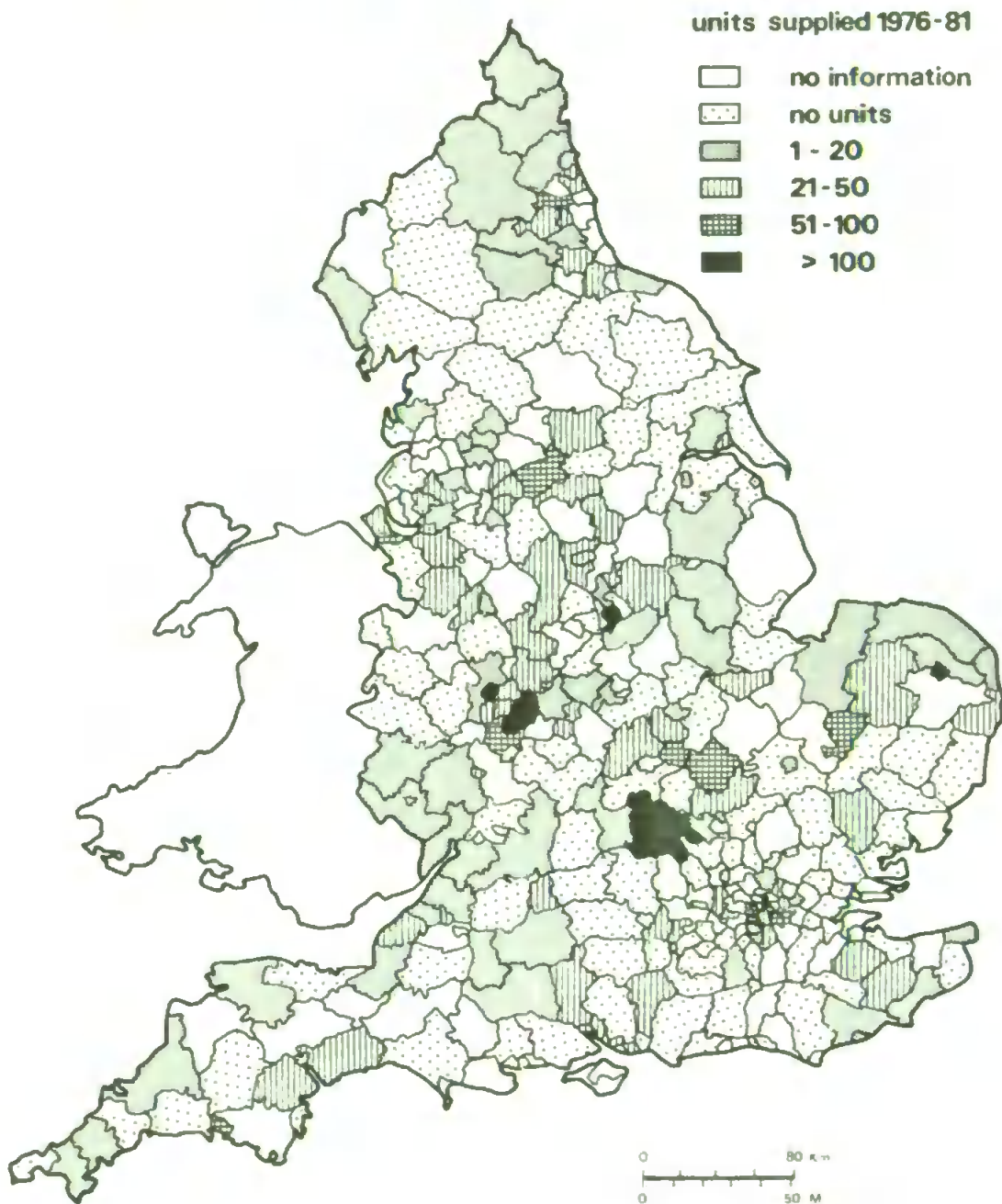
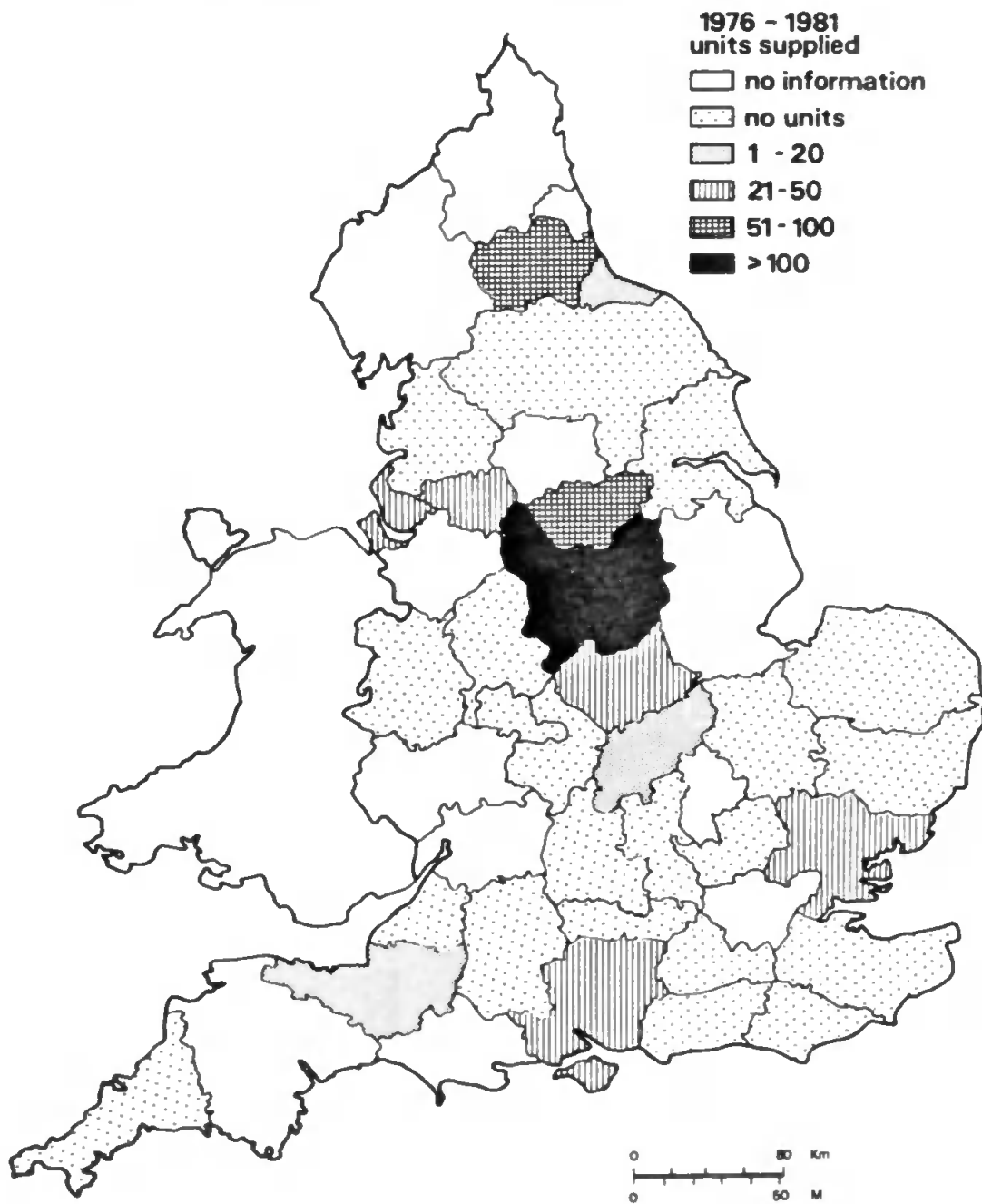


FIGURE 4.6

**Provision of Factory Premises of 5000 sq.ft. and below by
County Councils**



(albeit incomplete) suggests that, despite the concentration of New Towns in the region they have had only a minor influence on the overall provision in the region. Of the four New Towns represented in the survey only two had provided small units between 1976 - 1981.

The East Midlands has provided the second largest number of small factories (Table 4.2), but per head of population the region has three times the provision of the South East. This partly reflects the number of county councils which have had factory programmes in the East Midlands. In other regions, generally the counties' programmes have been much less important. No information was available on Lincolnshire, but all other counties in the East Midlands have provided premises including Derbyshire and Nottinghamshire which were nationally the two most active counties (1). Nottinghamshire's involvement in economic development goes back to the late 1960s, when the restructuring of the coal-mining industry produced a large number of redundancies in the county. Consequently, in its factory programme the county has given priority to colliery areas as their economies have been regarded as the most at risk (Nottinghamshire County Council 1981). In addition, the city of Nottingham and the New Towns of Northampton and Corby have also been extensive providers in the region.

The North West has built the third largest number of small premises. This region has a high proportion of authorities with factory programmes, but the average number of units per authority is comparatively small. Amongst those local authorities in the survey, only Wirral MBC has supplied more than 50 units, but overall the most important provider has been Central Lancashire New Town with 153 units.

East Anglia is the fourth highest provider although, in relation to its population size, this region has been particularly prominent. The mean number of units built by active authorities and the number of units per head of population are the second highest of all regions. This provision is, however, highly concentrated in two settlements. The particularly progressive contribution of Peterborough has been referred to earlier (Development Corporation 194 units, District Council 30 units). In Norwich 130 units have been built: here joint investment with Norwich Union Insurance explains the large building programme. Together these two towns account for almost half the units provided in East Anglia.

The West Midlands' image as a centre of small-business activity is surprisingly not associated with a high level of local-authority factory building. This may be because the availability of suitable

second-hand premises has reduced the need for new premises. What is known is that although some of the metropolitan districts have been very important builders (Birmingham 166 units and Wolverhampton 114 units), the West Midlands metropolitan county has deliberately favoured other economic policies and has been very sceptical about the potential of the small-business sector. Moreover, within the same region there has been no provision in Shropshire, and in Hereford and Worcester authorities have had only very limited factory programmes.

In Yorkshire and Humberside there is an even more marked distinction between the rural and urban parts of the region. Within North Yorkshire and most of Humberside there has been no factory provision, while amongst the metropolitan areas of South and West Yorkshire and the three districts of Hull, Beverley and Scunthorpe there has been much greater activity. Overall Yorkshire and Humberside has the lowest number of factories per head of population.

The South West is characterised by a small number of active authorities which have tended to provide only a few units. Figures 4.5 and 4.6 show that Plymouth is the only authority with more than 50 units, while most other active authorities have supplied fewer than 20 units, including those in the Avon area. The South West is the second region with no New Towns, and this has contributed to the area's comparatively low overall provision. A further influence is the absence of authorities designated under the Inner Urban Areas Act.

The Northern region has the highest proportion of authorities with factory programmes, but the number of units supplied has been comparatively low (see Tables 4.1 and 4.2). Only Gateshead metropolitan borough has provided more than 50 units and this activity has been encouraged by its designation as a partnership authority under the inner cities programme. The Northern region has overall, therefore, a similar pattern to that of the North West which is also characterised by widespread, yet individually rather limited factory programmes. Indeed the same is true when the Assisted Areas are considered as a whole (Figure 4.4). Thus, although the Assisted Areas have a significantly higher proportion of authorities with factory programmes than elsewhere, outside the Assisted Areas mean and total provision is much higher (Table 4.3). At least in terms of numbers of units built, the traditional pattern of much greater involvement in local economic activity in the Assisted Areas (Camina 1974) may be beginning to break down.

TABLE 4.3

Number of local authority premises in the Assisted and Non-Assisted Areas

Designation	Total no. of authorities	Providing authorities		Units Provided		Average per providing authority
		No. (1)	%	No. (2)	%	
Assisted Areas	133	60	45.0	1,821	29	30.5
Non-Assisted Areas	300	110	36.5	4,514	71	41

(1) $\chi^2 = 5.04$; critical value at 95% level is 3.841 with 1 degree of freedom

(2) $\chi^2 = 11.58$; critical value at 95% level is 3.841 with 1 degree of freedom

The pattern of provision is clearly complex and without simple explanation. To obtain a deeper insight into the spatial distribution of investment, it was decided to explore a number of themes and hypotheses which might help explain some of the complexity observed. The first step was to isolate the partnership schemes to see if they might have a distinctive geography.

4.3 THE SPATIAL DISTRIBUTION OF PRIVATE PARTNERSHIP SCHEMES

The overall spatial distribution of authorities with partnership agreements is presented, in Figures 4.7 and 4.8; these show that there have been few joint projects north of the industrial parts of Yorkshire or west of the Avon area. Thus in the Northern region only 3 out of 16 factory-providing authorities have developed any of their units in partnership with the private sector (Table 4.4). In the south west, Somerset CC and Plymouth DC are the only authorities with partnership factories. By comparison, three-quarters of factory-providing authorities in the South East have supplied units through private partnership schemes.

Overall only 39% of all the factory-providing authorities in the Assisted Areas have entered private partnership agreements, compared with 63% of authorities in the Non-Assisted Areas. Moreover, partnership schemes in the Assisted Areas have tended to result in significantly fewer units compared with those elsewhere; only 25.5% of units in the Assisted Areas are joint developments compared with 41% in the Non-Assisted Areas ($\chi^2 = 10.6$; significant at the 95% level with 1 degree of freedom).

FIGURE 4.7

**Distribution of District Council and London Borough Council/
Private Sector Partnership Developments of Industrial Premises
of 5000 sq ft and below 1976 - 1981**

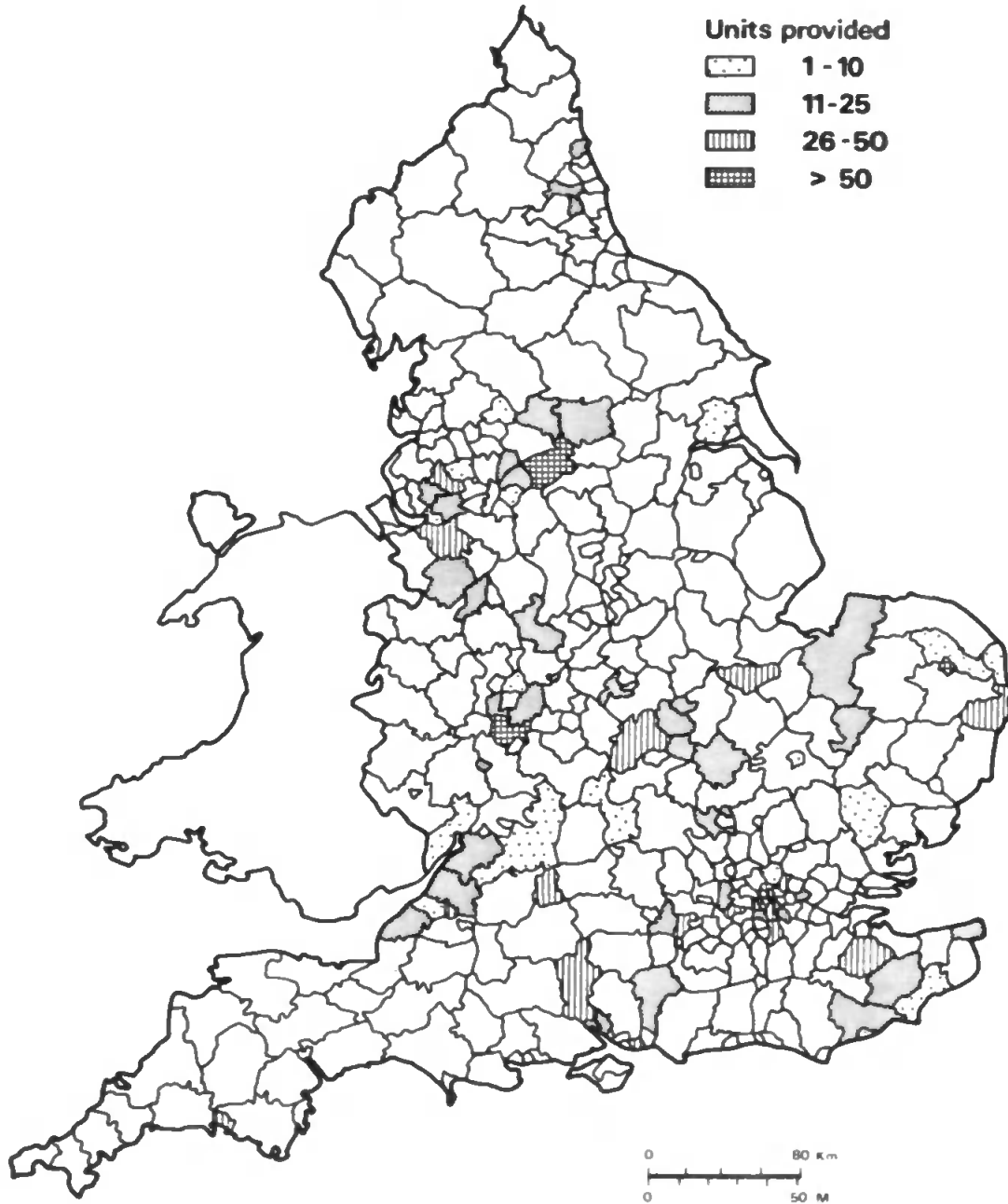


FIGURE 4 8

**Distribution of County Council/Private Sector Partnership
Developments of Industrial Premises of 5000 sq ft and below
1976 - 1981**

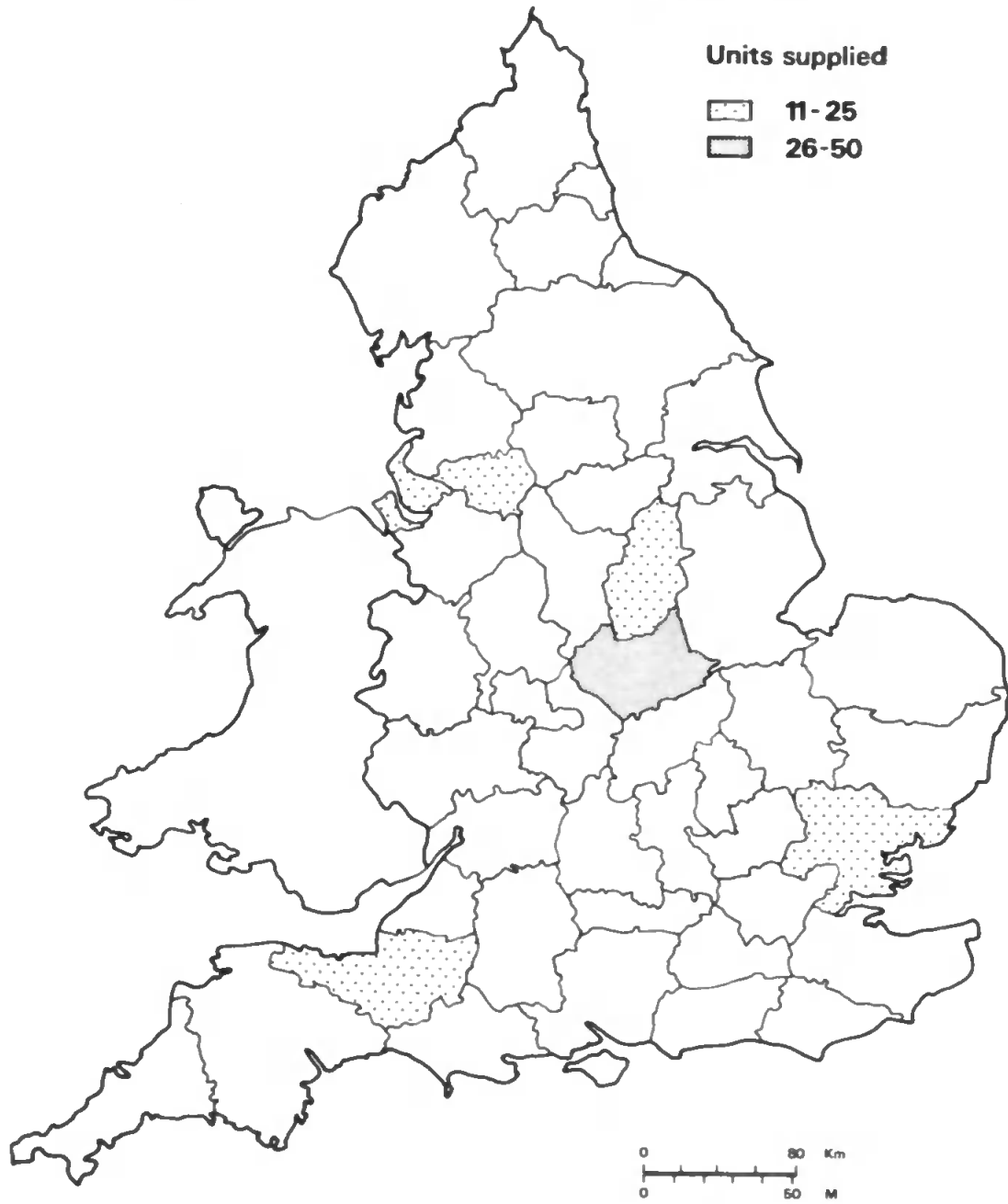


TABLE 4.4

Regional distribution of local-authority/private partnership schemes

Region	Proportion of authorities with small-factory programmes	Proportion of factory providing authorities with LA/private units	Proportion of total provision LA/private units
Northern	82.5%	16.0%	35%
Yorks & Humberside	44.0%	36.0%	32%
North West	70.0%	56.5%	29%
East Midlands	68.5%	37.5%	15%
West Midlands	58.5%	48.0%	63%
East Anglia	63.5%	64.0%	43%
South East	37.0%	75.5%	50%
South West	54.0%	47.5%	44%

The distribution of local-authority/private partnership schemes is largely explained by reference to the financial institutions' views on what represents a sound investment. Even where the local authority acts jointly with a development company these views are crucial as the developer will usually wish to sell the completed project to a private fund. This survey indicates that, despite the involvement of local authorities, institutions are still reluctant to spread their investments very far into the Assisted Areas and remoter rural areas; and although a large proportion of metropolitan boroughs have entered joint private schemes, the units provided are only a small part of their more extensive programmes. Assuming that a local-authority guarantee to pay the head lease is felt to represent an adequate security, the funds' main concern is with the prospective rental growth of the development. The principal influences which affect the assessment of this potential relate primarily to the location of the scheme. Other issues taken into account (as outlined in the previous chapter) are, the physical character of the development, its local situation and the "quality" of the local-authority management.

The locations preferred by institutions are those where the local demand/supply balance for small units indicates that industrial rents are likely to increase at a rate above the level of inflation (Boddy and Barratt 1980). These conditions are most common in areas with relatively favourable prospects for industrial growth such as parts of Avon and the South East region. The Assisted Areas and remoter rural districts tend to be seen as areas of low demand where increases in rental levels will at best only keep pace with construction costs. Inner urban locations are regarded as areas of uncertain demand due to the decline of their traditional economic base (Cowan 1982). Thus,

although Coopers and Lybrand (1980) have emphasised the opportunities which exist for spreading investment to secondary areas, the reality is that a major differential continues to exist.

When the regional distribution of the units solely funded by local authorities and New Towns is examined, because of their predominance in most factory programmes, the relative levels of investment remain similar to the overall pattern of activity. The main difference is that while the three regions of the South East, South West and East Anglia account for 45% of total investment, they account for only 36% of the solely local authority and New Town financed units. The reduction in investment being most pronounced in the Home Counties. In contrast, the North and Yorkshire and Humberside are more important developers when the partnership units are excluded from the total (their contribution changes from 12.5% to 17%).

4.5 RELATIONSHIP BETWEEN LOCAL-AUTHORITY PROVISION AND OTHER BUILDING AGENCIES

Having examined the contribution made by partnership units it is clear that there is still a great deal of unexplained variation in the spatial pattern of provision. Certain commentators (Barratt and Boddy 1980; Young et al 1980) have suggested that local-authority provision is designed to fill gaps in the market left by other developers. In London, for example, it was noted earlier (Chapter Three, section 3.4) that the willingness of the private sector to develop speculative units has discouraged local-authority action. By contrast, while the Development Commission and English Estates are active providers in the Assisted Areas and rural counties (see Chapter Six), local authorities in these areas have not felt precluded from building their own units. Indeed over a quarter of the survey units are in districts where the Development Commission and/or English Estates have also been active.

This section considers the relationship between local authorities and other property developers. Two approaches are utilised: the first reports local authorities' and New Towns' perceptions of the market for small premises and the second approach compares local-authority supply with the total new floorspace provided by all agencies.

Local authorities and New Towns were asked how far their provision was perceived to have satisfied the demand for small premises. Table 4.5 shows that, even in the depths of the recession, there was little feeling that over-investment had occurred. Less than a fifth of all

respondants suggested that their areas were adequately or over-supplied. Conversely it would appear that, despite past investments, specific shortages existed in more than half the areas surveyed, while in a quarter of cases the shortfall was considered general. There are no strong differences between authorities in the Assisted Areas and other areas, with an equally large proportion in each category considering there to be a shortage of some or all types of small-unit accommodation. The most acute shortages of new property were reported for very small units below 1,000 sq.ft.

TABLE 4.5

Local-authority and New Town perceptions of the demand/supply for small units

	Significant overall shortage		Shortage of some types of property		Adequate supply		Over-supply of some types of property		Significant over-supply of small units	
	No.	%	No.	%	No.	%	No.	%	No.	%
Assisted Areas	18	33	25	46	8	15	2	4	1	2
Non-Assisted Areas	23	22	61	60	15	15	2	2	1	1
All authorities	41	26	86	55	23	15	4	3	2	1

Those authorities which reported an adequate supply of accommodation or specific shortages only, tended to be those which have had the most extensive factory programmes (a median test yielded $\chi^2 = 17.14$; significant at 95% level). These large building programmes were presumably perceived as having reduced the most severe shortfalls in small-business accommodation.

This may be checked by comparing the amount of floorspace in the survey units with the total increase in new floorspace for each district (as measured by Department of the Environment data). As explained in Chapter Two, when assessing the overall increase in new floorspace it is appropriate to consider the warehousing and industrial categories of the national data together. The survey units account for 25% of this combined total, compared with 66% of the industrial sector alone. To test how far local authorities have been an addition to other agencies' programmes, they were divided into four groups to take account of possible differences in demand for new premises: these are London boroughs, metropolitan boroughs, district councils in the Assisted Areas and districts in other areas. The supply of new local-authority premises was measured in two ways: firstly, as

an absolute amount and secondly, as a proportion of the total floorspace in new buildings. These figures have been rank correlated with the total floorspace in new small units (Table 4.6).

TABLE 4.6

Correlation between local-authority provision and the total supply of new small premises 1976 - 1981

Type of authority	Number	New local-authority floorspace	Proportion of total new floorspace provided by local authorities
District councils in Assisted Areas	34	0.118	-0.381 **
District councils in Non-Assisted Areas	75	0.358 **	-0.322 **
Metropolitan borough councils	21	0.332	-0.400 *
London borough councils	19	0.049	-0.479 *
All areas	149	0.327 **	-0.329 **

Significant at the 99% level of confidence **

Significant at the 95% level of confidence *

The results suggest that large-scale local-authority provision has generally occurred in areas where the overall level of new provision has been comparatively small. Thus when the new floorspace in the survey units is correlated with the overall addition to new accommodation, a significant relationship exists only for the district councils in the Non-Assisted Areas. Interestingly when the proportion of the total new floorspace accounted for by the survey units is compared with the total provision, significant inverse relationships are found in all areas; this implies that where local authorities account for a relatively large amount of new supply, this is in areas where the total stock has grown least. The amount of variation explained is, however, low (maximum r^2 is 27%) indicating that there is considerable variation between areas. Without more detailed local knowledge it is not possible to judge whether local-authority activity has been required because other suppliers have not wished to build, or whether it has effectively precluded private-sector activity because of the difficulty in competing with the less commercial development policies of public developers (3). Nonetheless a number of general conclusions can be made.

Local authorities commenced their programmes at a time of widespread shortage when few other agencies were supplying accommodation. Moreover, most authorities reported a continuing shortage of property.

This shortfall was no doubt an important influence strengthening their commitment to maintain their investment programmes. The most acute shortages that were perceived to remain were for very small units. In part this under supply arises because local authorities have designed their "starter" accommodation too large to suit the requirements and rents preferred by new businesses. It is also a sector of the market where the private sector has been particularly reluctant to invest. Thus once local authorities had demonstrated the demand for small factories, private developers turning their attention to this sector found that public developers had already absorbed part of the market and this has no doubt been an influence causing some modification of private-sector investment. But, as Chapter Seven indicates, with the introduction of tax incentives private developers have not felt precluded from becoming important suppliers in many areas and particularly in southern England.

4.6 THE PATTERN OF PROVISION: SEARCHING FOR SPATIAL ASSOCIATIONS

To unravel further the pattern of provision and to identify consistent trends within it, the distribution of building activity is now related to certain characteristics of local-authority areas. Four features are isolated that it was felt might contribute to an explanation of the observed pattern; these are,

- (i) that provision is greater in areas of highest population;
- (ii) that activity is particularly low in remoter rural areas;
- (iii) that provision is greater in the areas of highest unemployment;
- (iv) that activity is greater amongst Labour-controlled authorities.

The rationale behind the first idea tested was that less populous areas would require fewer premises to satisfy local needs and, therefore, provision will have been less. The second (and not unrelated) test concerns the contrast between urban and rural authorities. Given the concentration of economic problems in the major urban areas and the commitment to employment initiatives in these areas, it was expected that provision would be much greater here than in rural locations. Concern with unemployment has been cited commonly as the principal reason for the dramatic rise in local economic activity. The third part of the analysis, therefore, examines whether there is a relationship between unemployment and factory provision. The fourth idea examines whether the political complexion of authorities is related to provision levels. Although at the national level the Conservative Party is often regarded as the traditional ally of small business,

the expectation in the analysis was that the much stronger commitment of Labour councils to local economic intervention would result in Labour dominated councils being the most active providers.

Clearly the four issues examined are inter-related. Thus, for example, areas of high unemployment tend to be associated with Labour-controlled councils, whereas rural areas are typically Conservative controlled. This problem of multi-collinearity, therefore, precludes the use of multiple regression techniques and requires each of the issues to be considered separately. Although this difficulty means that it is not possible to draw precise conclusions on the relative significance of different influences, the analysis nonetheless contributes to our ability to understand and explain the pattern of provision.

New Towns are excluded from this part of the study because (given special responsibilities for providing the full range of local infrastructure) all New Towns with Development Corporations existing between 1976 - 1981 have provided some small units. This contrast with the experience of local authorities mean that there is relatively little variation in activity to explain. More importantly, New Towns are constituted differently and are not subject to the same political control as local authorities. In the analysis that follows a distinction is drawn between units provided exclusively by local authorities and those built through partnership schemes with the private sector. This distinction was incorporated because the forces shaping the geography of provision differ depending on how the units have been provided (4).

Provision and population

For each local authority the population figure used in the analysis is the average of the 1976 - 1981 annual estimates given in the Municipal Year Book. Provision was measured in terms of the number of units and also the estimated floor area of the total units provided. This estimate has been made by multiplying the number of units in each size category recorded in the survey (below 500 sq.ft., 500-2,500 sq.ft. and 2,501-5,000 sq.ft.) by the mid-point of each category.

The first stage of the analysis involved a broad comparison between providing and non-providing authorities: this was undertaken using a median test to determine whether non-active authorities had lower levels of population than councils with factory programmes. The analysis then proceeded to examine differences between active authorities, taking each category of local authority in turn: for this part of the study a rank correlation test was utilised.

No significant difference was demonstrated between the populations of providing and non-providing areas ($\chi^2 = 2.729$, not significant at the 95% level with 1 degree of freedom). However, when active councils only were considered, a number of significant correlations were found between population size and provision (Table 4.7). Amongst individual categories of authority, the strongest association was found for the metropolitan districts; but, even here the largest amount of variation explained was not great ($r^2 = 42.6\%$). The large proportion of populous but non-providing district authorities in the South East and a great variation in the activity of medium-sized districts means that overall there was little association between population size and factory provision for this class of authority. When only the 30 most populous and 30 least populous district councils are considered a greater correlation was found ($r^2 = 39\%$).

TABLE 4.7

Correlations between provision and population

Local authority	Number	Total no. of units		Estimated floor area of units	
		All	LA only	All	LA only
County council	12	.1638	-.004	.2461	.0108
District council	109	.2721 **	.2133 *	.3191 **	.2493 **
Selected district councils	60(1)	.6253 **	.4449 **	.6135 **	.4839 **
Metropolitan B.C.	21	.6531 **	.4427 *	.5263 *	.5024 *
London B.C.	19	.051	-.0683	.2925	-.0945

(1) Sample includes the 30 most populous and 30 least populous district councils with factory programmes.

Significant at the 99% level of confidence **

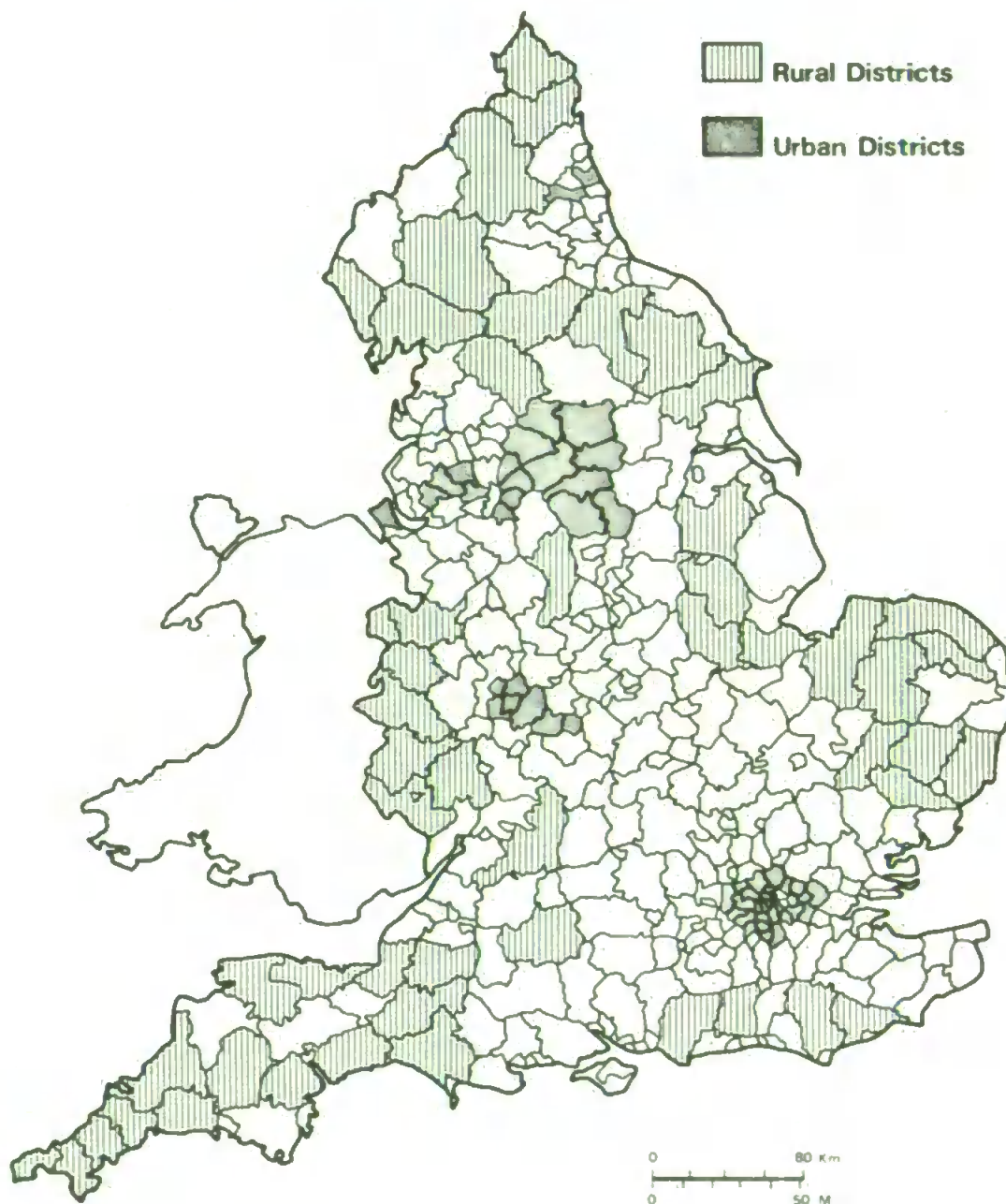
Significant at the 95% level of confidence *

Provision in rural and urban areas

In order to highlight the effect of urbanism it was decided to compare the 52 metropolitan and London boroughs which responded to the survey with an equivalent number of rural authorities which also responded to the questionnaire. The selection of the 52 most rural areas was based on Cloke's index of rurality (Cloke 1977) which analysed 16 variables covering population characteristics, migration patterns, household amenities and distance from urban centres. The distribution of the urban and rural districts selected for this part of the study is shown in Figure 4.9.

FIGURE 4.9

District Authorities Examined in the Urban - Rural
Comparison of Levels of Provision



Amongst the sample of 52 urban authorities, 38 had provided small premises whereas only 28 of the rural authorities had done so. Although this difference may not be statistically significant ($\chi^2 = 1.52$, not significant at the 95% level with 1 degree of freedom), the urban authorities do show a much higher mean provision. The mean number of units built by the 38 active urban councils was 52.5, compared with only 10 amongst the rural authorities. However, when provision per head of population is measured this contrast disappears. Both areas had an average of 1.4 factories per 10,000 population, suggesting that the size of their respective programmes was broadly in line with local needs.

Beyond these results, premises typically supplied in urban and rural areas do differ clearly in three ways (Table 4.8). Rural authorities have provided a greater proportion of their accommodation through the rehabilitation of existing premises, although the more extensive programmes of urban authorities have obviously produced in total many more refurbished units. Another contrast is that whereas partnership schemes in the urban areas are normally with the private sector, in the rural areas they tend to be with the Development Commission.

TABLE 4.8

Provision by urban and rural authorities

4.8.1 Size of units

Area	500 sq.ft.		500-2,500 sq.ft.		2,501-5,000 sq.ft.	
	No.	% of total	No.	% of total	No.	% of total
Rural	35	12	201	69	54	19
Urban	207	10	1,354	68	436	22

4.8.2 Components of Provision

Area	Rehabilitated premises		L.A./Public		L.A./Private	
	No.	% of total	No.	% of total	No.	% of total
Rural	81	28	46	16	52	18
Urban	321	16	84	4	640	32

Provision and unemployment

In considering the association between unemployment and factory provision a difficulty arises as to the form in which the unemployment

data should be used. A percentage figure ranks together such dissimilar areas as Cornwall and Greater Manchester. Both these counties had an unemployment rate of 14% in 1981, but the absolute numbers involved were very different (13,855 in Cornwall and 111,900 in Greater Manchester). Similar-sized factory programmes would not, therefore, be expected in both areas. The influence of size can, however, be allowed for by calculating the factories per head of population and then correlating this figure with the percentage rates of unemployment. The lowest tier of administration for which unemployment statistics are available on an annual basis is the county level, but for the purposes of the following analysis these data are taken as an indication of district variations in unemployment (inevitably producing a source of error). The unemployment figures used in the analysis are the average of the 1976 - 1981 annual levels given in the Municipal Year Book.

Overall, significantly more providing authorities had above the median rate of unemployment (6.9%) than non-providing authorities ($\chi^2 = 17.7$; significant at 95% level with 1 degree of freedom) with the average rate varying between 5.1% in non-providing areas and 8.8% in providing areas. However, amongst active councils the relationship between unemployment and the level of provision was significant only for units funded exclusively by local authorities (Table 4.9). This reflects the marked concentration of private partnership units in areas of relatively low unemployment.

TABLE 4.9

Correlations between unemployment and factory provision

Provision	% unemployed and provision per head of population
No. of all units	0.182
No. of local-authority financed units	0.392 **
Floor area of all units	0.197
Floor area of local-authority financed units	0.437 **

Significant at the 99% level of confidence with sample size 40**

Provision and political control

The idea now to be examined is that the political complexion of authorities is related to provision levels. Using information from the Municipal Year Book, councils were differentiated into five groups:

- (i) councils with continuous Conservative control 1976 - 1981;
- (ii) councils with continuous Independent control 1976 - 1981;
- (iii) councils with continuous Labour control 1976 - 1981;
- (iv) councils with a change in political control but with a minimum of two years Labour control 1976 - 1981;
- (v) other councils with a change in political control 1976 - 1981.

The latter two groups were identified on the grounds that two years could be a sufficient period to produce some impact on activity.

Table 4.10 shows that amongst politically stable councils, those that have been Labour controlled have had by far the greatest propensity to provide premises. Mixed authorities with at least two years' Labour control have also had a similarly high level of activity. When differences in the average number of units per authority built by Labour and Conservative controlled councils are examined, Labour areas are also shown to have been more active, although this difference may not be statistically significant ($\chi^2 = 2.702$; not significant at 95% level with 1 degree of freedom).

TABLE 4.10

Political control of authorities and small-factory provision

Political control	No. of non-providing authorities	No. of providing authorities	Percentage of providing authorities %	Average provision per providing authorities		No. of units provided	
				sq.ft. '000	No.	Total	LA only
Conservative	98	56	37	53.5	29	1,629	511
Independent	21	13	36	3.1	9	119	85
Labour	10	42	81	76.8	40	1,676	1,125
Changed control but min. 2 years Labour control	7	27	79	70.0	48.5	1,310	730
Other authorities with changed control	21	23	52	70.5	28	642	370
Total	157	161	50.5	62.2	33	5,376	2,821

Of course, it may not be simply political influences which have led Labour authorities to build more units: Labour administrations are typically found in more economically depressed areas of the north and in the large metropolitan areas which experience more acute unemployment problems. An additional influence on activity in the major urban areas is the inner-city programme which has affected

predominantly Labour controlled authorities. Despite this there is evidence from London which may suggest that political convictions do have some influence. Within London 13 authorities had Labour administrations for at least 2 years, while 16 were largely Conservative controlled but, significantly, Labour councils have by far the more extensive factory programmes (the average provision for active Labour authorities was 61 units compared with 13 for Conservative authorities). Labour does tend to dominate in the more deprived parts of the capital, but nonetheless such striking differences are perhaps beyond what could reasonably be explained by local variations in unemployment or inner-city policy.

4.6 SUMMARY AND REVIEW

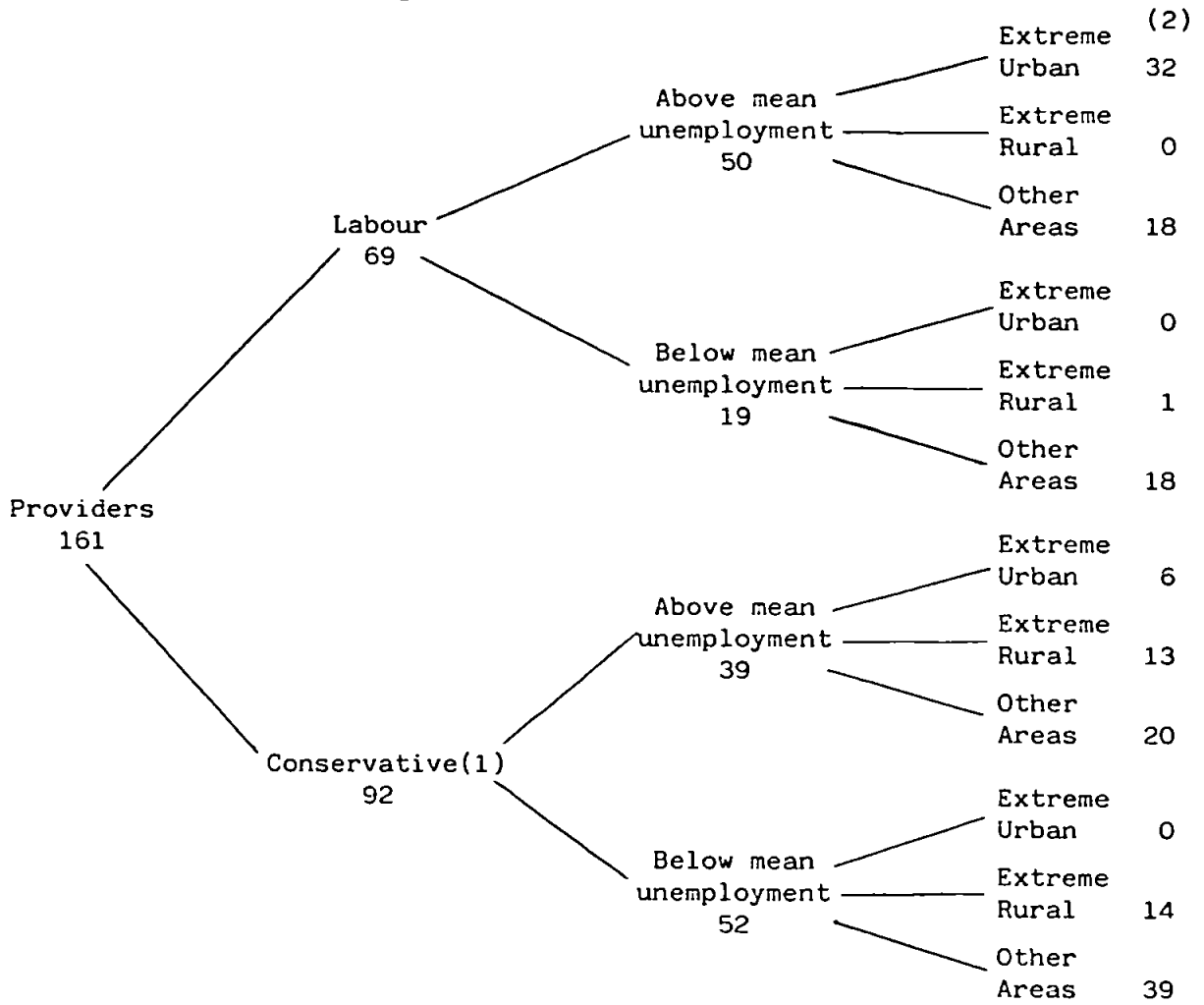
In the 1960s and early 1970s many local authorities were implementing large-scale redevelopment schemes which caused a considerable loss of small-firm accommodation. Since the mid-1970s local authorities and New Towns have been adding to the stock of premises at an unprecedented scale. The survey discovered a total provision of over 6,000 new units and the actual total is significantly larger allowing for those authorities which did not respond. This provision is even the more remarkable given the financial constraints local authorities have been operating within. It would take extensive research to determine whether the new units out-number those lost through past demolition programmes. What is clear, however, is that the quality of accommodation has changed through the greater availability of modern, purpose-built units. Equally, the ownership of small-business property has changed. Local authorities, whose concern for the welfare of their residents has traditionally been expressed through their housing and social service responsibilities, is now also reflected in the building, ownership and management of a considerable stock of small-factory accommodation.

A summary of the character of authorities with factory programmes is given in Figure 4.10. The authorities most likely to build small factories tend to be Labour controlled (when defined as those authorities with at least two years' continuous Labour rule). Amongst the Labour authorities with building programmes, the majority experience above the national average rate of unemployment and they are predominantly found in the major urban areas. In these urban areas the inner-city programme has been an important stimulus to activity. Conversely, the overwhelming majority of non-providing authorities

FIGURE 4.10

The major patterns amongst active and non-active authorities

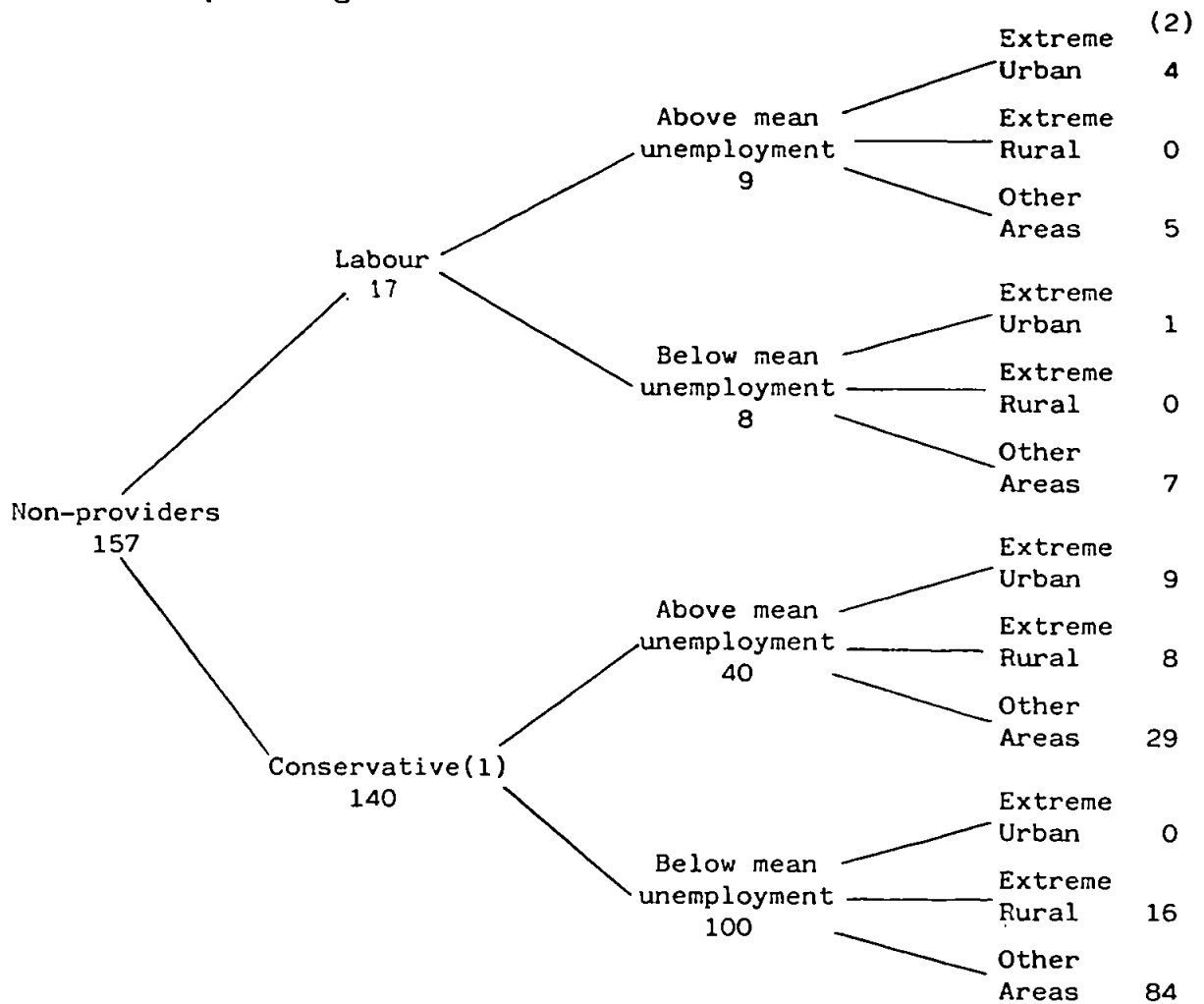
4.10.1 Factory-providing authorities



Notes: (1) Independent councils are included in this group

(2) "Extreme" urban and rural authorities are those included in the urban/rural comparison discussed in section 4.5

4.10.2 Non-providing authorities



Notes: (1) Independent councils are included in this group

(2) "Extreme" urban and rural authorities are those included in the urban/rural comparison discussed in section 4.5

are Conservative controlled and experience below-average unemployment. These authorities include many rural ones which have had very limited factory programmes.

The survey identified two extensive areas of inactivity, one in the prosperous South East outside London and the other in a mainly rural band across northern England. Both these areas are characterised by Conservative administrations and unemployment rates below the national average (hence these authorities appear in the bottom half of Figure 4.10.2). The non-providing authorities in the north are, of course, in a largely upland and agricultural area including many "extreme rural" authorities. But, notwithstanding the inactivity in these two extensive areas, the main message of the survey is that support for small business is now a very widespread facet of local authority work.

From the policy point of view it is interesting that, although in the Assisted Areas there is a higher proportion of providing authorities, they do not build in large numbers and, therefore, overall have provided less than a third of the survey units. Local-authority provision has not been concentrated in the traditional problem regions. One reason for this is that the Assisted Areas have not benefitted as much as other places from units funded jointly with private institutions or developers. The distribution of this private investment is fashioned by perceptions of profitability rather than need. Nationally, 52% of providing authorities have built some or all of their units in partnership with the private sector. By comparison, in the Northern region the figure falls to 19%.

But while there are broad differences in the geography of supply, the postal questionnaire approach does not allow the key local-authority decision processes to be identified. There have been many behavioural studies of location decisions made by firms, but little comparable work about the providers of their property. As a result it is difficult to account in detail for the spatial variations uncovered in this chapter which are clearly more complex than can be explained by the population and economic characteristics of authorities. Relationships between local-authority departments, the influence of particular officers and the role of councillors are among the many behavioural circumstances which will have influenced provision decisions. Indeed Young et al (1980) suggest that the geographical distribution of local economic initiatives is primarily to be explained in relation to the power orientation of policy makers.

This is illustrated, for example, by the particularly active authorities who responded to the restrictions on capital borrowing by expanding and innovating with the use of revenue raised under section 137 of the Local Government Act. Young et al have also argued that authorities differ in the extent to which they view the policy arena as having been circumscribed by other government or private agencies and the survey also provides some evidence to support this idea. In London, for example, some authorities have regarded the private sector as the appropriate agency to supply the accommodation needs of industry. Authorities with a high orientation to power, on the other hand, tend to emphasise the gaps in government policy and private investment and thereby they identify areas for local-government involvement.

But in addition, account must be taken of attitudes to risk and uncertainty. Some strategies may be more risky than others, and this may influence the decision-makers' assessment of them. In general terms, uncertainty over the relative value of different strategies tends to produce cautious behaviour (Pred 1967). This may have induced some authorities to continue to place little emphasis on property development; while for those authorities which have taken a decision to supply factories, success with early schemes may have induced a strengthened commitment to this activity. A key factor here is that local-authority decision makers have faced a paucity of information on the evaluation of different economic strategies, which means that they have relied heavily on their own experiences, judgements and impressions.

NOTES ON CHAPTER FOUR

- (1) No information is shown in Figure 4.6 for Northamptonshire; although Figure 4.2 shows it as a factory-providing authority, further details of its provision were not obtained.
- (2) This figure has been calculated on the basis of the total population per region rather than just the population of the responding authorities. This is because data from county and district tiers of authority are included in the regional totals of provision. The figures, therefore, slightly under-record the true level of provision per head of population because of non-responding authorities. Nonetheless, the well-balanced response rate means that the data are broadly representative of inter-regional variations.
- (3) This issue is examined by a Department of Industry sponsored study which is being conducted by Coopers and Lybrand and Drivers Jones: the final report is to be published in 1985.
- (4) In the following analysis the reliance is placed on the use of non-parametric statistical methods. These make fewer assumptions than their parametric counterparts about the nature of the statistical distribution under analysis, and although less power-efficient, make up in generally what they lack in power. The power of a test is a measure of the probability that by using the test the researcher will fail to reject a false hypothesis. The term, power-efficiency, refers to the power of a particular test relative to that of its most powerful alternative. If, for example, the power-efficiency of a particular test, "A", is 90%, it has, using a sample of 100 cases, the same power as the alternative test, "B", using 90 cases.

CHAPTER FIVE: LOCAL-AUTHORITIES' SMALL FACTORY PREMISES:
THE LETTING AND MANAGEMENT OF UNITS

5.1 INTRODUCTION

Having considered the distribution and character of small-factory provision amongst local authorities and New Towns, this chapter examines the management of this new property stock and the procedures used to allocate premises. Industrial location studies have almost entirely ignored the processes by which the managers of industrial property select their tenants. For medium-sized and larger enterprises this omission is understandable since such firms tend to have proven business experience and sufficient financial security to satisfy most landlords with a minimum of scrutiny. Small businesses generally lack this standing and are consequently subject to somewhat more detailed screening procedures. These management policies can constrain the effective property selections open to businesses and, therefore, highlight the importance of examining the processes by which "sites select firms".

This chapter is organised into two principal sections: first, the management of local authority and New Town premises is examined in terms of rental levels and lease terms; secondly, there is an examination of the criteria and procedures adopted to guide the selection of tenants. The information on which this chapter is based is drawn from the survey introduced in Chapter Three. Fourteen factory-providing authorities did not provide full details of their management practices and consequently this analysis is based on a slightly smaller sample of authorities. In comparison with the earlier assessment of the spatial distribution of building activity, this chapter does not discuss in such detail variations between areas or between different types of authority. This is because although there are some interesting geographical variations in lease and rental terms, there are few major spatial contrasts in tenant-selection procedures.

When this research commenced in 1981, it was widely reported that new small units were attracting very large numbers of applications from potential tenants. Work done in the late 1970s (Coopers and Lybrand 1980) had revealed marked shortages of accommodation in all areas. By 1982 this shortage had begun to ease in some locations, but most local authorities reported continuing shortages of accommodation for small businesses. Nonetheless the survey found that only 28% of factory-providing authorities were typically selecting between two or more acceptable applicants. Presumably the more common

procedure is to let units on a "first-come first-served" basis. Townroe (1971 p.89) has labelled this the "minimum needs" approach whereby decision-makers select the first option which satisfies their current aspirations, rather than drawing up a short-list of possible candidates from which a selection is subsequently made (the "sub-optimal" method). Having obtained a suitable applicant, local authorities generally do not seek further applications in the hope that they will offer better financial references or greater employment prospects. Nonetheless, tenant-selection policies remain an important theme as a quarter of authorities do select between competing tenants, and for all units firms have to satisfy the minimum estate management criteria.

5.2 LEASES AND RENT CHARGES

The terms on which premises are made available depend primarily on the objectives of the developer and on how far market conditions will permit these objectives to be pursued. In the case of local authorities and New Towns the principal goal is to generate jobs. This section focusses on two key elements of small-unit management, namely lease lengths and rental charges. These two considerations are crucial not only to the developer, but also in the site-selection process of the firm looking for accommodation.

Lease Lengths

Most small businesses prefer short leases because they appreciate the high level of uncertainty surrounding their future prospects. Failure will bring the need to leave the premises because the firm is closing or moving to still smaller and/or cheaper accommodation. Conversely, success may necessitate a move to larger and/or more expensive premises. The vagaries of the small-business economic environment underline the advantages of short leases and easy "exit" conditions.

Table 5.1 shows the survey's findings on the average length of lease granted by local authorities and New towns. Slightly over one third of authorities typically assigned leases of between one and five years; most other authorities usually grant longer leases, though few insist on a length of greater than 21 years. Authorities favouring leases beyond 21 years are heavily concentrated in the South East. Of the 20 authorities usually granting these longer leases, 13 are located in the South East including one London borough with leases of 99 years. This tends to suggest that, where demand for units is

highest, some authorities have felt able to adopt longer leases so as to avoid the greater management costs involved when leases are renewed more regularly. But although leases of longer than 21 years are best suited to well-established companies with relatively secure markets, most authorities will allow firms to foreclose their leases where the business remains in operation in the local-authority's area. In other cases the firm must re-assign the lease or sub-let the property. Should this not be possible, the firm continues to be responsible for rental payments for the duration of the lease, unless there is an option clause allowing for termination at an earlier specified date, usually associated with a rent-review period.

TABLE 5.1

Average length of lease granted by local authorities and New Towns

Area	Under				Over				Total			
	1 Year		1-5 Yrs.		6-10 Yrs.		11-21 Yrs.		21 Yrs.		No.	%
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Assisted Areas	0	0	20	37	16	30	15	28	3	5	54	35
Non-Assisted Areas	3	2	37	36	15	15	30	29	17	17	102	65
All local authorities and New Towns	3	2	57	36	31	20	45	29	20	13	156	100

Flexible tenancy conditions involving a commitment of only a few months are particularly suited to new businesses. The survey found that 41% of authorities had granted more informal tenancy terms designed to suit the needs of incipient enterprises. The most common approach is to offer licence agreements which may be renewed annually or can be terminated by the licensee at only three months notice. A licence is a personal privilege to occupy a property and it does not confer a legal interest and simply permits the licensee to do what would otherwise amount to trespass for the period specified. A licence cannot be assigned by the occupant, but it does bring the advantage of relieving the licensee of any responsibility for repairs.

Short-term licence agreements have been made available significantly more often by the metropolitan boroughs; over two thirds of these authorities let some of their units on these terms ($\chi^2 = 4.14$, significant at 95% level with 1 degree of freedom). This reflects the particular emphasis amongst the major urban authorities on building starter units. Surprisingly, however, only three London boroughs in

the survey granted licence terms. Contact with a number of local-authority estates departments in London indicates that this reflects the existence of a much stronger demand for small units in the capital which enables authorities to let their factories without the additional encouragement of special leasing practices.

Rental terms

Small-unit rentals show some geographical variation, with the highest rents obtained in the South East being over double those for similar property in the Northern region (see Table 5.2). But this particularly striking contrast is exceptional and there is a broad uniformity amongst the other regions.

TABLE 5.2

Regional differences in rental levels for local authority and New Town small-factory premises

Region	Annual Average Rent (£ per sq.ft.)
South East	3.00
South West	2.08
Yorkshire & Humberside	2.01
East Anglia	1.95
East Midlands	1.94
West Midlands	1.92
North West	1.90
Northern	1.46

The general uniformity of average rentals at the regional scale, however, disguises some very marked differences between individual authorities (Figures 5.1 and 5.2). For example, in the West Midlands, Dudley MBC charged only £1.10 per sq.ft. compared with the £2.25 per sq.ft. charged by the neighbouring district of South Staffordshire. This difference is accounted for by Dudley's use of Urban Programme finance to subsidise their industrial rents. The highest rental found in the survey was £4.50 per sq.ft. which was charged, not surprisingly, by a London borough (Kensington and Chelsea); in contrast, a variety of authorities in other areas had average levels of less than £1.50 per sq.ft. In each case the figure quoted is exclusive of rates and service charges which can add several hundred pounds to the annual rent payment.

FIGURE 5.1

Average Rental Levels for Local Authority (District Councils and London Borough Councils) Industrial Premises of 5000 sq.ft. and below, 1981.

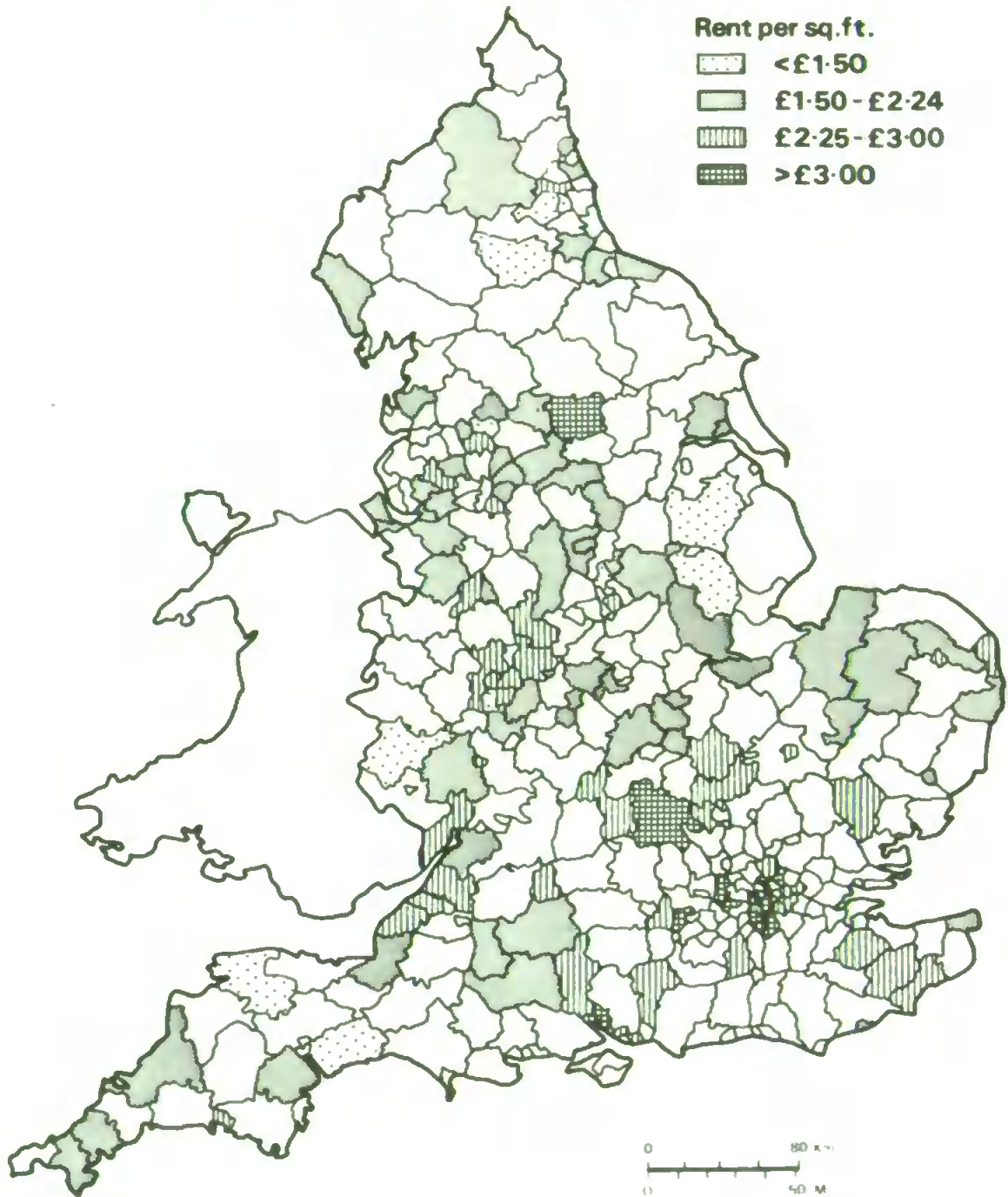
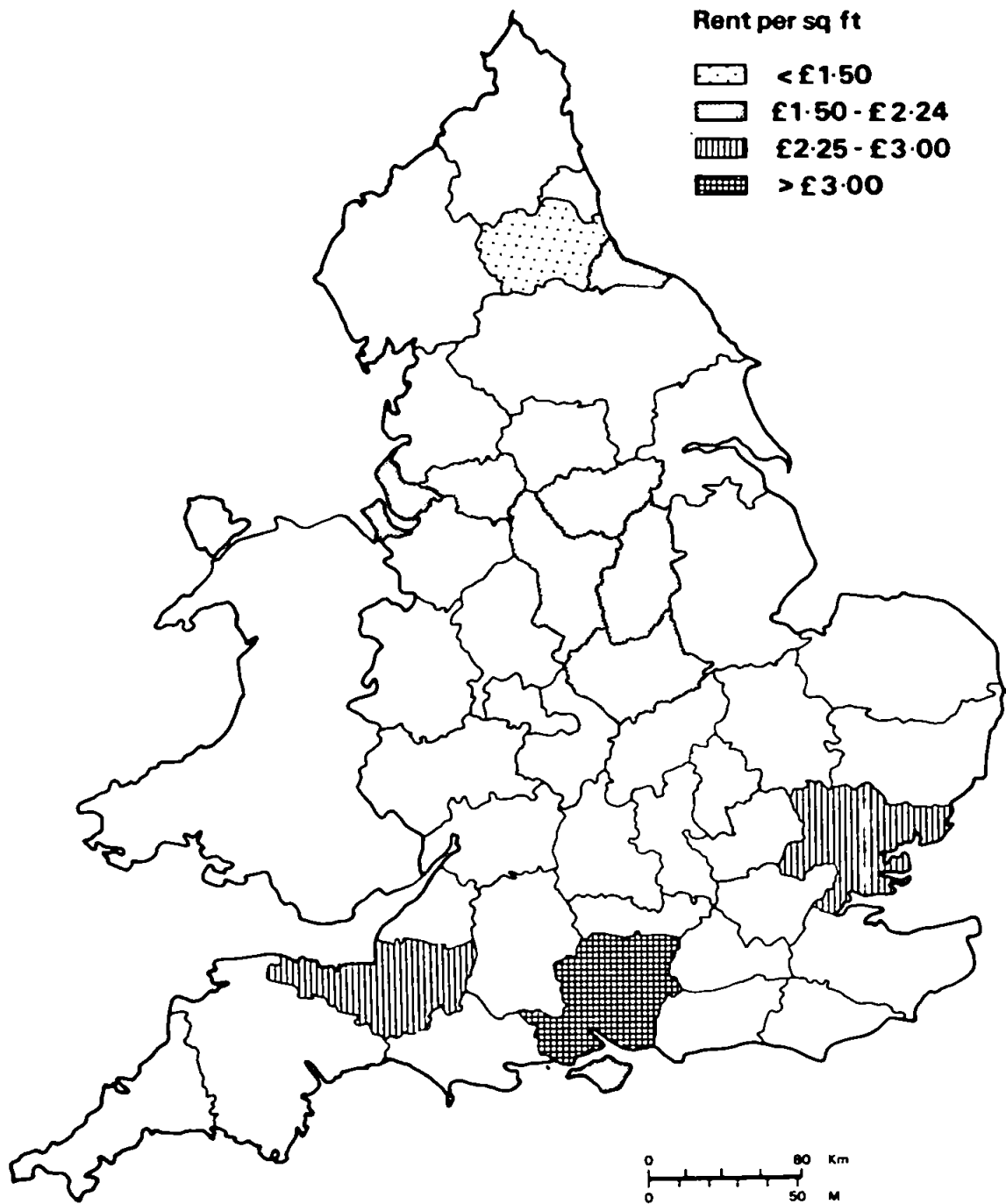


FIGURE 5.2

Average Rental Levels for Local Authority (County Councils) Industrial Premises of 5000 sq. ft. and below, 1981.



In explaining the local variations in rentals charged, the balance between new and rehabilitated premises in an authority's factory programme is an important influence. The questionnaire asked for typical rents and did not require authorities to differentiate between the rent charged on new and converted premises, but in practice the survey found that where authorities have solely provided rehabilitated units they have usually charged much lower rents. The average rental amongst authorities with all their units in converted premises is £1.40 per sq.ft.; this compares with typical rents in the range of £2.00 to £3.00 for new units. Two authorities have supplied rehabilitated units with exceptionally low rents these are Teesdale DC (40 pence per sq.ft.) and East Devon DC (75 pence per sq.ft.).

The rentals charged for converted premises are, of course, related to the costs of undertaking the work and the standards to which it is completed. Similarly for new premises there can be wide cost variations according to the quality of the completed factories. Rentals can be reduced where authorities provide premises with a minimum of services and without separate office accommodation. Even where this approach is not followed, most local authorities and New Towns build below the standards preferred by the major financial institutions (Buildings Research Team 1980). The influence of private funding agencies over the design of industrial buildings has, however, been spread through partnership schemes. In the South East region rentals on joint units are on average £3.20 per sq.ft. (amongst those authorities which have provided solely this type of unit) compared with a marginally lower average of £2.90 amongst other authorities in the region. Contact with a number of authorities suggests, however, that this difference reflects the tendency for partnership developments in the South East to be in prime locations, rather than variations in building costs. Interestingly, outside the South East, average rentals do not vary according to how the units have been financed.

Local authorities are free to set their own rental levels and may even include an element of subsidy. This is unlike the disposal of land where local authorities are obliged to achieve a market return at a level determined by the District Valuer. The actual rental charged for local-authority premises is usually decided by estates officers in negotiation with the treasurer's department. The survey asked local authorities and New Towns to indicate how their rentals related to the prevailing market figure and over 90% of respondents stated that their rentals were set at a market level (Table 5.3). (Of course, a

market rent may not ensure a commercial income where demand is too low to produce rents that cover development costs and leave a surplus as income.) Many authorities have had a degree of freedom in setting their rentals because of the general absence of comparable new properties provided by other agencies within their areas. This has meant that there has been no easily assessed market rent to which authorities can conform. On the other hand, the strong demand and shortage of premises reported by most authorities will have helped them to operate commercial rents.

TABLE 5.3

Proportion of authorities charging market rents

Type of authority	Market rent		Below market rent	
	No.	%	No.	%
County council	11	92.0	1	8.0
District council	86	89.5	10	10.5
Metropolitan B.C.	20	95.0	1	5.0
London B.C.	18	100.0	0	0.0
New Town	8	89.0	1	11.0
All authorities	143	92.0	13	8.0
Assisted Areas	48	89.0	6	11.0
Non-Assisted Areas	95	93.0	7	7.0

In contrast to the figures given in Table 5.3, a study undertaken in the West Midlands suggested that much local-authority factory provision does not yield genuinely commercial rates of return (JURUE 1980) (1). Local authorities were, however, often reluctant to admit to the existence of subsidies. JURUE found, for example, that when calculating the rate of return on factory investment there was often ambiguity as to whether local-authority management costs were fully reflected in the authority's figures. In addition, a detailed analysis of one authority's programme showed that the payback period for their investment was 30 years, which is much longer than is usually commercially acceptable. This evidence suggests, therefore, that the present survey's results may well over-estimate the number of authorities with genuinely commercial rentals.

Indeed evidence of one kind of "non-commercial" practice amongst the survey authorities is provided in Table 5.4 which shows that over two-thirds of all authorities in the survey offered some kind of rental concession to tenants. This assistance is perhaps surprising given

the generally high-level of demand for small properties, but most concessions are geared to assisting particular types of enterprise where potential employment gains are greatest. Generally, authorities in the Assisted Areas gave the most generous concessions. A six month rent-free period was typical amongst authorities in the north of England. Four districts in the Northern region (Derwentside, Gateshead, North Tyneside and Sedgefield) offered a two year rent-free allowance to manufacturing tenants; this assistance represents the passing on in full of the regional development grant payable by the Department of Industry to the developers of new factory premises that are used for manufacturing purposes. These concessions are often made dependant on the firm signing a long lease. In the case of Derwentside DC relief was given only to firms signing a ten year or longer lease, while in North Tyneside and Gateshead they had to agree to a twenty year lease before receiving the full two years relief phased over a five year period.

TABLE 5.4

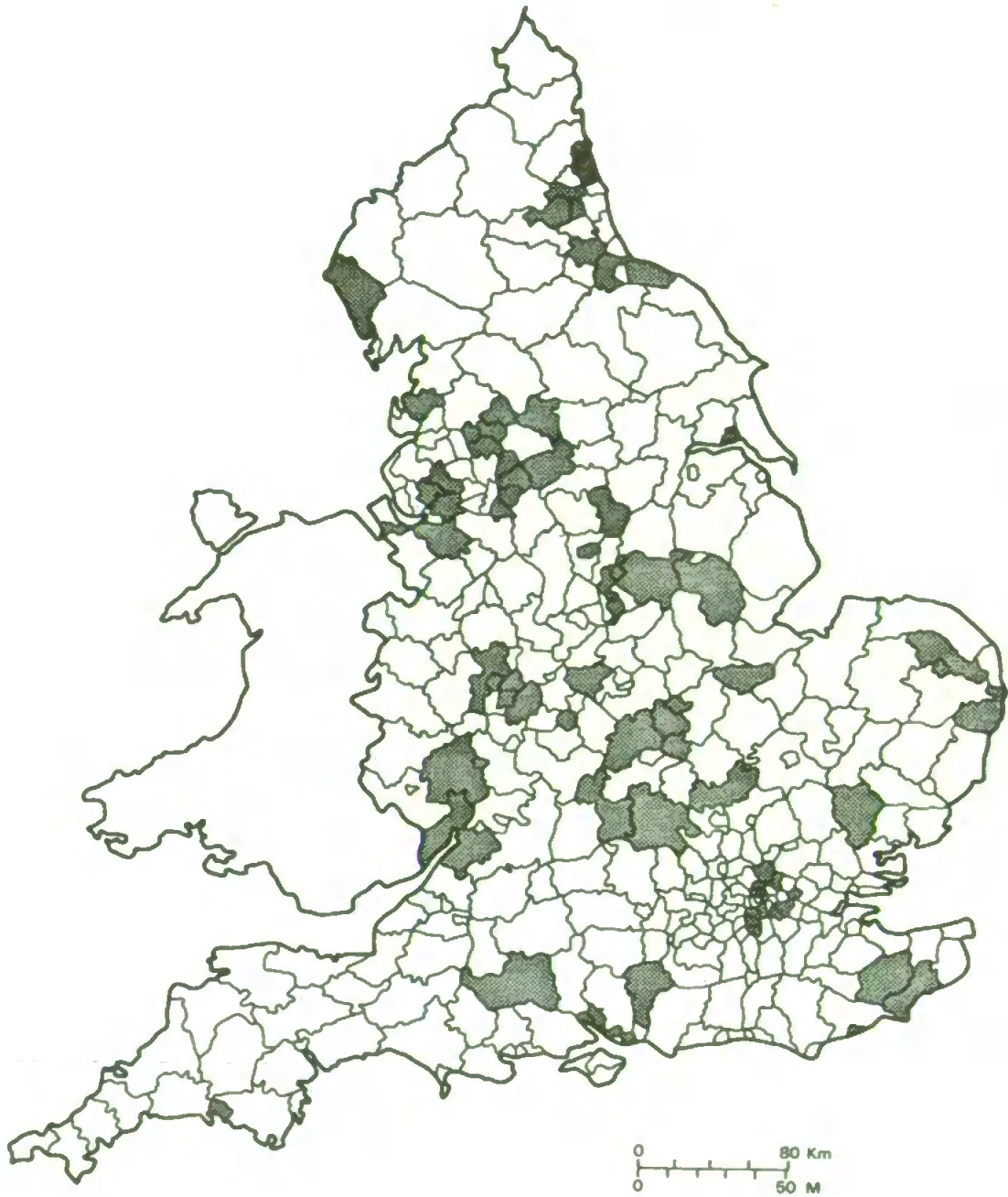
Proportion of authorities offering rental concessions

Type of authority	Authorities with rental concessions	
	No.	%
County councils	8	67
District councils	53	55
Metropolitan B.C.'s	17	81
London B.C.'s	15	83
New Towns	9	100
All authorities	102	65
Assisted Areas	40	74
Non-Assisted Areas	62	61

Figure 5.3 shows the spatial distribution of district authorities offering some form of rental allowance and it can be seen that they are widely dispersed across the country. Apart from the examples already discussed, many other authorities also varied their rental concession according to the type of occupant. For example, Nottingham, Plymouth, Rochdale and Wolverhampton all gave special assistance to new start-up businesses. On the other hand, North Kesteven DC in Lincolnshire only granted a rent-free period to firms moving into the district. Shepley DC offered rental concessions only on local-authority premises

FIGURE 5.3

District Authorities and London Boroughs with Rental Concessions



located in one rural part of the district, while Durham CC operated a two-tier system of rent rebates according to precisely where the premises are located. Other authorities varied the level of rent rebate according to the size of unit provided; the smallest units were eligible for the least assistance as they were generally the easiest to let.

Outside the northern counties and metropolitan areas, rental concessions were often given only to cover the costs of fitting-out units provided on a bare-shell basis. These concessions were usually the subject of negotiation rather than being automatically payable, and were confined to the first letting of the property.

All the New Towns in the survey were found to provide rental concessions. The New Towns were also a special case in that they all provided an introductory concession to cover the costs of fitting-out new units. Interestingly, Skelmersdale and Central Lancashire New Town varied this payment according to the level of employment provided.

5.3 THE SELECTION OF TENANTS

Before considering the criteria used by local authorities to select tenants, this section considers who within the local authority has been responsible for the selection of businesses. It was recognised at the outset that a questionnaire survey which covered many other issues could provide only a general insight into the balance of decision-making power within authorities. Nonetheless, as different departments within local authorities tend to have their own policy perspectives, it was considered important to collect some information on this issue.

Table 5.5 shows that in almost two-thirds of local authorities, council members were, at least nominally, responsible for the selection of tenants. The question asked in the survey (see Appendix One) requested further details on the decision-makers; of those authorities which supplied this extra information, the vast majority delegated final responsibility for the selection decision to a sub-committee. In two-thirds of these cases, it was an estates sub-committee that was given this power as part of their wider responsibility for the management of the local-authority's property holdings. In other cases, the relevant committee either dealt with industrial development or, more rarely, it had financial responsibilities. However, whatever the nature of the committee, its role was usually to confirm the decisions of officers and to advise on contentious applications, rather

than to take a really active part in the selection process. Where the letting decisions were fully delegated to officers, it was normally the chief estates officer who was given this role, although in some authorities this responsibility was given to the industrial development officer or the treasurer (occasionally in conjunction with the estates or planning officer). In most New Towns estates officers were usually responsible for the selection of factory tenants, but in three New Towns the officers' decisions were subject to ratification by the board of the development corporation.

TABLE 5.5

The allocation of tenant-selection powers by type of authority

Type of authority	Final responsibility for tenant selection			
	Officers		Council Members	
	No.	%	No.	%
County council	6	50.0	6	50.0
District council	35	36.5	56	63.5
Metropolitan B.C.	6	29.0	15	71.0
London B.C.	8	44.0	10	56.0
New Town	6	67.0	3(1)	33.0
All authorities	61	39.0	95	61.0

(1)Note: in the case of New Towns these were members of the development corporation board

Although this was the general structure of decision-making, a quarter of authorities stated that in certain circumstances the decision-making responsibilities were different. Most commonly this occurred when the potential tenant was assessed by officers as desirable from an employment point of view, but where some uncertainty over its financial standing caused officers to seek the guidance of elected representatives. Several authorities had specified rules which determined when the decisions were delegated to officers; in Gateshead for example, the chief estates officer had delegated power for all lettings of less than three years with a rental of no more than £1,200 per annum. In Leicestershire, the director of property was responsible for the letting of all the County's small premises where leases were for no longer than ten years.

Despite these variations, it remains generally true that estates departments play the key role in selecting tenants. This is important because they have traditionally conducted their role as administrators of local-authority property with a view to showing a commercial return

on the capital invested. this emphasis on "market realities" contrasts with the goals of small-factory programmes often set by planners and those concerned with economic development, who may be more prepared to take risks with uncertain enterprises in pursuit of their employment objectives.

This survey would, therefore, suggest that there is the potential for a conflict of interest within many local authorities when the letting is controlled by estates officers. Equally, tension may arise where the letting is controlled by planners or industrial development officers but where at the end of the year the estates department is responsible for the financial losses and gains on local-authority property.

Whether conflict occurs in practice would presumably depend largely on the nature of the relationship between the estates department and the planning and/or industrial development department. In the less interventionist authorities there may be little control by planners over the estates department; in fact, the planning/industrial development department may well operate as a service agency for the estates department, whose main aim will be the commercial development and management of property. The more interventionist authorities on the other hand, will tend to use the estates department as a service agency, employing them to develop and manage property in line with the goals set by those concerned with employment generation.

The very general information collected in this survey unfortunately does not allow the pursuit of these themes, but it is clearly an area where further study would be illuminating. However, the survey did reveal a wide variety in the practices adopted, which cannot be fully explained in terms of the type of property provided; this tends to suggest the importance of organisational and behavioural characteristics in explaining local economic policies. This section now goes on to examine local-authority preferences for particular types of tenant and to consider the selection procedures used.

Environmental issues

For all local authorities the nature of the process to be carried out is, of course, an important influence affecting the selection of tenants. But on this issue there tends to be little variation between authorities. Small factories are typically built in terraces with shared access and parking facilities. Estate managers, therefore, seek to avoid potential "bad neighbour" problems by excluding noxious

firms which create serious nuisances such as excessive noise, traffic hazards, dangerous waste substances, offensive smells and air pollution. Examples of this type of enterprise are sheet-metal workshops, glass manufacturers and meat products. There is also a group of enterprises which although not such a nuisance are often unsightly and require relatively large areas for outside storage and service; builders, timber merchants, scrap dealers are typical of this category. This type of activity can sometimes be acceptably located in properties at the end of terraces, one authority (Gateshead MBC) has even designated a whole row of units for "nuisance" firms, but generally there is a reluctance to accommodate potentially problematic businesses.

Preferred tenants

The survey asked authorities to indicate the importance attached to different kinds of enterprise when granting tenancies. To structure the replies to this question, respondents were requested to state whether it was "essential" that the tenant be a particular type of firm, or whether a particular type of enterprise was only "given priority" over other applicants or was "not important" that a tenant met a particular characteristic. Table 5.6 shows that although only a few authorities operated very rigorous selection procedures, a large number did have clear preferences on the type of business for which they were looking. However, whereas the units were provided over the period 1976-1981, the management details relate to the usual practices at the time of the survey (1982) when the impact of the recession had deepened. The questionnaire asked authorities if their management policies had changed since 1976, and 80% of authorities indicated that they had become less rigorous. Consequently, the survey does not record the most stringent preferences of many local authorities and New Towns.

TABLE 5.6

Tenant-selection priorities of local authorities and New Towns

Character of enterprise	Importance of guiding the selection of tenants					
	Essential		Some priority		Not important	
	No.	%	No.	%	No.	%
Good financial standing	33	21.0	94	60.0	29	19.0
Manufacturing firm	27	17.0	104	67.0	25	16.0
Affected by redevelopment	17	11.0	85	54.0	54	35.0
Good prospects of increasing labour force	12	8.0	119	76.0	25	16.0
Achieves minimum job per sq.ft. ratio	11	7.0	77	49.0	68	44.0
Failed to obtain premises elsewhere	5	3.0	33	21.0	118	76.0
Locally owned	4	3.0	76	48.5	76	48.5
New firm	1	1.0	69	44.0	86	55.0
Other	0		12		0	

The characteristics that were most often considered essential were that tenants should be of a good financial standing and that they should be engaged in manufacturing activities: roughly a fifth of respondents regarded these features as essential while a further two-thirds indicated that some priority was given to these applicants. The emphasis on manufacturing appears to be explained largely by the belief that these offer the best employment prospects. This employment growth is hoped for primarily from the firm itself, but there is often also a belief that a manufacturing enterprise is a "basic" activity which will bring new money into the area and will not (unlike a new service activity) compete for the same market as existing local firms. It was not surprising, therefore, to find that the majority of authorities gave priority to tenants with good employment prospects, although few established minimum employment densities for their premises. (Obviously, in the context of the recession it would be unrealistic for authorities to restrict lettings solely to businesses with definite expansion plans and/or employment levels.)

A further consideration taken into account was whether firms have been affected by local-authority redevelopment schemes with most authorities feeling a sense of obligation to rehouse displaced firms (although this is not a legal requirement). Generally, very little priority was indicated for either new or local firms. However, it will be recalled from Chapter Three that the overwhelming objective of local-authority small-factory programmes is to assist the establishment of new, local businesses. This inconsistency may be explained by there being relatively few new and local firms seeking new premises, consequently leaving the authority with little opportunity to implement its preferences. Nonetheless, when a new firm makes an application, over a third of authorities indicated that their vetting practices were made more flexible. This usually involved the authority waiving aspects of their financial investigation to allow firms without any business record and with an untested market to qualify for a tenancy. Thus, although authorities did not exclusively favour new firms, many did positively discriminate in their favour.

The financial screening of tenants

Over 80% of authorities clearly preferred tenants of good financial standing and the criteria by which this was judged were, therefore, of particular importance. To gain an insight into the standards demanded by local authorities and New Towns, the survey examined the procedures

usually adopted to assess this issue. The questionnaire itemised a number of screening procedures and respondents were asked to indicate the frequency with which they adopted these practices. (The range of vetting procedures indicated was compiled largely on the advice of local-authority officials who were consulted about the design of the survey.)

Table 5.7 sets out the overall pattern of responses and this shows that two procedures were rigorously enforced by the majority of authorities; these were the examination of bank references and the holding of an interview with the applicant. Only in a small number of cases were these minimum searches waived, but authorities varied widely in their determination to undertake a more detailed examination of the businesses' financial circumstances. Where authorities undertook a more extensive screening procedure this commonly involved the examination of the firm's previous business accounts. A different, but related practice, was the demand for the company's directors personally to guarantee the rent of the property for the first few years of the lease; overall, 40% of authorities stated that this request was always or usually made. Authorities were asked to indicate any additional procedures they conducted above those shown in the question; the most common response concerned the seeking of trade references from the applicant's suppliers and creditors.

TABLE 5.7

The financial screening procedures adopted by local authorities and New Towns when assessing existing businesses

Procedures adopted	Frequency of implementation							
	Always		Usually		Rarely		Never	
	No.	%	No.	%	No.	%	No.	%
Ask for bank references	123	79	28	18	1	1	4	2
Interview applicants	115	74	33	21	7	4	1	1
Examine firm's accounts	37	24	29	18	65	42	25	16
Ask directors to guarantee the rent	23	15	40	25	51	33	42	27
Ask for cash-flow projections	11	7	34	22	56	36	55	35
Ask for a study of the market potential	2	1	17	11	59	38	78	50
Other	22	14	2	1	1	1	131	84

The data in Table 5.7 do not indicate the combination of procedures adopted by an individual authority, and in order to examine variations in local authorities' overall level of inquiry an index of screening was constructed. The index was calculated by ranking

the frequency of implementation from three (always) to nought (never); for each authority, these numbers were then multiplied by a weighting score given to each of the various vetting procedures. This weighting was based on the especially obtained views of a number of local-authority estate managers on the relative extent to which a more marginal or risky enterprise would find each procedure difficult to satisfy. From Table 5.8 it can be seen that the procedures investigating the firm's forward planning were ranked higher than those which examined the past performance of the firm. Cash-flow and marketing projections were seen as the most stringent tests.

TABLE 5.8

Weighting of financial vetting procedures used in the calculation of the screening index.

Procedure adopted	Weighting Score
Interview applicant	1
Ask for bank references	1
Ask for trade references	1
Examine firm's accounts	2
Ask directors to guarantee the rent	3
Ask for cash-flow projections	4
Ask for study of the market potential	4

The maximum possible score attainable from an authority which always conducted all the various searches is 48, while the theoretical minimum score is nought for an authority that undertook no investigation.

From Table 5.9 it is evident that in no authority was it standard practice to undertake all or nearly all of the possible checks, but a small minority were very rigorous in their approach. An example of one of the more investigative authorities was Derwentside DC in the north east which always conducted interviews, examined the firm's accounts, requested cash-flow and marketing projections and asked the company's directors to guarantee the rent (giving an overall index score of 39). Conversely, a small number of authorities appear to base their decisions on minimal investigation: Kerrier and West Wiltshire DC, for example, both merely interview applicants. But, as might be anticipated, the large majority of authorities conducted moderately detailed investigations. Most authorities usually undertook one or more other procedures in addition to an interview and the taking-up of references. Huneaton BC is a typical example which always

conducted interviews, examined the firm's accounts, asked for bank references and, in a small number of cases, asked the Company's directors to guarantee the rent. In addition, on rare occasions, cash-flow projections were requested.

TABLE 5.9

Financial screening scores for all local authorities and New Towns in the survey

Score	Number of authorities	
	No.	%
0 - 9	24	15.5
10 - 19	57	36.5
20 - 29	53	34.0
30 - 39	22	14.0
40 - 48	0	0.0

In addition to gaining a better overview of the rigour with which screening procedures are pursued, the index may be used to explore more deeply into variations in authority practice. Five ideas were tested in relation to this issue in order to determine:

- (i) whether there are geographical variations in the level of investigation (for example, are authorities in the Assisted Areas less strict because of the need for jobs?);
- (ii) whether investigations are more rigorous when the property in question is a joint initiative with the private sector;
- (iii) whether the approach is less exhaustive when rehabilitated premises are being allocated;
- (iv) whether, because of the generally greater demand for small units, a more extensive search of applicants for these units is undertaken compared with applicants for larger units, and
- (v) whether estates officers, because of a keener sense of financial accountability, lay more stress on ensuring financial viability than do officers in planning or industrial development departments.

No regional pattern was found in the variation in screening procedures, the average regional score varied only between 21 in the Northern region and 17.5 in the South West. Neither was the involvement of the private sector in joint schemes found to be associated with a higher level of financial scrutiny; a median test was used to examine this idea, but no significant relationship was found ($\chi^2 = 1.6$; not significant at the 95% level with 1 degree of freedom). This

is perhaps not surprising as the essence of a partnership is usually that the local authority undertake all the management responsibilities. A further median test was undertaken to examine whether rehabilitated properties were characterised by less rigorous vetting procedures, but again no significant relation was found ($\chi^2 = 0.54$; not significant at the 95% level with 1 degree of freedom). Neither was the extent of screening found to vary with the size of unit ($\chi^2 = 1.3$; not significant at 95% level with 1 degree of freedom): this possibly reflects the tendency for smaller units to be let to newer businesses with little trading experience and for whom it has been noted that many authorities make special provision (2).

It is possible to gain some insight into the influence of estates officers on the rigour with which potential tenants are assessed by comparing the financial index score of authorities where decisions are usually taken by estates officials with those where planning or industrial development officers were the responsible officials. Using a median test, local authorities and New Towns where estates officers selected tenants were found to have significantly more rigorous screening procedures ($\chi^2 = 5.83$; significant at the 95% level with 1 degree of freedom). Of course, the information collected in the survey gives only a general impression of the balance of decision-making powers within authorities. Nonetheless, the extent of the difference found between the two groups of authorities (the average index score for authorities where estate officials selected tenants was 27 compared with 14 for other authorities) does suggest that the different objectives held by estates and planning departments are an important influence on the design of management policies.

But although differences in the number of checks have been demonstrated, this may not imply greater selectivity by estate managers. It is possible that an authority which conducts most of the procedures enforces each hurdle more flexibly than an authority applying fewer checks. Estate managers who usually rely on interviews and bank references, for example, may seek greater satisfaction from these checks compared with authorities conducting a wider search. Similarly, those authorities whose usual practice is to request cash-flow projections and market studies may be prepared to accept firms with relatively unimpressive profiles. Local-authority selection policies may, therefore, be less distinctive than is indicated by the number of screening procedures employed. This possibility is unlikely to render the most extreme authorities similar; however, it does highlight the

complexity of the interface between estate managers and firms.

5.4 SUMMARY AND REVIEW

Table 5.10 summarises the key characteristics of local-authority management and letting practices. Inevitably, a simplified table of this kind cannot do justice to the full complexity and variety of the policies revealed in the survey, but it does serve to outline the general basis on which small units are allocated.

TABLE 5.10

Typical management features for local-authority small factories

Management consideration	Basis of allocation
Lease terms	One to ten years, with more flexible terms for new start-ups.
Rental levels	Fixed at a level just sufficient to cover costs, with rental concessions usually available for particular types of applicant.
Tenant preferences	Not rigidly enforced but some preference for firms with good employment prospects, manufacturing activities often preferred. Special provision made for new start-ups. Firms are normally expected to be of reasonable financial standing.
Assessment procedures	Generally not very rigorous, consisting of an interview and the examination of bank references.

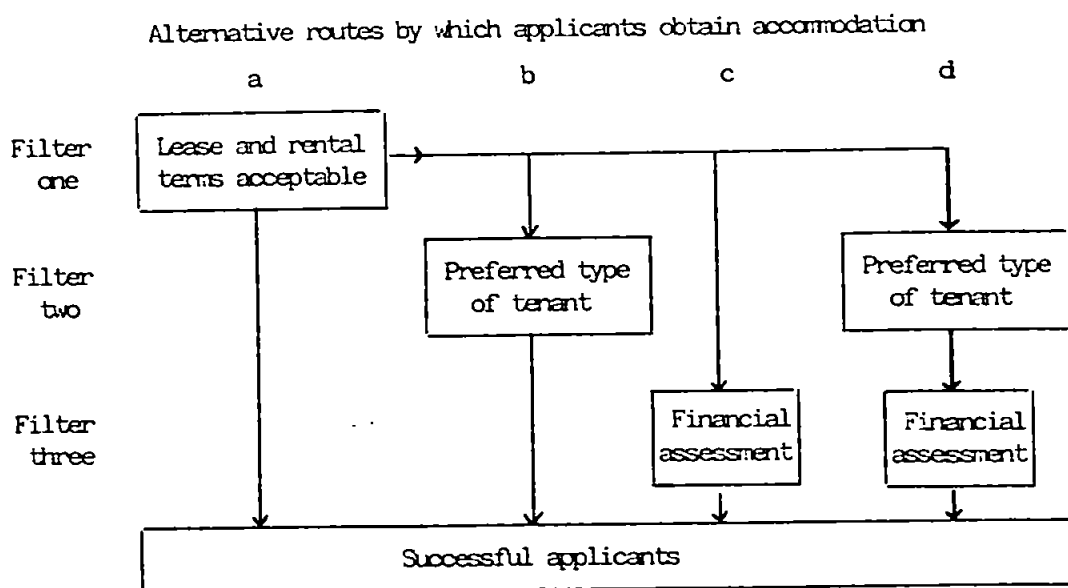
To the firm that is considering taking a local-authority unit, the estate management procedures are often experienced in a series of sequential stages. Firms searching for accommodation within a particular area will tend to make an initial assessment of their interest in a unit based on the physical and locational characteristics of the property and its rental and lease terms. For some firms, this information may be sufficient to preclude any further interest in the property. At this stage the decision on whether to proceed is taken by the applicant. For those which retain an interest estate managers generally decide whether or not the firm obtains a unit. Businesses may simply accept the terms as stated or they may seek to negotiate a different lease agreement or some form of rental concession. As the first stage in their assessment of the tenant, the local authority is concerned with the objective characteristics of the firm, principally in terms of the nature of the process carried out, the previous trading

history of the company and the present location and accommodation of the firm. If both the applicant and estate manager retain an interest, the more detailed screening of the applicant will be conducted, usually consisting of a formal interview and the taking-up of references. If the local authority desires more information on the business before allocating a unit it may also seek details on the forward planning of the enterprise. The length of time taken by the selection process can vary from only a few days, where authorities undertake relatively little scrutiny and the firm has a successful trading history, to several months if very searching procedures are conducted.

The stages in the allocation process and the typical routes into accommodation are illustrated in Figure 5.4. For example, new enterprises are often given special treatment in the allocation process through the relaxation of both tenant preference criteria and the level of financial screening (route "a" in Figure 5.4). This raises the question as to how local authorities and New Towns define a new enterprise, as many authorities appear to have no strict age threshold. A few authorities have no strong views relating to the type of enterprise and hence do not operate a tenant preference filter (route "c" in Figure 5.4). But for most firms, a successful application for new premises depends on being assessed as an appropriate type of tenant and as being financially viable (route "d" in Figure 5.4).

FIGURE 5.4

The typical process of tenant selection



Contact with a number of local authorities in different parts of the country (3) indicates that there is a considerable margin between the number of initial inquiries regarding vacant new properties and formal expressions of interest. Typically up to 10 requests for information may be received to produce one serious application. Presumably some of this shortfall is explained by firms who find the character of the property or the management terms unsuited to their needs. Of the two remaining hurdles into property, officers estimated that around one in five inquiries are rejected at an early stage because of the nature of their enterprise. These are commonly enterprises engaged in motor-vehicle servicing, distribution, retailing or some form of noxious activity. Once a firm application is under investigation, typically one or two in every ten businesses may be rejected because they are judged financially unviable and their business plans too ill-considered.

From discussions held with local-authority officers, it is interesting that the tenant-selection criteria which the questionnaire identified are rarely written down and are generally not supported by reasoned reports. This may be interpreted negatively, as for example in relation to the manufacturing bias which may not be justified in employment terms, or more positively as an indication that local authorities and New Towns are prepared to take a flexible attitude to the allocation of units. But without clear written guidance there is obviously much scope for discretion and the personal judgement of officers to influence the allocation of premises. Generally, this study has shown that the degree of flexibility in tenant-selection procedures often depends on whether planning and industrial development staff or estates officers are responsible for taking the decisions. Clearly this is an area of enquiry where behavioural studies of the allocation process could be most revealing. For most of the post-war period, with a buoyant economy and high demand for factory space, industrial property managers have played a key role in influencing the spatial pattern of activity. Even now, in a period of recession, they are certainly worthy of further investigation.

NOTES ON CHAPTER FIVE

- (1) Willis (1983) in an evaluation of small-factory programmes in Tyne and Wear also found evidence that local authorities were not achieving a commercial return on their investment.
- (2) For this part of the analysis, small units were defined as those below 2,500 sq.ft., and large units between 2,501-5,000 sq.ft. and the comparison was undertaken using a median test.
- (3) Information based on a telephone survey conducted by the author of lettings officers in Gateshead, Hull, Warrington, Birmingham, Aylesbury Vale, Plymouth and Greenwich.

CHAPTER SIX: PUBLIC DEVELOPMENT AGENCIES:
THE DEVELOPMENT COMMISSION AND ENGLISH ESTATES

6.1 INTRODUCTION

Having completed the examination of local authority small-factory programmes, two other public development agencies active in England are now examined: these are the Development Commission and English Estates. These agencies have had different roles and geographical areas of operation. One major difference is that, while the Development Commission has concentrated its building programme on small units, English Estates has a more extensive property portfolio dominated by floorspace in units larger than 5,000 sq.ft. Also, English Estates is solely a property agency whereas the Development Commission finances a more wide-ranging programme of assistance to business. For both agencies, however, factory provision dominates their activities.

This chapter outlines the salient features of the distribution and character of the small-factory programmes of the Development Commission and English Estates, which together account for around 10% of the new industrial floorspace in small units (Chapter Two). This discussion relies partly on existing literature and the annual reports of the agencies. Both these sources provide much greater information on the Development Commission, making the presentation of comparable detail for each agency difficult. Additional material was collected through interviews with principal officers based in the national and south west offices of English Estates, the Development Commission and CoSIRA (the Commission's main agent), but this still leaves a slightly less full account of English Estates' activities. (The information obtained from the officer interviews is incorporated into the text and copies of the interview schedules are given in Appendix Two). The chapter examines each agency in turn, commencing with the Development Commission, which in numerical terms was the more important developer up to 1981.

6.2 THE DEVELOPMENT COMMISSION

When the Commission was set up in 1909 its task was to advise the Government on the use of the Development Fund to assist in the economic and social regeneration of rural areas suffering from large-scale depopulation. Originally the focus was on support for traditional rural crafts and industries, but it now provides a wide range of assistance to many types of enterprise. The modern role of the Commission stems from the mid-1970s when its support for factory-

building schemes was expanded and it was set the target of creating 2,500 jobs per year. In 1983, the Miscellaneous Financial Provisions Act gave the Commission "grant-in-aid" status so that, instead of advising the Department of the Environment on expenditure from the Fund, it is now able to own land and buildings, assist profit-making bodies and fund directly its own rural programmes.

The Commission's interest in industrial accommodation commenced in 1947 when it established a Workshop Loan Fund to provide loan capital for the provision of factories suitable for modern production processes. In 1964, the Commission put forward the case to the Government for a substantial increase in resources to address the twin problems of rural depopulation and the need for diversification of employment. Subsequently, in 1968, the Council for Small Industries in Rural Areas (CoSIRA) was formed to take over the administration of the various small-business schemes then financed from the Development Fund. CoSIRA thus became the principal factory-providing agency in England's remoter rural areas. (Between 1965-1976 the Highlands and Islands, the remainder of Scotland and then Wales were all given separate development agencies.)

The 1966 Local Employment Act introduced more widely defined Assisted Areas including large tracts of rural land, such as parts of Devon and Cornwall. These areas were, therefore, eligible for factories financed by the Commission and the Board of Trade, whose building agents were English Estates. To minimise duplication of provision, English Estates became the sole building agency in the rural Assisted Areas constructing factories on behalf of the Commission and the Board of Trade, and providing a means of co-ordinating the two programmes. Once the Commission's units were completed, CoSIRA took responsibility for letting and management. Premises in rural locations outside the Assisted Areas continued to be built and managed by CoSIRA as before. Both groups of factories have been allocated on a leasehold basis, although in recent years a few premises have been transferred to the private sector.

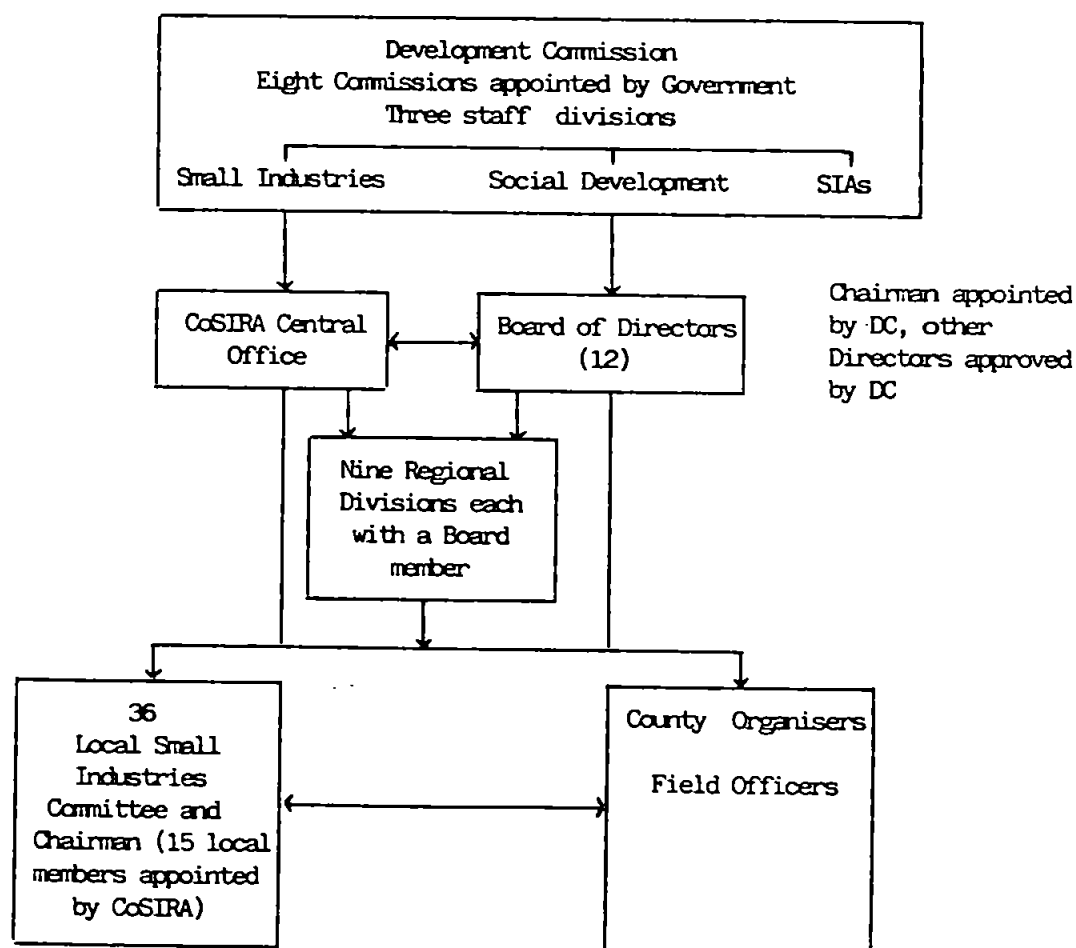
Following a government report on depopulation (Treasury 1976) which stressed the cost-effectiveness of factory provision as a rural support measure, the Commission's building programme was accelerated. By 1980 the Development Commission's factory portfolio had grown to almost 300 units, which were all administered by CoSIRA. This agency has additional responsibilities for training, business advice and the control of a £20 million loan fund to assist small firms. A Government review (1980 unpublished) concluded that CoSIRA had no special

expertise to take on a major estate management role, which had developed rapidly in a short space of time (Development Commission 1981). Consequently, the 1980 Industry Act transferred the marketing and management of all the Commission's units to English Estates which is solely a property development and management agency. CoSIRA retains, however, one important responsibility, that of screening and selecting the tenants of all the factories financed by the Commission. This change came into effect in November 1981.

The administrative structure of the Development Commission and its relationship with CoSIRA is shown in Figure 6.1. The Commission possesses a formal board structure, with membership lying at the discretion of Ministers, on the advice of central government departments. The Commission's eight members work under a part-time chairman. The Commission has no local presence, except for its close ties with rural community councils and its close working relationships with local authorities. CoSIRA is governed by a national board, approved by the Commission, and with each member responsible for a geographical region and/or a particular field of activity (for example, training).

Figure 6.1

Organisation of the Development Commission and CoSIRA (1983)



The regional branches facilitate communication between the national and local arms of CoSIRA, as well as allowing specialist staff to be available for all counties. Small Industries Committees are county-based with members appointed by CoSIRA because of their local expertise. County organisers and their field officers draw up the annual factory programme, within the context of the agreed strategy, find factory tenants and channel other forms of CoSIRA assistance to small firms.

Spatial distribution of investment

The Commission's current factory programme originated in the late 1960s in an experimental scheme involving the construction of a number of small units in "Trigger Areas". These were locations suggested by local authorities and selected by the Commission with the objective that factory construction would have positive multiplier effects in the local economy. The influence of growth point and key settlement theory on this pilot programme, which usually involved developments within selected market towns, was acknowledged by the Commission at the time (Tricker and Martin 1984).

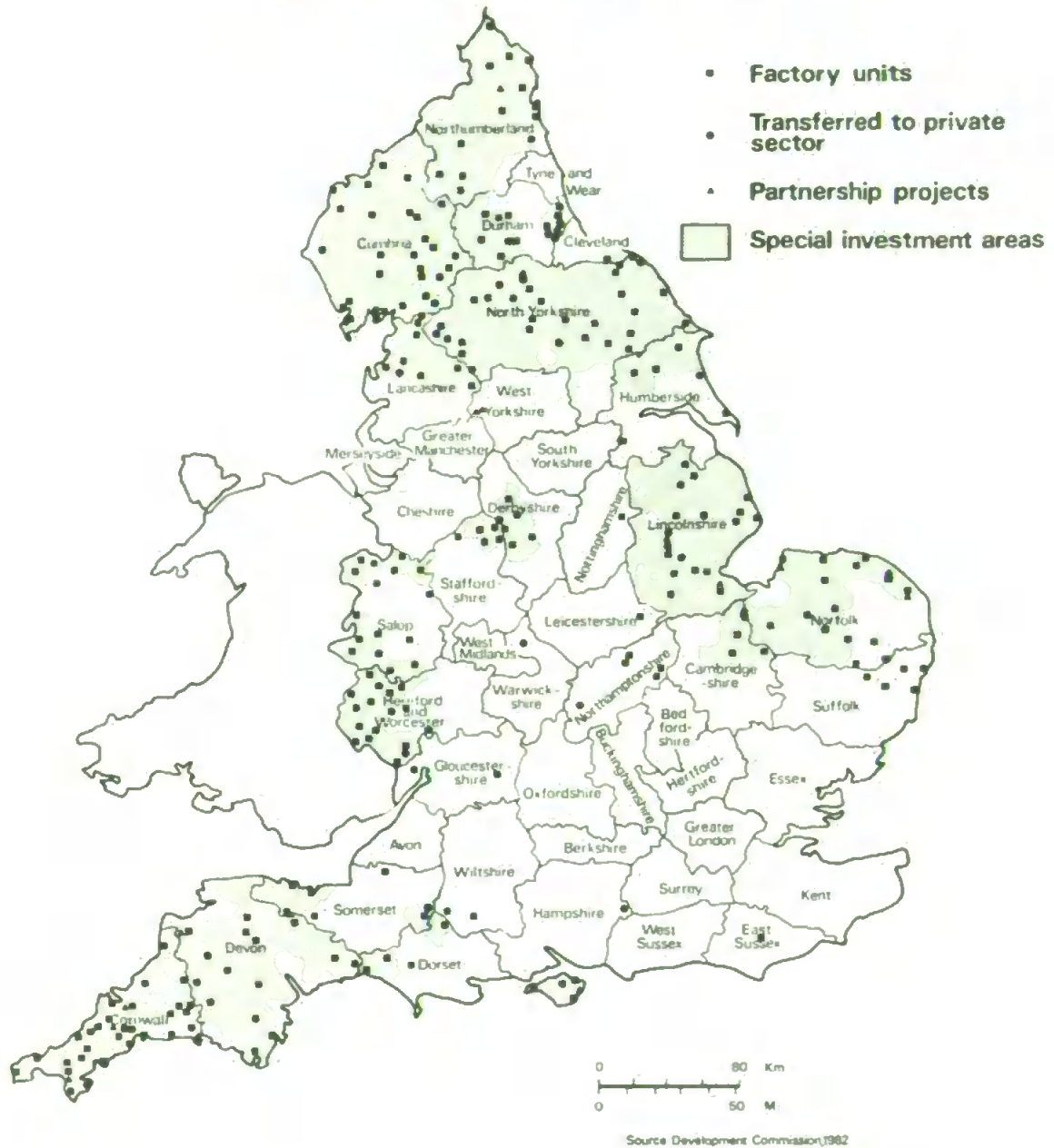
In order to implement the expanding role of the Commission, local authorities were invited to submit Action Plans for a five-year period. These plans, which were drawn up by a county's Joint Development Committee (comprised of county, district, Commission and CoSIRA representatives) were originally intended to include a comprehensive rural development strategy. In practice, however, most concentrated solely on making bids for advance factory building. The areas where the Commission accepted accommodation should be built were designated Special Investment Areas (SIAs) and these became priority areas for CoSIRA's wider rural policies. To justify SIA status, areas were required to experience various kinds of rural deprivation, including depopulation, high unemployment and an ageing population. The areas so judged by the Commission comprised the upland areas of northern England, East Yorkshire, Lincolnshire, Norfolk and the Fens, the Welsh border country and large parts of the South West peninsula (Figure 6.2); these boundaries have remained unchanged until the mid-1980s. The designation of SIAs was subject to the approval of the Department of the Environment. This power to modify proposed areas has been exercised by the Department: in 1979, for example, it declined to accept a widening of the SIA boundary in Lancashire (Development Commission 1980).

In more prosperous counties the Commission designated "Pockets of Need" - usually comprising a single village and adjacent parishes - which suffered similar problems, but on a smaller scale than the SIAs. The Pockets of Need generally experienced only a two-year building programme comprising workshops of up to 2,000 sq.ft. By comparison, in SIAs larger units up to 5,000 sq.ft. have also been widely built. (The Pockets of Need can be identified on Figure 6.2 as the locations with factory schemes outside the SIAs).

The last decade has seen dramatic changes in many rural areas. The 1981 Census revealed that most recently some of the fastest growing counties have been located in the rural and remoter regions with the lowest density areas growing faster than the national average (Champion 1981). Such counter-urbanisation trends have also been taking place in terms of manufacturing employment, with no other trend in industrial location being so pervasive as the shift from cities to small towns (Fothergill and Gudgin 1982). Partly reflecting these changes, the Commission was subject to a government review between 1980 and 1982 which led to the Commission revising its priority areas. The new Rural Development Areas were announced in June 1984 and are expected to continue for up to ten years (Milne 1984). They have been designated by the Commission following submissions by county councils which identified areas experiencing one or more of the following problems: high unemployment, unfavourable population and employment structures and areas of poor accessibility (Development Commission 1983). Overall the new Rural Development Areas are broadly similar to the SIAs, although the total area has been reduced by 5% and the total population in designated areas is 10% fewer, reflecting the widening of boundaries around larger settlements. The principal additions are the designation of areas within two metropolitan counties (West and South Yorkshire) and the Home Counties (Kent). The new areas were effective from June 1984 but the SIAs remained operative for 1984-85 to allow factory programmes to be completed in locations losing their status. Outside the Rural Development Areas the general approach of the Commission is to set aside resources to assist other agencies active in these areas.

FIGURE 6.2

Development Commission
Factory and Workshop Projects April 1982



Action Plans

The Commission's policy has been to concentrate development on selected small towns where growth is possible, so that these can serve as focal points for the surrounding rural area. Where the rural hinterland of a growth town is particularly large, small developments concentrated in key villages have also been encouraged (Development Commission 1976). The selection of sites for premises has been determined in locally produced Action Plans of which the first were approved in 1977. The production of these formal documents is a distinctive feature of the Commission's factory work, which has little counterpart amongst other agencies. In respect of the Rural Development Areas, Rural Development Programmes are to be drawn up and these will gradually replace the Action Plans. The new plans will be produced by a similar procedure, but they are to cover all aspects of the Commission's work including both economic and social programmes.

The role of Action Plans was to make the general case for economic assistance on grounds of depopulation, unemployment or other forms of deprivation. They also suggested particular sites in towns or villages for the Commission's small factories. The sites identified provided for a phased building programme over a five-year period, or two years in a Pocket of Need, with provision for a review after two or three years. Usually towns above 10,000 population have not been considered as locations for new factories, except where this was necessary to hold the population of a considerable rural area (Tooley 1977). The very detailed information required to justify investment by the Commission covered aspects of the local economy and the adequacy of local infrastructure and amenities (Table 6.1).

The administrative procedures involved in the production of Action Plans were complex, but the main steps are identified in Figure 6.3. Action Plans were formulated by the county council within the framework of county structure plans and in consultation with local people and organisations including CoSIRA. The procedure was initiated at the request of the Development Commission, and typically this has followed a Commission visit to the area concerned. The Action Plan was subject to the approval of the Development Commission: this has not always been forthcoming. In Suffolk, for example, an application for SIA status and a five-year building programme was downgraded to a Pocket of Need with more limited provision (Hillier 1982). To implement the proposals, CoSIRA was formally requested to be involved: in the Assisted Areas, CoSIRA engaged English Estates to build the factories, in other

TABLE 6.1

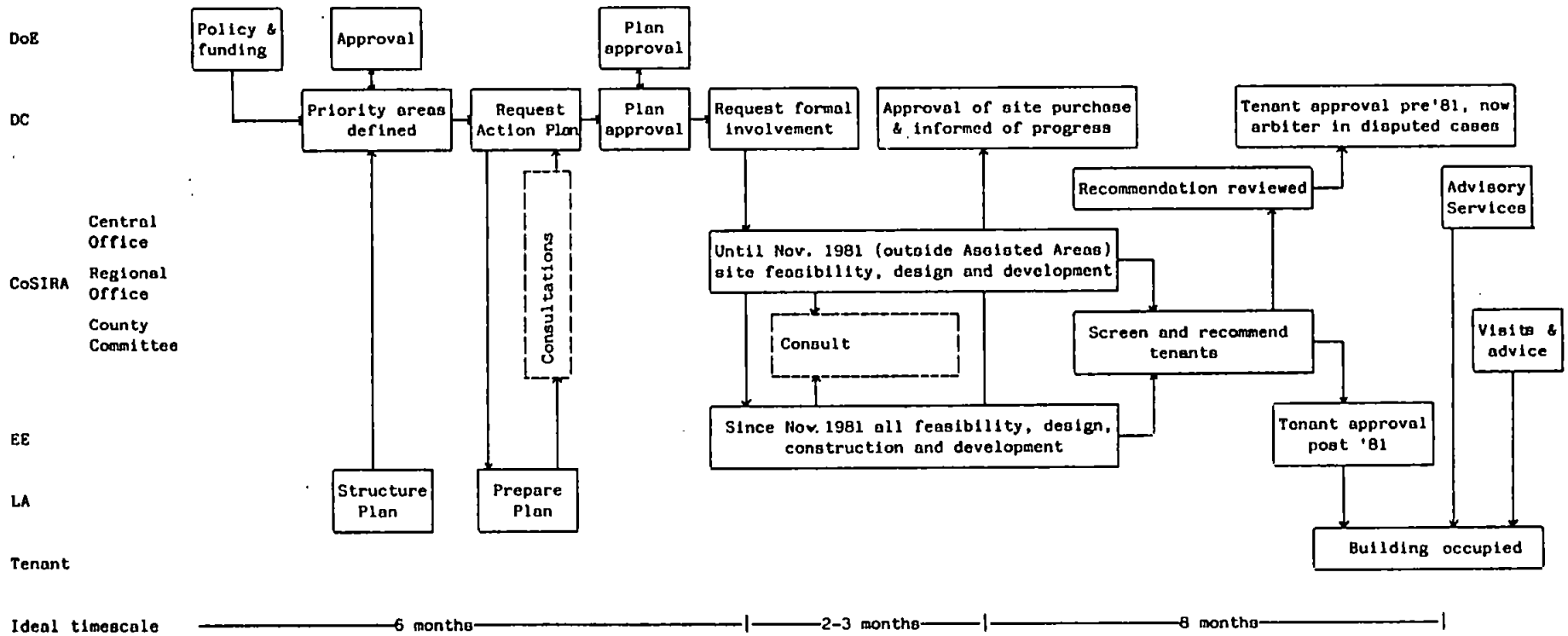
Checklist of information required by the Development Commission in Action Plans

1. Population
 - population changes in the area and in the specific towns to be assisted, with comparisons regionally and nationally
 - migration patterns, especially those of young people
 - age structure of population with reference to trends over the last 10-20 years.
2. Economic Activity
 - unemployment in the area proposed for investment, with comparison with regional trends
 - male and female activity rates
 - the current occupational distribution of the population, highlighting any need to diversify local employment opportunities
 - developments already in progress and in prospect with, where possible, some estimate of their effect on unemployment, migration and the range of job opportunities
 - the role of small indigenous industry and of tourism
 - the availability of sites for light industrial development at the locations proposed, in particular fully serviced sites in local authority ownership which could be made readily available.
3. Community Facilities
 - local educational facilities and amenities
 - the housing programme of the local authority
 - the adequacy of the communications network, particularly as affecting the area's labour supply and accessibility to materials and markets.
4. Special Factors
 - any special studies or surveys undertaken in the area
 - any special influences with a bearing on factory investment (for example, lack of industrial experience and the need for training or infrastructure problems, such as sewerage or drainage).

(Source: Development Commission 1976)

FIGURE 6.3

Development Commission procedure for providing small factories 1976-1984



(Adapted from material supplied by Cornwall County Council)

areas a local building company was contracted to build the units. Now, of course, English Estates are responsible for all the factory building and marketing, with CoSIRA's role being to investigate and recommend firms for tenancy.

Although sites are specified in the Action Plan, a detailed feasibility study is not undertaken until the implementation stage. This study is undertaken by English Estates (CoSIRA were formerly responsible for studies outside the Assisted Areas) and it covers technical and environmental considerations. Feasible sites are valued by the District Valuer, are usually purchased directly by the local authority, are serviced by them, and are then resold to English Estates acting on behalf of the Commission. There is often considerable difficulty in identifying suitable sites in small towns and villages, and because of this the Action Plans encouraged a five-year forward planning exercise to facilitate the accumulation of land for development in each year.

The vetting of tenants

A distinctive feature of the Development Commission's small-factory programme is the very rigorous screening of potential tenants which is generally much more exhaustive than that found amongst local authorities or English Estates. The screening procedure takes place in two stages. Firstly, there are a number of considerations which guide the selection of certain preferred types of tenant and, secondly, there is more detailed financial vetting of applicants. One general consideration of importance is that the Commission's services are available only to small businesses employing fewer than 100 persons and less than 20 skilled workers.

An insight into the tenant preferences of the Commission is obtainable from a set of operational guidelines produced when English Estates took over full responsibility for implementing the building programme (Development Commission 1981a). These guidelines are not published and applicants are typically not aware of the criteria by which they will be judged. When considering applications CoSIRA pays particular attention to:

- (i) the capacity of the prospective occupiers to provide an adequate level of employment of the type needed in the area. CoSIRA attempts to achieve four new jobs for each 1,000 sq.ft. of factory space within three years of occupation.

- (ii) The nature of the enterprise; preference is given to manufacturing firms, whilst consideration is given to applications from service and distribution industries where these are of importance to the local economy.
- (iii) Applications from firms seeking to re-house their existing activities are considered if it can be demonstrated that their continuing survival or potential for growth is dependant on a transfer to other or larger premises.

The strong preference for firms to have good employment prospects is reflected in the thoroughness of the financial screening operated by CoSIRA. A full history of the business is sought, including details of the background and experience of the business owners. The applicant is required to show how the tenancy will contribute to the development of the enterprise in terms of sales, employment and productivity. In addition, past audited accounts (where applicable), an up-to-date balance sheet and cash-flow projections for the coming year are nearly always requested. In addition, CoSIRA also operates a technical feasibility study to ensure that the proposed production processes are appropriate to the particular building.

The financial screening of applicants is undertaken by a management accountant connected (either full or part-time) with the relevant regional office of CoSIRA. Decisions to accept an applicant are based on the recommendations of the management accountant which are then considered by the county officers of CoSIRA. Up to a quarter of the firms investigated have been regarded as financially unsound (1). Until 1982, the county's recommendation was then reviewed by CoSIRA's national office (although this rarely led to the rejection of recommended tenants) before receiving the formal ratification of the Development Commission. Since 1982, English Estates has given formal approval to tenancies on the guidance of CoSIRA's county organisers. In any case of dispute between CoSIRA and English Estates, the Development Commission acts as final arbiter (2).

Compared with local authorities, the lease and rental terms set by CoSIRA have tended to be towards the commercial end of the market. The rents for CoSIRA units are fixed by the District Valuer to cover development costs, which can be relatively high because of the practice of building small clusters of units rather than terraces containing a larger number of premises. During the early 1980s rents varied typically between £2.00 to £2.50 per sq.ft. depending on the precise location and the size of schemes. Design considerations have been

given particular attention to ensure that buildings blend into their rural setting and this is a further influence causing rentals to be relatively high. The design policy for Commission factories is to provide good-quality buildings, at high initial capital cost but aiming for lower maintenance costs (Buildings Research Team 1980). For example, factories include as little paintwork as possible by using aluminium, coated plastic and treated windows. A large entrance for a truck to reverse into has always been provided to accommodate a wide range of tenants, although some tenants do not use it and have complained of heat loss (Buildings Research Team 1980 p.30). In keeping with the high standards demanded by the Commission, leases for as short as three years have been possible, but this length of lease is not favoured (Development Commission 1982). The surrendering of leases is normally accepted where the tenant is expanding into larger premises (public or private) in the locality, but in other circumstances a financial penalty may be levied. Leases may be reassigned, but CoSIRA may insist that the new tenant meets their criteria. While all the Commission's factories are available for lease, in 1980 the Commission was given authority to dispose of the freeholds of factories: by 1983 28 factories had been sold (Development Commission 1983).

The building programme

Subsequent to the withdrawal of the Development Commission's responsibilities from Scotland (1969) and Wales (1976), and the new remit given to the agency in 1975, the factory development role of the Commission expanded dramatically (Table 6.2). By 1982, three million square feet of factory space had been approved in the 30 SIAs although, because of site acquisition problems, by 1984 one third of this allocation had still to be constructed (MINE 1984). The Commission's units range from 1,000 sq.ft. to 15,000 sq.ft., but relatively few are above 5,000 sq.ft. and the average size is 2,600 sq.ft. (Table 6.3). Recently, the sharp decline in established firms transferring premises, and the increasing demand for very small rural workshops has led the Commission to concentrate its recent efforts on providing units of less than 2,500 sq.ft.

TABLE 6.2

The Development Commission's factory programme 1975-1982

Factory approvals	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
Number	7	44	112	293	279	148	188	155
Average Size ('000 sq.ft.)	4.0	3.2	3.4	2.4	2.1	2.5	2.0	1.4

(Source: Development Commission Annual Reports 1975-1982)

TABLE 6.3

The Development Commission's factory portfolio (April 1982) (3)

	Number	Floor area (sq.ft.)	Average size (sq.ft.)
Units completed	555	1,463,251	2,600
Under construction	111	147,320	1,300
Planned for 1982/84	574	1,278,320	2,100
Transferred to private sector	28	69,000	2,500
Total approved programme	1,268	2,937,891	2,300

(Source: Development Commission Annual Report 1982)

The survey of local authorities and New Towns discussed earlier discovered a total provision of over 6,300 units amongst the three-quarters of local authorities who replied. In these terms, therefore, the Commission is of much less significance. However, the Commission has a special role as a builder in areas not strongly favoured by other public and private developers. Figure 6.2 shows that the Commission's units are almost entirely in upland and/or peripheral areas. Some of these districts have experienced no local-authority provision, as in the case of Shropshire, North Yorkshire and parts of Cumbria. In these three counties, the Commission had supplied over 150 units by 1982. By comparison, in Northumberland, Norfolk, Lincolnshire, Hereford and Worcestershire, Devon and Cornwall the Commission's provision numbered less than half of the total (580 units) identified in the local-authority survey. But the counties benefitting from both programmes contain a number of major settlements which account for two-thirds of local-authority activity. Moreover, the Commission has

made a distinctive contribution by building in remoter areas such as the Lizard peninsula in the far south west and the Scottish borders.

The Development Commission has sought to encourage private-sector involvement in its factory programme. In 1980 they devised a partnership scheme with a head-lease arrangement. One private investor expressed interest in the project, but only on financial terms that were unacceptable to the Government (Development Commission 1982). Two other (albeit rather different) joint schemes have, however, been launched. In 1981 a 50/50 funding scheme was set up: this is aimed at local authorities and under it the Commission will contribute 50% of the cost of providing workshops, either new or converted, which are built and managed by local authorities (see Chapter Three). Secondly, a redundant buildings grant, available to individuals and organisations, provides 35% of the conversion costs of old buildings to craft workshops or light industrial use, subject to a maximum total project cost of £50,000. Both these schemes operate throughout rural England.

Impact of the Development Commission's factory programme

A number of studies have assessed the impact of the Development Commission's factory programme on rural economies. Research in mid-Wales (Development Commission 1972) estimated that the average factory construction cost per job created, including multiplier effects, was between £650-£850 (in 1970 prices). Hodge and Whitby (1979), however, found costs up to twice as high in the Eastern Scottish borders (at 1970 prices). Nonetheless, after discounting the costs over time, and taking into account savings in unemployment benefit and extra tax revenue, Hodge and Whitby concluded that the investment earned a full return on costs after 25 years.

A survey of a small sample of Development Commission premises in Shropshire and in West Hereford and Worcestershire found that most tenants shared three features: namely a tendency to be engaged in manufacturing, to have had one to two years' trading experience prior to occupying the advance unit and to have been operating previously within ten miles of their present site (Buildings Research Team 1981). Hillier (1982), from a survey of Development Commission factories in eastern England, found a very similar pattern. She concluded that the Commission played an important role by accommodating enterprises which have generally been in operation for about two years and have outgrown their previous shed or garage facilities. JURUE (1983b) noted, however, that the Commission's job gains were achieved only at some

cost to local authorities, since they effectively subsidise the programme by selling sites to the Commission for less than their capital outlay.

Some further evidence on the employment consequences of the Development Commission's factory programme is discussed in Chapter Eight, which provides a comparison of the Commission's tenants with those in other small advance factories.

6.3 ENGLISH ESTATES

The factory-building activities of English Estates go back to the 1930s when severe local unemployment in Clydeside, the North East, West Cumbria and South Wales led to the Special Areas Act, 1934. This legislation allowed non-profit making companies to be established to encourage new industrial activity. These estates companies concentrated their investment on providing serviced industrial land, but the Commissioner for Special Areas (England and Wales) noted the potential importance of advance factory provision:

"The small industrialist seeking a site for a new factory is attracted by the admirable facilities provided so freely on estates like those at Trafford Park and at Slough, where among other advantages, he is able to obtain suitable factory premises on lease and he is repelled from the Special Areas by the lack of such facilities and from the expense of the preliminary work which he realises is necessary in their absence."

(quoted in Slowe 1981 p.15)

Under the Distribution of Industry Act, 1945 the Board of Trade financed the regional estates companies to commence a more extensive factory programme. This provision became a central part of government regional policy, along with the system of regional development grants and building certificates to control the location of new investment. Originally the estates companies focussed their activities on building large factories to the specifications of particular occupants, who either leased or purchased the completed unit. In Merseyside, for example, of the 2.4 million sq.ft. of floorspace financed by the Board of Trade between 1947 and 1966, 80.5% consisted of new, bespoke premises and 13.5% of extensions to the existing stock. Only 6% was in the form of speculative development (Lister 1982 p.46). But this pattern has not been maintained: 75% of the new floorspace financed by the Department of Industry on Merseyside between 1967 and 1981 was in advance factories (Lister 1982).

Under the Local Employment Act, 1960 the North Eastern Trading Estates Ltd. had been amalgamated with the two other estates companies operating in West Cumberland and Merseyside to create the English Industrial Estates Corporation. This unified agency, working under the Board (and later Department) of Trade was greatly expanded by the Labour government of 1964 to 1970. At this time, and up to the mid-1970s, the tendency was to build on peripheral greenfield sites on the edge of cities as typified by their extensive provision on industrial estates at Team Valley in the North East and at Kirby in the North West. The emergence of the inner-city problem, and the interest in the small-scale manufacturing sector, influenced the Department of Industry to divert factory investment to the inner areas and to build units below 5,000 sq.ft. To provide for the needs of very small enterprises, a subsidiary company of English Estates was established in 1980 to supply "Beehive" workshops which range in size from only 500 sq.ft. to 2,000 sq.ft.

In 1983 a major change was announced to enable English Estates to develop office and commercial properties in addition to factory premises. The extension of their role in this way arose partly out of a recognition of the potential for economic and employment growth in the office and service sectors in those areas where private property developers were leaving gaps in the market. It also reflected some difficulty in identifying worthwhile industrial projects in some of the most depressed areas, such as Merseyside, where the supply of new industrial accommodation has been expanded sufficient to meet two years demand. A number of commercial schemes were commenced in 1984, of which by far the largest is the redevelopment of the former Exchange Railway Station in Liverpool to provide 200,000 sq.ft. of office space, a shopping mall and a public park.

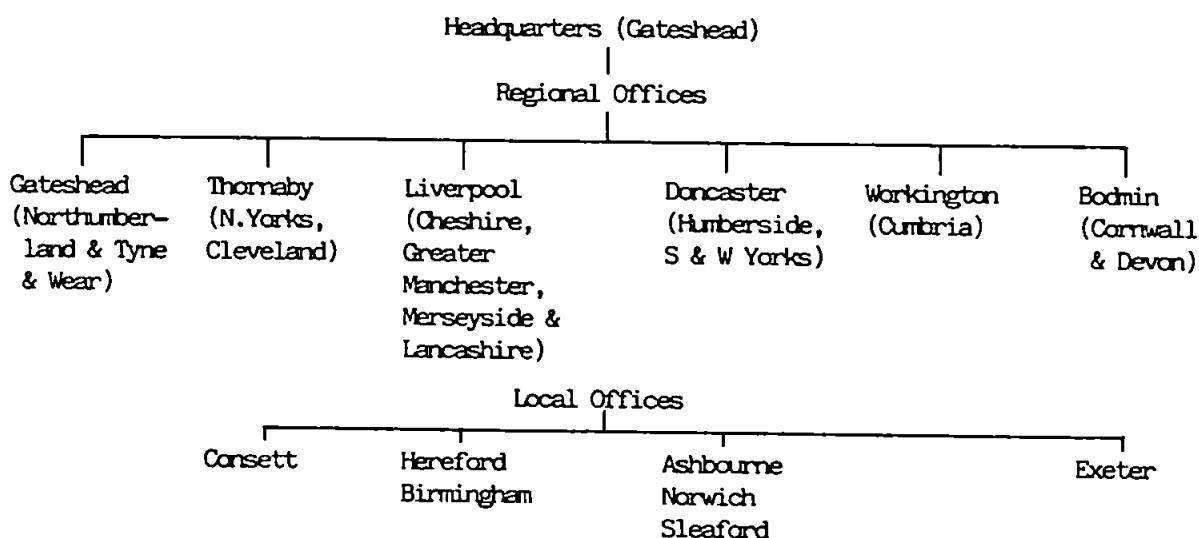
Administrative structure

English Estates is a statutory corporation which is under the general control of the government acting through the Department of Trade and Industry. The Secretary of State appoints the Chairman and four members who act as a supervisory board of directors on a part-time basis. In addition, there is a full-time chief executive and management board based at Gateshead. Below this tier of organisation are six regional offices (Figure 6.4), and since 1980 smaller local offices have been opened in response to their assuming responsibility for the Development Commission's existing portfolio and future provision.

In addition, an office has been opened in Consett to administer their substantial programme in this steel-closure area. In anticipation of some part of the West Midlands becoming an Assisted Area, a further office was established in Birmingham in 1983. The 1984 White Paper on regional industrial policy confirmed this addition to the Assisted Areas map, making this part of Britain eligible for government advance factories for the first time.

FIGURE 6.4

English Estates' corporate structure (1983)



In 1980, 80% of English Estates' construction programme was financed from the Treasury via the Department of Industry (the balance being obtained from the Development Commission). The level of funding was determined annually by the government and the Department of Industry which also, on the recommendations of its regional offices, determined the building programme. There was little consultation with local authorities. English Estates managed the units, while the selection of tenants was the responsibility of regional Department of Industry officers.

The locational priorities of English Estates were based on areas where high unemployment caused problems which could be reduced by the introduction of local factories. Slowe (1981) found, however, that investment had been based on individual assessments of particular situations without a clear sense of national priorities. Today, a more formal approach to the planning of the investment programme has been adopted, although this still does not match the comprehensive investigation undertaken by the Development Commission.

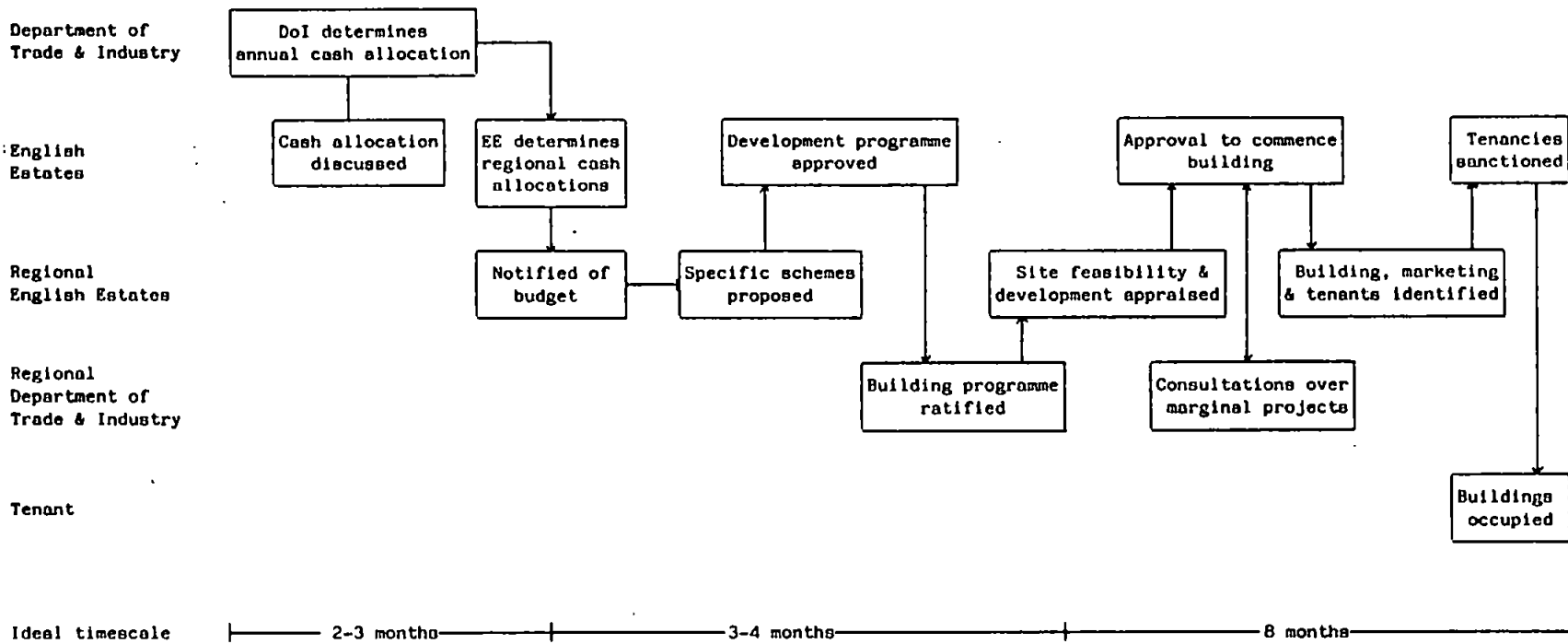
In 1979, English Estates' activities were subject to a major review which led to changes in the agency's administration being introduced in the 1980 Industry Act (later consolidated in the English Industrial Estates Corporation Act, 1981). As part of its wider encouragement for greater private funding of the public sector the new Conservative government wished to weaken the association between English Estates and the Department of Industry, partly to enable private investment to be attracted. In addition, a review of the management structure of English Estates by Coopers and Lybrand (unpublished document) concluded that the regional officers of the Department of Industry were inappropriate to act as estates developers. This was partly because of their distance from the local property market, and also because of their background as civil servants rather than as estate managers. The review gave the power to determine the location and character of new investment and to select tenants to English Estates, with the Department of Industry retaining only formal involvement to ratify proposals. Within the agency there has also been greater devolvement of decision-making responsibilities to regional officers.

In 1980/81, the budget received from the Department of Industry was £37 million and in 1981/82 it was £40 million (these figures compare with Development Commission factory expenditure of £9 million and £5.4 million)(4). The overall allocation is distributed to the various regional areas by English Estates according to a national estimate of their needs. This estimate is drawn up using a formal model which distributes income on the basis of absolute numbers unemployed in each travel-to-work area and the existing stock of English Estates' premises vacant in those areas. This procedure (Figure 6.5) leaves regions with relatively little scope for effective lobbying to increase their allocation, but problem areas such as coal and steel closure towns are given high priority.

Once the annual budget has been fixed, English Estates notifies its regional branches of their allocation. The regions then put forward building proposals (which may include refurbishment and/or demolition) for approval by English Estates and ratification by the regional branches of the Department of Trade and Industry. Under financial guidelines introduced by the Government in 1980, expenditure is expected to achieve target rates of return (i.e. a gross rental income as a percentage of the costs of development) of 6% in Special Development Areas, 7% in Development Areas and 8% in Intermediate Areas (5). Although the target rates of return are roughly half those that private

FIGURE 6.5

English Estates procedure for provision of advance factories (1980 onwards)



developers would expect to earn in the Assisted Areas, they have been a further influence encouraging more emphasis on small-unit schemes. This is because the generally greater demand for small factories, compared with large premises, makes the targets easier to meet.

In addition, an assessment of likely demand and void lengths must now accompany all development proposals. Under the two-year stock rule introduced with the new guidelines, no more than two years' supply of units can be provided in any one size group in each travel-to-work area, based on the rate of take-up experienced in the previous twelve months. The generally buoyant demand for small units has, therefore, encouraged further provision. But this rule also serves to underline the contrasting development criteria of English Estates and the private sector which would typically avoid investment with an anticipated void period of greater than six months.

The 1980 Industry Act allows English Estates for the first time to build factories outside the designated Assisted Areas. This is largely to enable it to build in the areas supported by the Development Commission. In administrative guidelines put before Parliament in 1981, it was indicated that the Department of Trade and Industry would finance factories outside the Assisted Areas only in exceptional circumstances. Thus English Estates has been given responsibility for redeveloping a major part of Chatham Docklands in Kent, but most projects continue to be located in the Assisted Areas. How English Estates will respond to the major cutback in the extent of Assisted Areas following the 1984 White Paper is not yet clear. However, a further weakening of the agency's link with regional policy is possible if the present Government's emphasis on supporting specific localities (inside and outside Assisted Areas) absorbs the factory investment formally directed at Intermediate Areas.

The vetting of tenants

As part of its connection with government regional policy, English Estates' factories have been traditionally reserved for occupation by manufacturing industries transferring into the Assisted Areas or opening new branch plants. Factories were part of a package of incentives designed to attract inward investment and there was little concern to grant tenancies to local business. It was felt to be important to have some vacant space at all times. Often no specific vetting of tenants was conducted as the suitability of the applicant would be determined in general negotiations for regional incentives

with the regional office of the Department of Industry.

Since 1980 the responsibility for screening tenants has been handled mainly by English Estates at the regional level, though with the financial investigation undertaken at the agency's headquarters in Gateshead. The allocation of regional development grants is now a separate process from the letting of English Estates' factories, and this is reflected in the relaxation of some of the restrictions on occupation. English Estates are prepared to consider non-manufacturing tenants and locally transferring businesses. One visible sign of the new, more flexible and commercial approach is the appearance of advertisement hoardings and newspaper publicity for premises, whereas previously no marketing of Department of Industry factories was undertaken.

Only regional officers of English Estates make direct contact with applicants, and at this stage possibly up to a fifth of interested firms may not be accepted, either because their activity is considered inappropriate or because the business is considered unsound. Firms which are judged as potential tenants have their past accounts and bank references examined at Gateshead by headquarters staff but this tends to lead to few further rejections (6).

Until recently, lease terms were always of at least 21 years. This was partly because the firms granted tenancies were mainly established businesses which preferred the security of long leases. Another motivation was that tenants were typically in receipt of development grants and the aim of this investment was to support significant long-term employment. Leases of 6, 9 and 12 years are now available on units up to 3,500 sq.ft. in size, but for larger premises leases of 24 years continue to be typical.

Rents on English Estates' factories used to be fixed by District Valuers who calculated rentals at a level to cover development costs. The commercial freedom now given to English Estates allows it to determine rents, but they are expected to be the highest that the factory can earn. This may, nonetheless, mean very low rents if these are the only terms on which premises can be let, but for this to happen sanction from the Department of Trade and Industry has to be obtained.

The building programme

The importance attached to building units of less than 5,000 sq.ft. has increased in recent years. In 1975 only 6% (20 units) of English Estates' total stock of occupied premises were in units of this size

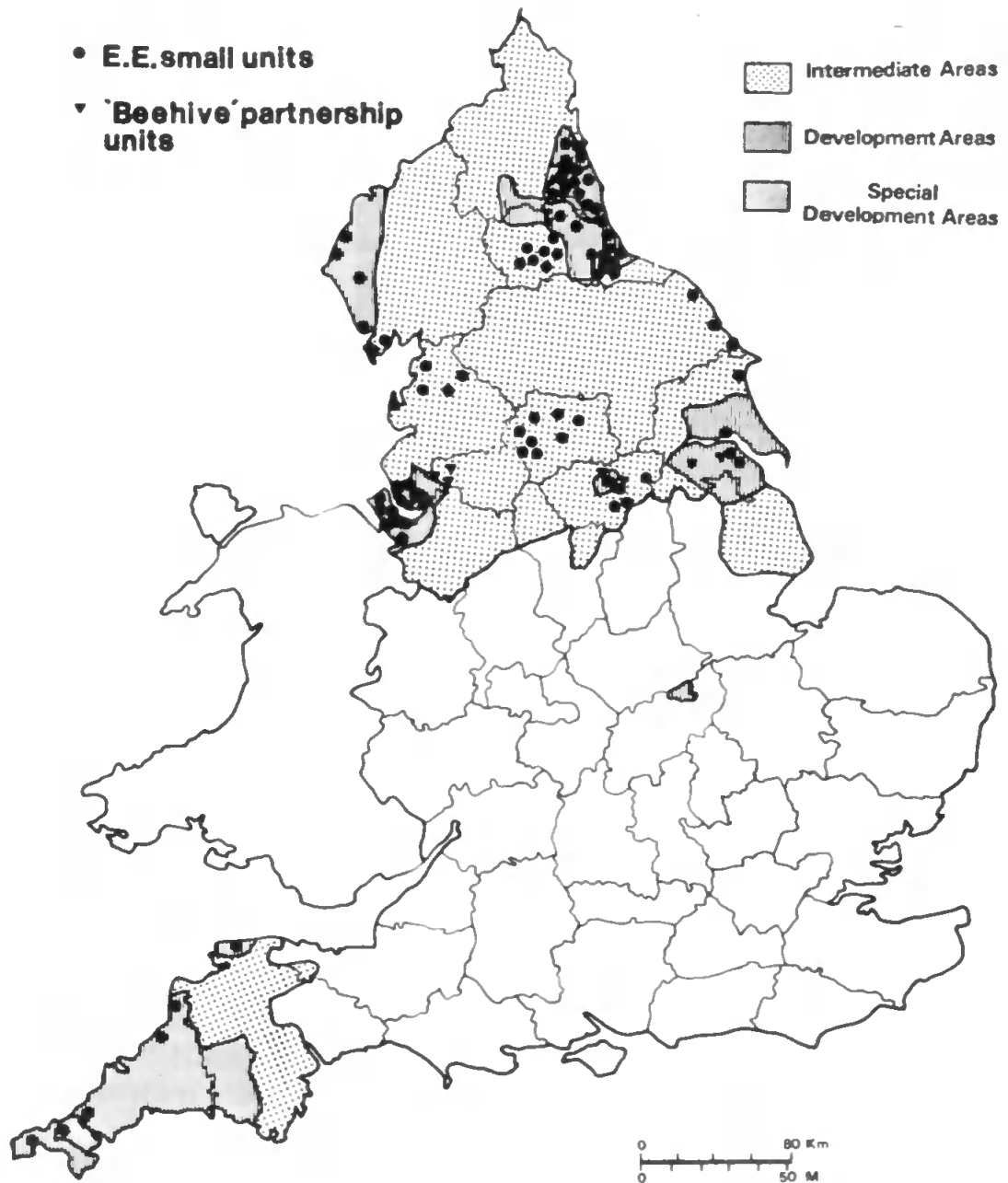
(Slowe 1981). In 1979, the Department of Industry asked English Estates to build 500 sq.ft. and 1,000 sq.ft. workshop units in three experimental schemes in Jarrow, Sunderland and Wallasey. In 1980, of the 539 premises under construction or scheduled for provision in 1981, no less than 455 units (with an average size of 2,500 sq.ft.) were in small premises (English Industrial Estates 1981). By March 1982 it had built on behalf of the Department of Industry 819 small premises out of a total property portfolio of 1,519 factories in England (English Industrial Estates 1982). The small units are distributed throughout the main centres of population in the Assisted Areas, with the exception of the south west where provision had been limited to 38 units in 1982 (Figure 6.6). This reflects the predominantly rural character of the south west, which has led to the Development Commission being the more significant provider. English Estates' small factories are most numerous in the major urban areas and particularly in the main unemployment trouble spots of Merseyside and the North East. Since 1982 English Estates has completed a further 730 small factories. There has been an increasing spatial distribution to the investment programme reflecting the search for rates of return that meet the financial guidelines. Thus locations such as south west Devon, north Lancashire and Humberside have figured more highly in the post-1982 programme.

In 1980 English Estates commenced a programme to provide 1,000 workshop units through a partnership with various private-sector funding institutions. This initiative was announced in the Spring 1980 Budget. To implement the proposals, English Estates formed a subsidiary company "Beehive Workshops Ltd.". By 1983, private investment totalling £11 million had been secured to finance the total programme, although not always in the areas preferred by English Estates (7).

The partnership schemes are organised on a leaseback arrangement (see discussion in Chapter Three) with Beehive Workshops Ltd. taking full responsibility for the selection of tenants. In return for relinquishing their influence over the selection of tenants, and to encourage their investment in a sector of the market traditionally considered too risky, English Estates guarantee the private partner rental income on any unlet units for five years after the completion of developments. Where local authorities have entered partnership schemes with the private sector they have generally had to guarantee rental income for the life of the development. The better terms achieved by English Estates largely reflect private institutions' greater confidence in this agency as an industrial property developer (see

FIGURE 6.6

English Estates (Dept. of Industry) Small Factory Units 1982



case study of CIN Properties Ltd. in Chapter Seven). Nonetheless, the detailed financial terms involve English Estates in a major subsidy of the factories, and the Department of Industry has indicated that the programme will not be extended without more commercial terms being obtained (8).

Beehive Workshops' management approach is radically different to that adopted by English Estates. In line with their objective of encouraging new, local businesses, the Beehive premises are let on short-term licences, and applicants are subject to a financial investigation which may consist only of the examination of references. Rentals tend, however, to be fixed at the maximum commercial level in order to satisfy the requirements of their commercial partners.

Under agreements reached in 1980-81 with the Legal and General Assurance Society, CIN Properties, Barclays Bank and Midland Bank, 151 units (average size 2,000 sq.ft.) were completed. In 1981-82 a further 427 units (average size 1,200 sq.ft.) were built or under construction. The locations of joint schemes (Figure 6.6) are selected by English Estates, although the agreement of investors is, of course, required to confirm the preferred sites, and this has not always been forthcoming.

Impact of English Estates' factory programme

Slowe (1981) evaluated the impact of English Estates' advance-factory programme, and although the investigation was limited to units built since 1959 and occupied by 1975, this work remains the only major research on this agency(9). Slowe reached three main conclusions. The first is that, although labour availability has been the major influence in inducing mobile firms to Assisted Areas, advance factories have been very important in determining their location within the region. Secondly, it was shown that, with the possible exception of remote rural areas where the labour pool is highly restricted, the performance of firms is not adversely affected by a location in an advance factory. Thirdly, the impact made by the firms in English Estates' premises is direct and local; the multiplier and spread effects are typically small.

6.4 SUMMARY AND REVIEW

Overall, English Estates and the Development Commission had supplied 1.8 million square feet of factory floorspace in units of 5,000 sq.ft. and below between 1976-1981. This provision is considerably below the contribution of local authorities and New Towns over the

same period. But at the local level, in isolated rural locations and areas of economic distress, properties supplied by English Estates and the Development Commission are more important. Indeed, in extreme situations they may be the only new small premises available for occupation.

A summary of the salient features of the management and letting practices typically associated with English Estates and the Development Commission is given in Table 6.4. Such a table cannot do full justice to the complexity and variability of practices, but it does serve as a general guide. The Development Commission tends to be the agency operating the most rigorous selection procedures, whilst the letting procedures associated with the Beehive units is less comprehensive and designed to enable new, local businesses to obtain tenancies. The Cornwall case study undertaken in Chapter Eight examines the extent to which different management approaches have achieved their objectives and resulted in distinctive tenant profiles.

Another interesting comparison between the agencies is their style of operation. The Development Commission has an area-based perspective working in close collaboration with local authorities which take the primary role in the design of the building programme through the Action Plan procedure. On the other hand, despite recent moves towards more devolution, English Estates operates as a more centrally controlled organisation that does not work so closely with any local agencies in planning the distribution of its investment.

English Estates and the Development Commission have undergone a major review of their activities since 1980: this has not only affected their internal organisations, but also the relationship between the two agencies. Partly this reflects continuing changes in the economic environment. The counter-urbanisation trends common in most rural areas have led to the redrawing of the Development Commission's priority areas and the introduction of new operational guidelines which enable it to pursue policies aimed at a wide range of rural problems. The pressure of economic decline throughout the country during the 1970s is influencing the abandonment of traditional regional policy in a period of reduced industrial mobility. Hence the emphasis on support to indigenous economic development in place of support to inward investors.

TABLE 6.4

Typical management features for English Estates and Development Commission small premises

Management Consideration	Basis of Allocation		
	Development Commission	English Estates	Beehive/Partnership
Lease terms	Usually 10-21 years, but 3 year leases are possible.	Units of less than 3,500 sq. ft. let on 6/9/12 year leases. Larger units let on 24 year leases.	Short-term licence agreements for periods of 3 months to a year.
Rental levels	Fixed by District Valuer at a level to cover development costs.	Fixed by EE at the maximum level obtainable on the property (though may mean very low rents).	Full commercial rent, including a premium to cover the extra management costs of short-term tenancies.
Type of tenant preferred	Local manufacturing businesses, with links to the local economy and with prospects of reaching an employment density of 4 jobs/1,000 sq.ft.	Established manufacturing firms moving into the area or opening a branch plant, but other types of enterprise now also considered.	New, local businesses with some preference for manufacturing concerns.
Assessment procedure	Rigorous investigation conducted into all aspects of previous trading record, present circumstances and future projections.	First-stage screening by regional EE offices and examination of references by EE headquarters.	Examination of bank references and personal interview.

Both agencies have also been influenced by the Government's aim to concentrate resources in those areas of greatest need and to achieve "better value for money". These changes may not, however, be without danger. The review of the Commission's priority areas has resulted in a reduction in their geographical extent and population size. Whilst the previous practice of allocating a limited budget to locations with particular difficulties outside the designated areas will continue, the abandonment of the Pocket of Need concept raises questions on whether isolated problem settlements will attract sufficient attention. Solely Commission-funded units will not be built away from the Rural Development Areas, instead reliance is to be placed on the 50/50 funding scheme (with local authorities) and the grant assistance for conversion projects. Both schemes depend on the initiative of other actors which, particularly in the case of joint local authority development, may be difficult to maintain at a time of tightening expenditure restrictions.

In relation to English Estates, the introduction of target rates of return may produce unintended consequences because, in order to achieve acceptable returns, schemes at the margin of private-sector interest may increasingly be implemented. Thus although imposed to encourage a more commercial approach the net effect may be to deter private investment in those locations where the supply of publicly-funded accommodation is dramatically increased.

In a brief review of the kind undertaken here it is impossible to assess the rationale and effectiveness of having two different government agencies performing virtually the same role. A comparison of their respective geographical patterns of provision (Figure 6.2 and 6.6) shows some significant contrasts as the Commission has built outside the Assisted Areas. In particular, the Commission has had a substantial programme along the Welsh border, in Staffordshire/Derbyshire, Lincolnshire and East Anglia. Conversely, parts of the North East, West Cumbria, Humberside and the far south west are priority areas for both agencies. Government has recognised the potential for some conflict and duplication of activity to occur by giving English Estates responsibility for building and managing all of the Commission's factory portfolio. Nonetheless, units may be financed by both agencies in close proximity, giving the possibility of competition for the same tenants. In these terms the more rigorous tenant-selection procedures preferred by CoSIRA may be a means of minimising duplication.

However, one difference that should be re-examined is that CoSIRA offers Commission tenants a comprehensive range of technical and financial assistance while English Estates provides no back-up service. This contrast tends to leave the rural areas with more ability to assist industry, despite the national trend for rural areas to have performed better in employment terms than the conurbations. Property constraints have been identified as a principal cause of the shift in manufacturing employment away from urban areas (Fothergill and Gudgin 1982). Consequently, if the policy objective is to revitalise the inner cities, there is a clear need for extra resources for English Estates to enable it to provide the comprehensive support to business offered by the Commission and CoSIRA.

NOTES ON CHAPTER SIX

- (1) Estimate supplied by Mike Jennings, Cornwall County Organiser, October 1981.
- (2) During this research comments were widely received from English Estates' officials on what they regarded as "excessive selectivity" by CoSIRA when recommending tenancies. Unfortunately, collecting hard data on comparative rejection rates was not possible: ideally this would show the outcome of applications to CoSIRA and English Estates from paired firms with similar backgrounds.
- (3) Between 1982 and 1984 the Commission completed a further 375 small factories and added 561 units to the total approved programme (Chisholm 1984).
- (4) Comparative figures for 1982/83 are £36 million (English Estates) £7.39 million (Development Commission) and for 1983/84 £38.5 million and £10.03 million respectively.
- (5) In 1984 the Intermediate Areas ceased to exist.
- (6) Personal communication from James King, Economic Service Manager, English Estates, April 1982.
- (7) View expressed in personal communication with Bill Locke, Regional Estates Manager, Liverpool, July 1984.
- (8) Personal communication with David Rees, Department of Trade and Industry, October 1984.
- (9) At the time of writing a major review of English Estates advance factory programme is being prepared in a research report sponsored by the Department of Trade and Industry and carried out by Coopers and Lybrand.

CHAPTER SEVEN: THE PRIVATE SECTOR

7.1 INTRODUCTION

The character of public sector small-factory provision has now been dealt with, and in this chapter attention turns to the private sector. In broad terms, the private sector's willingness to initiate new development sets the limits of public involvement by leaving gaps in the market for public agencies to fill. The main characteristic, until recently, of private speculative development for small industries was its scarcity. But in response to tax incentives and to declining investment opportunities in alternative property sectors, the late 1970s witnessed a sudden growth in private-sector involvement.

The respective roles of private and public sector agencies are usually viewed as quite opposite: the private sector operates with the intention of obtaining a good return on its investment, and factory development is seen as only one of a portfolio of possible activities. In contrast, public developers act to achieve wider employment and environmental objectives which may not satisfy commercial criteria. But these differences should not obscure many similarities. It has been emphasised in previous chapters, for example, that local authority estates departments often operate on or near market criteria and, like the private sector, tend to perceive effectiveness of property provision in terms of disposal on acceptable financial terms. Private-sector agencies have been traditionally viewed as risk-takers, but much of their investment in industrial property has depended on them having a guaranteed income through leaseback arrangements. Conversely the public sector is increasingly prepared to bear risk in the interests of creating additional employment. One aspect of the transformation of the small-firms' industrial property market since the late 1970s is, therefore, to be seen in the development of new relationships between the private and public sectors.

Private-sector agencies involved in advance small-factory provision range from local development companies building a small number of units to the major funding institutions such as pension funds and insurance companies. For the purposes of this study a reliable sampling frame of all companies with an interest in industrial property could not be constructed, as this would require a major research exercise in its own right, and the decision was, therefore, taken to focus on a number of case studies of individual organisations. These were selected to be representative of the various types of private-sector agency.

Although these profiles obviously do not provide the basis for a statistical analysis, they do illuminate typical private-sector policies.

The case studies are reported in the second half of this chapter, while the first half considers the general structure and investment patterns of the private sector. It should be noted, however, that this study is concerned only with speculative factory developments, and it, therefore, does not consider private-sector provision involving firms building their own premises.

7.2 THE DEVELOPMENT INDUSTRY

Few private agencies concentrate mainly or exclusively on small-factory provision. Rather, there is a range of organisations which include within their wider activities and investment portfolios some interest in small premises. Private-sector bodies are involved to varying degrees with construction, finance, development and the management of industrial property. These different aspects of the development process require the participation of particular market specialists, namely:

- (i) the building contractor whose expertise is the construction of property.
- (ii) The "ordinary" developer whose prime interest and expertise is site selection, development and management of property which is then sold to investors either before, or commonly after, a tenant has been found. Premises may also be sold to owner occupiers.
- (iii) The investing institution with expertise in the identification of marketable property that will bring a secure return on investment. These institutions purchase finished schemes from developers wishing to sell completed property.

The areas of responsibility are broadly defined, and it is typical for agencies to combine two or more activities. CALUS (1979) suggest that the most characteristic forms of organisation are:

- (i) the developer-investor (for example, Brixton Estates Ltd.) whose prime interest is site selection, development planning and the management of estates. The actual building work may be undertaken by a subsidiary of the main company, or may be sub-contracted to an independent builder. Income is derived not from selling the estates or units, but from retaining the premises and leasing them to individual firms.
- (ii) The developer-seller (for example, Ashville Properties Ltd.)

whose primary concern is the organisation and management of property development rather than construction. However, these companies do not retain the estates but sell all or part of them to investors.

- (iii) The builder-developer (for example, Taylor Woodrow Estates Ltd.) who is usually the off-shoot of a contracting firm. They are primarily builders that have set up a development company as a subsidiary which channels the majority of its building work back to the parent company. Sometimes the developments are retained, as in the developer-investor type of company, and sometimes they are sold, as in the case of the developer-seller.
- (iv) The investor-developer (for example, Commercial Union Properties Ltd.) which may be a corporate body, a pension fund or an individual whose prime concern is the generation of income from investment in long-term assets. Some of these companies may not have the necessary expertise to undertake developments and, therefore, either buy completed developments, usually from the developer-seller, or finance a development scheme which they buy back from the developer. Alternatively, they may employ a team of experts to undertake development schemes on their behalf.

In recent years there has been an increasing flow of institutional finance into the industrial property market (Boddy and Barrett 1980). Moreover, even those organisations which do not usually seek to sell properties tend to design and manage them to the standards expected by the major institutions so that they can be readily sold if capital is required. Consequently, institutional investment criteria tend to exert a pervasive influence over private-sector development. Before examining these criteria, the growth of investment in industrial property is considered to set the institutions' actions in context.

The growth in industrial property development

In the 1970s the industrial property market became a major field for investment by developer-investors and financial institutions, with insurance companies and pension funds taking the dominant stake. Traditionally, investors have viewed the industrial sector (for all sizes of property) as unsatisfactory for a number of reasons relating to the specialist nature of much industrial building which made it potentially difficult and costly to relet. Compared with office and commercial property, there is often higher wear and tear on factory

accommodation, and hence a more rapid deterioration of capital value. Moreover, as a lower proportion of the total investment is represented usually by land value, as opposed to the value of the premises, the value of the investment as a whole deteriorates more rapidly than other types of property investment.

In the post-war period a number of trends grew in importance which, after the collapse of the office investment market at the end of the 1960s, caused industrial property to be revalued. These influences include (1):

- (i) The changing nature of industrial activity towards light manufacturing coupled with the expansion of warehousing, service and distribution functions. This has generated demand for standardised premises with a wider range of potential tenants, making letting generally easier.
- (ii) The lower capital value of modern industrial properties as opposed to office developments allows a spread of investment across a range of developments, thus minimising risk. This has attracted smaller institutional investors in particular, for whom an office development may represent too large a proportion of total invested funds.
- (iii) The more effective adjustment of supply to demand within the industrial sector due to much shorter construction times (18 months as against 3 to 4 years), following the introduction of standard designs and terraced constructions.
- (iv) The lack of alternative investment opportunities offering comparable yield and spread of risk at a time when institutions had a surplus of funds.
- (v) A further influence was the increased confidence in the legal code established under the 1954 Landlord and Tenant Act. This legislation gives safeguards to the tenant relating to the landlord's powers of repossession while retaining the landlord's freedom to include in the lease agreed provisions for rental reviews. Scarrett (1983) suggests that without this statutory framework (as updated by the Law of Property Act 1969) many tenants would have sought to avoid their previously insecure position as leaseholders in favour of acquiring freehold premises.

Total property holdings by insurance companies and pension funds grew from £500 million in 1957 to £14,500 million in 1982 (Cadman 1982). Unfortunately, more detailed data on the proportion of this investment in the industrial sector only, over the same period, are not available.

A survey of the largest pension funds, by Debenham, Tewson and Chinnocks (1983), found that between 1980 and 1983 industrial holdings had stabilised at 19% of all their UK property investment. For the future, half the pension funds wished to decrease their industrial holdings in favour of investment in shops (2). The same survey found a strong positive correlation between the size of a pension fund and the proportion of assets held in property. The three largest funds in 1982 (those for the Post Office, the National Coal Board and the Electricity Supply Industry) held over a quarter of their investment portfolio in property: this involved total sums of between £5,250 million and £2,450 million (3).

The growth in industrial property investment up to the early 1980s was also reflected in figures for the yield gap between industrial property and other property sectors. The value given by the investment market to property is measured by the yield, which is rent as a percentage of capital value. The higher the yield the greater proportion of capital value represented by annual income. The relationship between annual rental and asset valuation is complicated by the objectives of institutional investors. The practice of the insurance companies and pension funds is to try to match liabilities with investments of a similar term. The average term of life insurance liabilities is long and the average length of liabilities of pension funds tends to be longer still (Department of the Environment 1975 p.23). Thus they prefer long-term investments in assets that will hold their value over time in relation to inflation. The key to this is rental growth, and so the investor in property seeks types of buildings and locations which will achieve above average rental performance in the future. Offices and shops have been viewed as the most secure property investments, and hence institutions have bid up the value of these properties and have accepted lower yields in the expectation of long-term rental growth. Generally, safer but lower yields are preferable to risky but potentially higher ones (Barrett and Whitting 1983 p.12). Whilst industrial yields remain above those for offices and commercial premises, the gap has narrowed over the last decade (Table 7.1) reflecting a more favoured view of the industrial sector achieving significant rental growth.

TABLE 7.1

Prime yields on the major property sectors

Property Sector	1974	1975	1978	1981
Industrial	7%	8.5%	6.8%	6%
Offices	4%	6%	5.5%	4.3%
Shops	4%	6%	5%	3.8%

(Source: Cadman 1982)

The relationship between prime industrial yields and rents shows a broadly inverse pattern: high rent areas are associated with low yields and low rental areas achieve high yields (Figure 7.1 and 7.2). Yields rise as property values drop with distance from London. Aberdeen, not surprisingly given the impact of oil exploitation, is the only area outside the south east with rents over £2.50 per square foot. Some major industrial areas such as Merseyside, Teeside and parts of South Yorkshire and the East Midlands fall outside the £1.50 contour line, underlining these areas' difficulties in attracting private investment. But the pattern of yields and rents does not entirely reflect actual market performance: rental growth in Scotland has been above the national average, while inner London has a low yield but an unimpressive record of rental growth (Schiller 1983). The conservatism of London-based financial institutions also partly explains the marked concentration of low yields around the capital, as funds have bid up the value of property in this location to very high levels.

Thus, while the total investment in industrial property has been increasing, the spatial distribution remains narrow. The institutions and those development companies or builders wishing to sell developments to the major funds tend to be concerned only with "prime" property. The evidence given by institutions to the Wilson Committee (1980) indicates that they have very restricted criteria for investment. In brief, their criteria can be described as including only modern, freehold or long-leasehold properties, built to high specifications in the best areas of the country. Factories must be let to tenants of unquestioned covenant on full repairing and insuring leases that allow for frequent (upward only) rent reviews. Moreover, Cadman (1982) has suggested that in the recession the trend has been for these criteria to become increasingly stringent rather than take risks with marginal enterprises. A recent survey found that 66% of pension fund

FIGURE 7.1

Industrial Rent Contour Map.



FIGURE 7.2

Industrial Yield Contour Map.



property holdings were in the South East (see Table. 7.2).

TABLE 7.2

Spatial distribution of pension fund property holdings 1980-1983

Area	1980 %	1983 %
Central London	33	28
Rest of the South East	19	22
Rest of Greater London	16	16
Midlands	7	8
South West	4	6
Scotland	5	5
East Anglia	4	5
North West	3	3
Yorkshire and Humberside	3	3
Wales	3	2
Northern	3	1
N. Ireland	N/A	1

(Source: Debenham, Tewson and Chinnocks 1983)

The private sector has a tendency to fund general-purpose buildings for a wide variety of potential tenants. This is because institutions are not prepared to fund exclusively manufacturing factories when the sector is in decline while warehousing and service activities are growing. Multi-purpose units often cause problems for occupants as, in terms of overall size requirements, manufacturers require less volume and greater floor area than warehousing units. Standard units are also sometimes deficient for certain types of manufacturing because of low floor loadings (CALUS 1979).

Following the growth in public sector small-factory building that occurred from the late 1970s, institutions have re-appraised their attitude to this sector. Some private investors have judged that the generally high failure rate characteristics of the small-firms sector can be off-set by the higher rental levels and ease of letting, particularly in popular areas. No data are available to indicate the overall level of private investment in small units, but the general impression gained from the property press is of a major increase in small-unit development by local and national investors that has slightly declined since 1982 (Estates Times 1984; 1984a; 1984b).

The Wilson Committee's review of financial institutions drew attention to their restricted investment portfolios and to deflect

some of this adverse comment, institutions have wished to display a willingness to support projects aimed at industrial regeneration and job creation. This influence, combined with a decline in lettings for larger premises caused by a record level for vacant premises at the end of the 1970s (Flanagan 1981), helped encourage private investment in small units.

Another important consideration encouraging more privately funded small units has been the willingness of local authorities to enter leaseback schemes with institutions and developers. The survey of local authorities (Chapter Three and Four) showed that over 90 councils and New Towns had entered this type of joint venture, making them a significant source of new small units, particularly in the south of the country.

A further influence on private-sector activity has been the introduction of 100% building allowances for small premises. The next section examines this tax incentive and its impact on provision.

Industrial building allowance

As part of the Government's response to the Department of Industry's findings on the shortage of small industrial accommodation (Coopers and Lybrand 1980), the building allowance on small factories was increased to encourage more private investment. The industrial building allowance (IBA) is given for capital expenditure incurred on construction and in 1980 the allowance against tax was 50% of the building costs incurred. The Spring 1980 Budget increased this to 100% on properties of 2,500 sq.ft. or less. The scheme was initially announced for three years and in 1982 it was extended for a further two years, but only on premises of 1,250 sq.ft. and below. After 1985, the incentive will remain in Enterprise Zones only, where small retail and office developments are also eligible.

A survey of the impact of this incentive (Department of Industry 1982) found a marked increase in building activity. The Department of Industry surveyed 22 local-authority areas throughout the UK where before 1980 new small-building starts had been running in total at about 215 units a year, whilst since the introduction of the IBA scheme the annual equivalent had been 697 units. The private sector share rose from 39% in 1980 to 79% in 1982, although this high proportion partly reflects the distribution of the survey authorities: 11 out of the 22 districts were in the South East, South West and East Anglia.

Involvement by the major funding institutions was found to be minor, and had depended on a local-authority leaseback. The private provision was predominantly the result of local development companies, many of which had no property expertise, and for which the IBA was a crucial influence on their development decision.

A particular problem with the IBA scheme has been the need to let units to "qualifying users" to be eligible for the allowance. These cases were defined by the Capital Allowances Act 1968 as "a trade which consists in the manufacture of goods or materials or the subjection of goods or materials to any process". The opinions of estate managers differ considerably on the extent to which this regulation required them to discriminate between types of trade: doubt on the precise kinds of activities eligible to qualify has been widespread. In some cases, this has led to units remaining vacant because owners were not prepared to accept tenants engaged in activities such as vehicle repairing, machine reconditioning or distribution (Woodcock 1981). Partly as a response to this, the 1982 Budget announced a widening of the eligible enterprises to include those engaged in repairing, servicing and storage (where the goods are to be used for manufacturing) to encourage lettings.

Estate Agents and Surveyors

Research into the residential property market has indicated that estate agents perform more than a passive intermediary role between vendors and purchasers, and they can have a positive influence on the spatial distribution of housing resources (Williams 1976; Bassett and Short 1980). There has been little comparable research into their activity in the industrial property market, which is surprising in view of their potential influence over investment decisions. From the case studies reported below, it is clear that private developers and funding institutions do not employ their own specialist staff to identify and undertake the initial appraisal of investment opportunities. Rather they tend to rely heavily on information brought to them by independent firms of chartered surveyors and estate agents. The companies performing this role tend to be major firms with headquarters in London, firms which combine both a surveying role (undertaking financial appraisals of property developments) and an estate agency role (finding tenants and acting as an exchange between builders, developers and investors). Some of the more well-known names amongst this highly influential group of companies include Bernard Thorpe and

Partners, Debenham, Tewson and Chinnocks, Edward Rushton Son and Kenyon, King and Company and Herring Son and Daw.

A study of 17 estate agents in Birmingham (Bozeat 1979) stands as the sole research into the role of estate agents in the industrial property market. Bozeat examined the views of estate agents on the evaluation of locations for industry. The findings showed that estate agents have a strong tendency to prefer locations in traditional industrial areas with good access to labour supplies and motorways. Little significance was attached by estate agents to rail services, greenfield sites, proximity to commercial centres or low land values.

Of course, these particular results may be influenced by the focus on the West Midlands' industry property market, which is characterised by a demand for traditional manufacturing buildings. In other environments, such as free-standing towns with a share in the new technological industries, for example, there may be a stronger preference for greenfield sites. Bozeat concluded, however, that despite the importance of objective criteria, estate agents were often guided more by personal impressions of an acceptable investment. As one respondent to the study observed:

"there is only one way a site can be appraised and that is by the actual feel for the situation when on the site, which I suppose comes through years of experience" (Bozeat 1979 p.29).

To illustrate in more detail the role and influence of the major estates and surveying companies, MacDaniel and Daw were selected as a brief case study. This London-based firm of chartered surveyors was recommended by a number of persons consulted during the design of the study, largely because of its particular interest in industrial property. Information was collected through interviews with the firm's principal officers and this indicated that MacDaniel and Daw perform four major roles within the industrial property market:

- (i) the identification and evaluation of investment opportunities on behalf of investment institutions and development companies;
- (ii) the marketing and management of industrial properties on behalf of developers and investors;
- (iii) negotiation for investment capital from funding institutions to support their clients' developments;
- (iv) the provision of advice for funding institutions. In general this advice covers property acquisition, portfolio management and property performance analysis.

Medium to large-size factories dominate all aspects of MacDaniel and Daw's industrial work, but interest in small-unit schemes has grown. In dealing with small-factory projects the firm relax some of their standard investment criteria. Thus the firm does not usually advise investors to finance development north of a line running broadly from the Severn estuary to the Wash, the only exceptions tend to be small units. The existence of small market niches away from the south is acknowledged, although this had only stretched to include selected locations in the Midlands and industrial North West. The strong preference for activities in the South East counties is, in part, a reflection of the London base of their operations. Industrial estate agents in the north would no doubt be more willing to recommend investment in these areas.

In setting management terms leases of 25 years are preferred, with rent reviews every 3 to 5 years. Ideally the firm seeks to secure a minimum of two long lease periods from a new building. In the case of small firms it is recognised that a profitable income can be generated through a high turnover of tenants because of the ability to make more regular rent reviews. Consequently, in areas where the local economy is judged buoyant, short leases of between 1 to 5 years have been agreed. Individual tenants, whatever the lease terms, are typically required to have annual profits of at least five times the annual rent of the property. The insistence on a good financial standing is enforced even if the consequence is long void periods. This is because the firm's status as surveyors depends on their success in maintaining the value of developments; this status becomes vulnerable when accommodation is let to risky enterprises. The financial standards expected by MacDaniel and Daw exclude new firms and purely local covenants and, therefore, represent a more severe appraisal than that adopted by the public sector.

7.3 CASE STUDIES OF PRIVATE SECTOR INSTITUTIONS AND DEVELOPERS

The selection of case studies was guided by a review of the property press which indicated a number of organisations with industrial interests. From this list of companies, the case studies were chosen partly on the advice of property experts consulted during the design of the study, and partly according to the willingness of companies to co-operate in the research (4). In addition, a balance was sought between companies centred in the South East and regionally based organisations. Information was collected from each agency by means of a

personal interview with the property investment manager using a standard interview schedule (Appendix Three).

The agencies covered in the case studies are:

- (i) Fleming Property Unit Trust (investor);
- (ii) CIN Properties Ltd. (investor-developer);
- (iii) Slough Estates Ltd. (developer-investor);
- (iv) A. & J. Mucklow Group (builder-developer-investor);
- (v) Clarke St. Modwen Properties (builder-developer).

For each of these organisations, information was sought on the structure of the company, the balance of its activities between different sectors of the property market, attitudes towards small-factory provision, the level of investment in small premises and the location and management of its small-factory schemes.

Fleming Property Unit Trust (London)

Fleming is solely an investor in property and it does not initiate development itself. The role of the unit trust is to invest in property on behalf of financial investors such as pension funds, insurance companies and charities. The investors in the unit trust are typically smaller funds with insufficient resources to undertake their own direct investment in property. By combining the finances of many smaller institutions, the Trust creates a flexible investment not tied to only a few properties. Property unit trusts boomed in the early 1970s when they acted as an important source of finance for commercial development and contributed to the trend for prime property to move into the hands of the financial institutions (Ambrose and Colenutt 1975). In 1981, total new property investment by the property unit trusts totalled £108 million: in 1982 this figure had fallen to £55.6 million, reflecting a tendency for funds to switch to direct property investment rather than purchasing shares in a unit trust (Debenham, Tewson and Chinnocks 1983).

In 1982, Fleming had total assets of £220 million, making it amongst the largest of the property unit trusts. The Trust's property portfolio is divided fairly evenly between the office, shop and industrial sectors, together with a small proportion (about 5%) in agricultural land. The industrial investment is divided between 37 separate schemes, but only involved units of less than 5,000 sq.ft. The Trust regards £0.5 million as the minimum size of investment it is prepared to make in a single project, as below this there is felt to be insufficient income relative to the management costs.

The sole small-factory investment in the Trust's portfolio is located in Basildon. This scheme, known as the Wollaston Centre, was initiated by Basildon Development Corporation which sought a funding institution to purchase the completed development with the Development Corporation agreeing to take a 125 year lease on the scheme. Income is, therefore, guaranteed to the Trust which also incurs minimal management costs. The development provides a total of 170,000 sq.ft. of factory floorspace, of which only a quarter is in small units (minimum size 2,500 sq.ft.). The small premises have been completed to high specifications with, for example, a roller shutter main loading door and separate front entrance and office space.

CIN Properties Limited (London)

CIN Properties Ltd. is the company holding the property investments of the National Coal Board Staff Superannuation Scheme and the Mineworkers Pension Scheme. In 1982, the combined resources of these two pension schemes was £1,500 million. Of this amount, £410 million (27%) was invested in property. The latter chiefly comprises completed buildings, although a proportion of their funds are loaned before development commences to schemes designed to CIN's specifications making it an investor-developer. Over the last two decades, CIN has increased the extent of its holdings in industrial property, although in terms of value this sector is still slightly below commercial and office premises.

As with the Fleming Property Unit Trust, CIN does not actively search out investment opportunities, but relies largely on estate agents to bring to their notice suitable properties and on developers requesting finance to carry out their building objectives. When assessing investment projects CIN carries out a financial appraisal with the requirement that prime industrial properties earn an annual return of at least 6% of the capital value invested. CIN do, however, take a fairly flexible view of the locations capable of yielding their financial targets, although the regional distribution of investment still shows a marked concentration in the South East (Table 7.3). Locations outside the South East are selected for their good employment prospects, restricted supply of new accommodation and accessibility to motorways.

TABLE 7.3

Spatial distribution of industrial investment by CIN Properties Ltd. (1982)

Industrial investment as a proportion of all property holdings (£m)						
	South East	South West	East Anglia	West & East Midlands	Yorkshire Humberside & North East	North West & Cumbria
Industrial Property	6.5%	0.6%	0.3%	0.7%	0.7%	1.8%
Total holdings(1)	57%	2.5%	4.3%	10.2%	8.3%	4.8%

(Source: CIN Properties Ltd. 1982)

(1) Note: the balance is explained by holdings in Scotland and Wales.

Reflecting the focus of CIN on properties in short supply, the fund took an early interest in small factories. In 1982, 10% of the value of CIN's industrial holdings were in small premises (value £7 million, or 1.7% of CIN's total property investment). CIN has wished to avoid the management costs involved in small-factory schemes and, therefore, most of this investment has been organised on a partnership basis with private developers. CIN prefers partnerships with the private sector because both partners are then motivated by profit. Local authorities have not been considered suitable partners as they have different objectives related to employment rather than the maximisation of income.

The specific terms applied by CIN in their private partnerships for small units were in 1982:

- (i) the developer finds and acquires the site and erects buildings (to plans and specifications approved by CIN) against a contract from CIN to purchase (subject to a maximum sum) the completed project.
- (ii) On completion, CIN grants the developer a 125 year lease at a rent of 80% of rents received from lettings after allowance for bad debts, void rates and service charges.
- (iii) The developer lets to tenants (all tenancies are vetted by CIN to check on their financial viability) and manages the property, passing 80% of the rents to CIN. The rental levels are fixed jointly by the developer and CIN. CIN reviews investments every three to five years and inspects the premises, and in addition any physical changes to buildings require CIN's sanction.

Partnership schemes with private developers have supplied individual units up to 3,000 sq.ft. with each project generally consisting of a total of 20,000 to 40,000 sq.ft. and with a minimum investment of £250,000. The rate of return expected by these projects is 11.25%; this is twice the figure usually earned on prime industrial holdings and reflects CIN's views that small factories represent a risky sector of the market.

In addition to schemes with private developers, CIN have more recently embarked on a £5 million investment programme with English Estates as part of the latter's "Beehive programme" (see Chapter Six). These partnerships are organised in a similar fashion to those with private developers, except for one important consideration. CIN involvement in the Beehive programme has only been obtained by a guarantee from English Estates to pay rents on unlet units for the first five years of the investment. In return, CIN grant English Estates complete freedom in the letting of units. This arrangement is to overcome CIN's fear that the employment objectives of English Estates may lead to units lying vacant rather than being let to users who, although having a good covenant, may provide little employment.

The locations of CIN's 28 small-factory schemes are concentrated in the traditional industrial axis from London to the North West (Figure 7.3). The relatively wide distribution of property is explained by CIN's early involvement in small-industrial projects (from 1977 onwards) at a time when good quality investments could be found in most areas and includes a small scheme in Peterlee New Town.

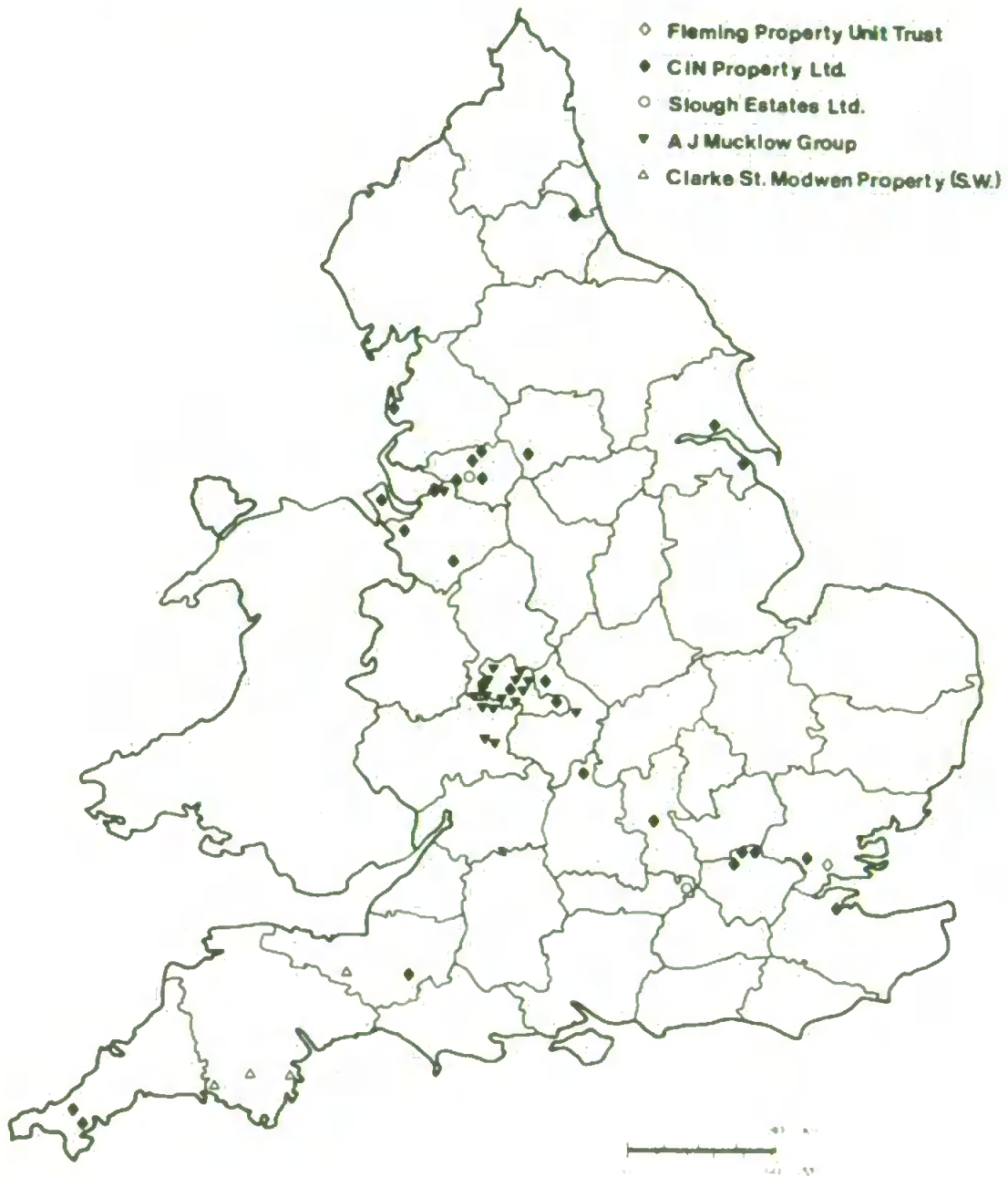
Slough Estates Limited (Slough)

Slough Estates Ltd. (SEL) is the longest-established major property developer in the UK. Its interest in industrial estate development commenced in the 1920s when it started providing premises in Slough. In 1982, the total assets of the company in the UK amounted to over £400 million, and the majority of this was held in industrial properties built by the company. SEL, therefore, acts as a developer-investor.

Not even SEL, the largest industrial property developer in the UK, employs specialists in site selection and location decisions. A small number of executives use their experience and contacts among other developers and in industry to determine locational demand and likely competition from other developers of industrial property. In addition, the company is constantly in touch with many estate agents and receives information on potential development sites at the rate

FIGURE 7.3

**Small-Factory Schemes by Selected Private Agencies,
1982**



of about 100 possible developments per week. All possible schemes are subject to a financial appraisal and an annual return of over 6% of capital invested is required as a minimum for prime properties.

SEL has industrial estates in 18 locations, with floorspace highly concentrated in the South East (Table 7.4). Apart from a few small units provided to occupy specific business expansions on its estate in Slough, between 1975 and 1982 new small premises have been built in only one scheme at Salford. Significantly, this investment has been organised on a partnership basis with Salford Borough Council which initiated the development. SEL have modified their normal requirement for long leases on the small premises to allow tenancies of between 5 to 10 years. The rentals were £2.80 per square foot in 1982, putting them slightly above the regional average for local-authority premises.

TABLE 7.4

Spatial distribution of industrial investment by Slough Estates Ltd. (1982)

Industrial property	South East	South West	East Anglia	West Midlands	East Midlands	Yorks & H'side	North North	North West	(1) TOTAL
% distribution	81.5%	3.5%	1.5%	6.4%	0.5%	2.7%	0%	1.5%	97.6%
Square feet ('000)	8,482	372	151	668	54	281	0	155	10,417

(Source: Slough Estates Ltd. 1982)

(1) Note: the balance is explained by holdings in Scotland and Wales

A. & J. Mucklow Group Limited (Dudley)

A. & J. Mucklow are a West Midland based property company with interests in housing and industrial development. The group includes a building division which undertakes all the construction work required by the company. Whilst all the housing development is sold on (to individual householders), most of the industrial property is retained, making the company a builder-developer-investor. In 1982, the company's assets were worth about £74 million, almost all of which was held in industrial property.

The balance of the group's activities has changed over the last decade away from house construction (which now amounts to only 200 houses per annum) to the industrial sector. The company owns 44 industrial estates, of which 43 are situated in the industrial West Midlands, in close proximity to the intersection of the M1, M5 and

M6 motorways. (The single estate outside the Midlands is at Wigan on a site adjoining the M6.) The group does not actively seek locations for new investment, rather it relies on the information passed to it by estate agents and through contacts with other developers and local authorities.

Out of the 44 estates, 18 include some units of 5,000 sq.ft. and below, located mainly in the Black Country and Birmingham (Figure 7.4). The company's interest in small-factory provision goes back to 1977 when it became aware of a particular shortfall of new small premises in the West Midlands. The development of small units by A. & J. Mucklow therefore pre-dates the introduction of the IBA, but this tax concession has led to the company building three estates on behalf of investors wishing to take advantage of the allowance. About a quarter of all Mucklow's industrial floorspace is now in small premises.

Six of the company's small-unit schemes have been undertaken in partnership with local authorities. These partnerships have not followed the usual leaseback arrangement. Instead, the role of the local authority has been to assemble a site and then grant Mucklows a ground lease for 125 years in return for a percentage share of the rents earned on the completed project. Mucklows have not required the local authority to leaseback the completed units because of fears that local-authority involvement in the letting of units might reduce the value of their investments by the acceptance of tenants with poor covenants.

The letting and management of all premises is organised through an independent firm of estate agents, although the terms are set by Mucklows and all tenancies are sanctioned by the group. Directors of small firms are required personally to guarantee the rent, except where the company has been trading for over two years and has excellent trading results and bank references. Leases are usually a minimum of six years with a three year rent review. Mucklows do allow tenants to surrender leases if they are transferring to a larger unit owned by the group. Moves to smaller premises are not allowed without incurring a financial penalty equivalent to the value of the outstanding lease minus the value of the new lease.

Clarke St. Modwen Properties Limited (South West Division) (Exeter)

Clarke St. Modwen was selected as an example of a relatively small-scale development company. Clarke St. Modwen Properties (SW Division) build industrial estates which are then sold to investors. It is a subsidiary of a larger group (Clarke Securities Ltd.) which includes

a building company, but the sole interest of Clarke St. Modwen Properties is industrial development. Before commencing a project, the company seeks funding from a financial institution (usually an insurance company or pension fund) which guarantees to purchase the completed and occupied scheme. In addition, purpose-designed factories may be built for an individual client who may purchase either a freehold or a leasehold interest in the property.

The firm currently aims to complete five or six estates a year in the south west. The building of nursery units is a recent addition to the company's activities and has resulted from involvement in partnership schemes with local authorities. There tends, therefore, to be a two-tier structure to the company's operations. Where larger premises are being supplied, Clarke St. Modwen designs the project and then obtains the backing of a funding institution which will guarantee to purchase the completed scheme. For small-factory schemes (involving units below 3,000 sq.ft.) the company initiate projects in consultation with a local authority and seek a funding institution to lease the completed scheme on the guarantee of a local authority leaseback. Three joint ventures had been completed by 1982 providing 65 units of between 500 sq.ft. and 2,500 sq.ft., and a further 7 units of between 3,000 sq.ft. and 5,000 sq.ft. have been built as part of two other schemes (Figure 7.4).

Whatever the development arrangement adopted, schemes have been devised to suit the preferences of the financial institutions. The management terms for all the units (including the partnership schemes) are fixed by Clarke St. Modwen. A lease of 25 years with a five-year upward rent review is typical for property of all sizes. Letting of the premises is controlled by an appointed firm of estate agents. In the case of larger schemes, the company sanction all the tenancies and sell the developments only when fully let. For smaller units, guaranteed by a local authority, the estate may be sold before being fully let, but Clarke St. Modwen insist on letting being handled by an independent firm of estate agents.

7.4 SUMMARY AND REVIEW

This chapter has placed small-factory provision in the wider context of the private investment market. In the past 20 years, major financial institutions have taken a larger share in the industrial property market. In the immediate post-war years, the market for factories was based mainly upon loans to allow industrialists to build

their own premises. Today a large proportion of industrial property is provided as an investment commodity; for example, both Fleming Property Unit Trust and CIN Properties now hold about a third of their property portfolios in the industrial sector. This changing investment pattern reflects the relatively poor performance of other investment opportunities and the character of modern industry which occupies more standardised types of factory that can be used by both manufacturing and warehousing activities. Some commentators (Franklin 1975; Boddy 1981) view with concern the trend to growing interdependencies between the financial institutions and property companies because, they argue, the concentration of financial and real assets amongst fewer companies may make it harder for the economy to recover from the type of property market crisis that occurred in the early 1970s.

In a period of economic uncertainty, the reaction of institutional investors has been to confine their property portfolios to a narrow category of property types and locations: moreover, as the recession has deepened so the definition of institutionally acceptable investment appears to have narrowed. Private sector development has reacted to the growth in favoured areas, such as the "western corridor", by concentrating their funds in these locations to an extent that a substantial over-supply of industrial space has been reported (Cadman 1983). Nonetheless, these properties continue to be valued highly because of the prospect of long-term rental growth.

Although the case studies confirmed the strong preference for activities in the South East, they also indicated some flexibility on this issue. For the major funding institutions and development companies investment outside the South East tends to depend on a partnership arrangement to minimise the financial risk, but locally based development companies have solely financed schemes in the regions (principally meaning the West Midlands and the industrial North West amongst the case study agencies). The geography of investment is, therefore, partly conditioned by the location of company headquarters with agencies typically concentrating investment close to their administrative centre, in the area most familiar and accessible to them.

Wherever small units have been supplied, the case studies indicated that management practices are typically much stricter than the terms usual in the public sector (Table 7.5). Moreover, these more restrictive terms may be maintained where a public authority has taken a lease-back on the particular scheme. The evidence of the case studies, admittedly somewhat limited, suggests that private units are only suited

TABLE 7.5

Summary of typical approaches to small-unit provision by selected public-sector agencies (1982)

Property development agency	Proportion of industrial investment in small units (£)	Financial arrangements for small-unit schemes	Typical lease in years	Assessment of financial viability of tenants
Fleming Property Unit Trust	Less than 1%	Leaseback scheme with New Town Development Corporation	25 years	Estate agents' recommendations screened by FPUT who examine references & order independent financial report
CIN Properties Limited	10%	Leaseback schemes with private developers and English Estates	Fixed by the partner, may be very short	1. With private developer - CIN sanction all tenancies 2. With English Estates - CIN have no influence
Slough Estates Limited	Less than 1%	Leaseback scheme with local authority	SEL relax normal terms to allow leases of 5-10 years	Letting controlled by LA but SEL review all tenancies
A. & J. Mucklow Group	About 35%	Sole developments, or equity sharing scheme with local authority	6-12 years	Personal guarantees required by most tenants except those with several years trading experience
Clarke St. Modwen Properties Ltd.	About 40%	1. Units > 3,000 sq.ft. sold to institutions 2. Units < 3,000 sq.ft. sold as part of leaseback scheme	25 years	1. Screening by estate agents and review by Clarke St. Modwen 2. Screening by estate agents

to well-established businesses. Two private landlords, for example, assigned their properties on 25 year leases which are terms out of touch with the preferences of small firms seeking to minimise their overheads. The demand that tenants should have high-quality covenants makes it particularly difficult for independent small firms serving purely local markets to obtain new accommodation in the private sector. From a public policy viewpoint, however, this restriction may bring employment advantages if it results in accommodating job gains rather than firms competing for limited local markets that offer no net addition to local employment.

The IBA scheme has been a means of encouraging further private provision of small factories, but several limitations have been noted on the impact of the programme. There is, for example, little evidence of the principal institutional investors taking advantage of the incentive and they continue to show relatively little interest in the small-firm sector. It is small private companies, many with no previous property development experience, that are attracted by the tax advantages and which make individual investments of only a modest scale. This provision is, therefore, a temporary phenomenon and longer-term provision by private property companies in secondary markets may depend upon new funding patterns. There is already evidence to suggest, for example, that many leading property development companies are exploring ways of financing projects which would depart from traditional sources of funds derived from the major financial institutions (Radcliffe 1984). The present preoccupation with providing the institutions with long-term income producing investment property needs to switch in favour of more risk conscious lending agencies who show a greater awareness of the occupational requirements of industry and increased flexibility in the management of premises. As building societies and banks strive to adopt new roles, this may increase the funding options. A more appropriate source of finance for small-business accommodation may, however, be the consortia approach to investment, as is common in America, which spreads risk across a range of public and private participants and reduces the influence of institutional investment criteria.

NOTES ON CHAPTER SEVEN

- (1) A wider discussion of these trends can be found in Boddy and Barratt (1980) and Boddy (1981).
- (2) Debehm, Tewson and Chinnocks' survey was based on 39 pension funds in 1980 and 90 pension funds in 1983 with holdings in excess of £200 million. Between 1980 and 1983 the survey found that office holdings had fallen from 54% to 51% of property portfolios; this decrease was matched by larger percentage holdings in agriculture and retail sectors.
- (3) A wider account of the role and influence of the financial institutions in the property market can be found in Plender (1982).
- (4) An initial telephone conversation checked that the organisation had included some small factories within their activities. On this basis two agencies were excluded from the study, these were the Prudential Assurance Company and Abbey Life.

CHAPTER EIGHT: THE PROVISION AND MANAGEMENT OF SMALL UNITS IN CORNWALL

8.1. INTRODUCTION

The previous chapters have established that different kinds of developers have distinctive building and management policies in relation to their small-factory developments; this chapter takes the analysis an important stage further by considering how far these different practices are reflected in the nature of the tenants occupying the industrial premises provided by each agency. This part of the research has been organised by undertaking a case study of new small-factory provision in Cornwall where small firms are a particularly important component of the local economy (Rhind 1978). This area was selected also partly because of proximity to Plymouth (the author's research base), but primarily because Cornwall contains small advance factories provided by all the principal agencies - private developers, local authorities, the Development Commission and Department of Industry funded units (including two partnership schemes controlled by English Estates).

Whereas previous chapters have examined separately the geography of each agency's small-unit provision, this chapter considers the aggregate pattern in a particular area. Two themes in particular were explored in the case study. Firstly, the location of all speculatively developed units provided between 1976-1981 was examined to determine how the development policies of the various agencies influenced the geography of provision in Cornwall. Secondly, the impact of tenant-selection processes was tested by interviewing a structured sample of each agency's tenants. To set the context for the case study, the next section briefly reviews some of the salient characteristics of the Cornish economy and the economic policies applied in the county.

8.2 THE CORNISH ECONOMY

Cornwall is particularly dependent on a limited range of industries and services. Tables 8.1 and 8.2 show that primary industries and service activities (especially those connected with tourism) account for over 60% of all jobs. But while manufacturing industries are under-represented in Cornwall compared with the rest of the UK, they nonetheless provide one of the key bases of the county's economy. Within this sector small firms are numerically very important: Rhind (1978) found that 432 of the 441 manufacturing companies employed fewer than 200 employees. Given that premises of up to 5,000 sq.ft. will commonly

TABLE 8.1

Over-represented industries for male and female employment in Cornwall (1977)

Type of employment	Male		Female	
	G.B. %	Cornwall %	G.B. %	Cornwall %
Agriculture, forestry and fishing	2.2	8.9	1.0	3.1
Mining and quarrying	2.5	7.8	0.2	0.8
Instrument engineering)	1.9	3.5	0.7	1.4
Shipbuilding & marine engineering)				
Leather, leather goods & fur	0.2	0.4	0.2	0.2
Construction	8.6	10.4	1.1	1.0
Distributive trades	9.2	10.4	16.6	18.7
Professional & scientific services	8.6	9.2	26.8	28.5
Miscellaneous services	7.5	12.1	14.6	26.3
Public administration & defence	7.4	8.5	6.6	4.7

(Source: Crine and Playford 1981)

TABLE 8.2

Under-represented industries for male and female employment in Cornwall (1977)

Type of employment	Male		Female	
	G.B. %	Cornwall %	G.B. %	Cornwall %
Food, drink and tobacco	3.1	3.1	3.1	1.6
Coal, petroleum & chemicals	2.6	0.1	1.4	n/a
Metal manufacturers	3.3	0.1	0.6	n/a
Mechanical & electrical engineering)	17.4	9.6	7.3	3.2
Vehicles, metal goods)				
Textiles, clothing & footwear	2.7	1.0	5.5	3.6
Other manufacturing	7.5	3.6	4.4	2.6
Gas, electricity & water	2.1	2.3	0.7	0.6
Transport and communications	9.1	7.9	2.9	1.6
Insurance and banking	4.2	2.4	6.4	3.5

(Source: Crine and Playford 1981)

employ only 10 or 20 people, of more immediate relevance is Rhind's assessment that 57% of Cornwall's manufacturers employ less than 10 persons.

The county's small-business sector is distinctive because of the importance of enterprises commenced by entrepreneurs moving into the area. In most other regions, the vast majority of new businesses commence trading in their own home territory. This is not so in Cornwall. Perry (1982) estimates that in terms of the total number of employees, exogenous new starts are twice as important as local new starts. The move to Cornwall is often motivated by environmental reasons and dissatisfaction with large-firm employment by former executives who, despite disillusionment, establish new enterprises with high growth rates.

Up until the 1950s, the manufacturing basis of the Cornish economy was in decline but in the mid-1960s this long-term trend was reversed and manufacturing firms began moving into the county. The immigration reached a peak in 1969 and 1970 but in the mid-1970s was still well above the figure for the mid-1960s (Massey 1982). In 1975, over 70% of the manufacturing companies identified as employing 20 or more people were controlled from outside the county (CIDA 1977). These branch plants were attracted by the availability of regional assistance, by environmental preferences and by the relatively large labour reserves in concentrated geographical areas compared with other marginal regions. In addition, the availability of sites and premises, whilst not being an influence on the choice of region, has been identified as an important consideration affecting the distribution of immigrant firms within the county (Spooner 1972).

Cornwall's Assisted Area status (Figure 8.1) remained constant between 1976-1981, but the inflow of branch plants and established firms has slowed down (Nelson and Potter 1982). During the 1970s, unemployment ran at double the national average; with the wider impact of the recession this difference has lessened but there remain pockets of very high unemployment, particularly in the far west where male unemployment is currently above 20%. However, there is some difficulty in interpreting the precise importance of these figures as there have been suggestions that a significant proportion of the unemployed are in-migrants attracted to the county for non-economic reasons. Some of this group are at pre-retirement age, others are younger persons who may stay only for part of the year when they are able to obtain

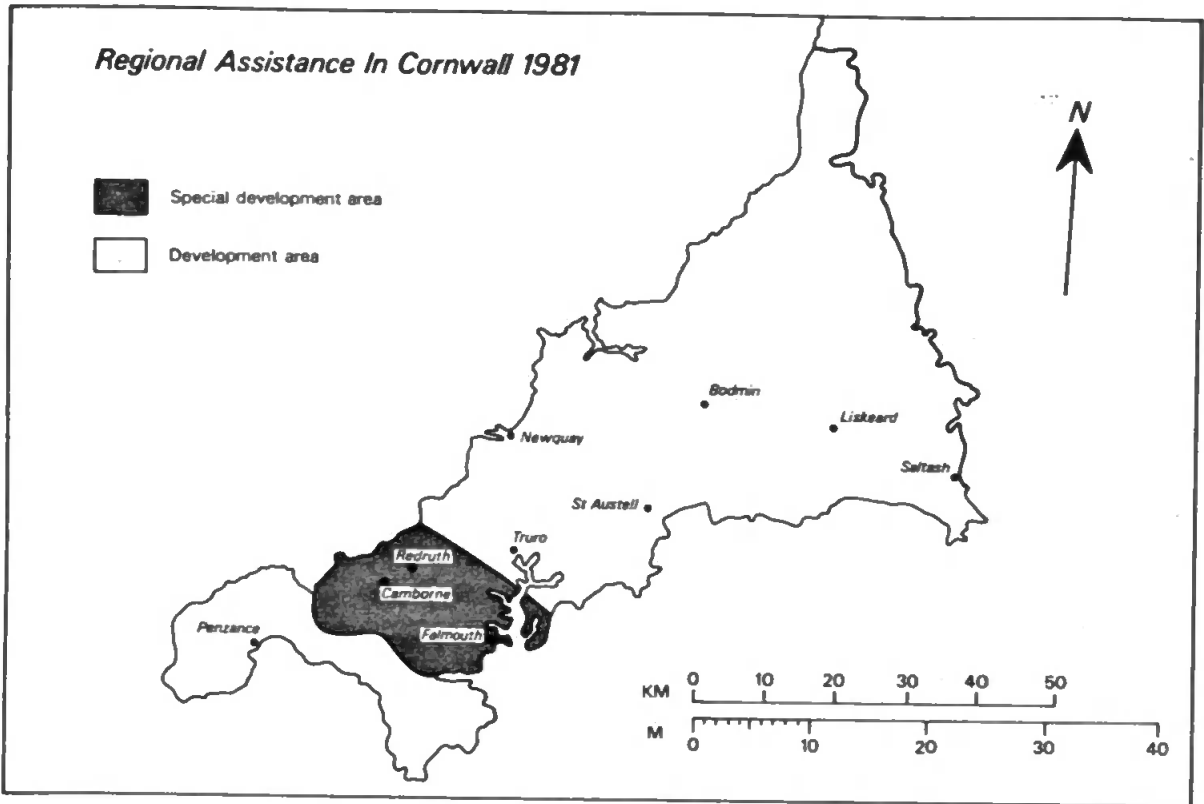


FIGURE 8.1

casual seasonal employment while registering as unemployed. The actual significance of this influence is difficult to gauge (McNabb et al 1979) but it may help to explain the paradox that while Cornwall experiences substantial in-migration and has one of the fastest growing populations (between 1971-1981 the population grew by 13.3%), unemployment remains very high.

The decline of the traditional china clay and metalliferous industries has undoubtedly left the county with serious economic problems. Remoteness, poor communications and reliance upon a seasonal tourist industry underline Cornwall's continuing weaknesses. The manufacturing industry that exists is mainly concentrated within the Cambourne-Redruth-Falmouth triangle and a smaller area at Saltash, close to the south west's largest city, Plymouth.

Within Cornwall, there has been an active policy of developing industrial estates, particularly by the County Council. These estates occupy a particular role within economic policy, namely that of diversification (Shaw and Williams 1982). Cornwall has a high proportion of lower-pay industries such as agriculture, distributive trades and "other" services, and less than its share of high-pay industries such as mechanical and electrical engineering and "other" manufacturing (Crine and Playford 1981). Industrial estates are intended to rectify this balance. The provision of speculatively developed small premises is of more recent origin and dates from the mid-1970s when the Development Commission programme commenced. At this time there was a widespread shortage of small premises (Cornwall County Council 1977). But by the early 1980s the extensive programme of provision by a variety of agencies had brought the balance of demand and supply much closer together.

8.3 NEW SMALL UNITS IN CORNWALL

According to 1981 Department of the Environment Industrial Floor-space statistics, 57% of Cornwall's industrial premises are of less than 500 square metres (5,382 sq.ft.); this is England's sixth highest county proportion. Moreover, between 1976 and 1981 the total floorspace in small industrial units in Cornwall increased from 751,675 sq.ft. to 871,919 sq.ft. (+ 14%), a rate of growth more than twice the national average. Most of this increase took place towards the end of the study period (and in fact the pace of development accelerated further in 1982, though it has since moderated). In the 1976-1981 period entirely new small units, totalling 193,287 sq.ft., were by far the largest contributors to growth in floorspace, as is shown in Table 8.3. (The loss of floorspace under conversions is partly explained by the inclusion in this total of premises being enlarged and, therefore, transferring to a higher size band).

TABLE 8.3

Components of change in Cornwall's small industrial premises (500 sq.m./5,382 sq.ft.) 1976-1981 (1)

Total existing floorspace	+	New construction (new build + 193,287) + (extensions + 33,454)	-	Net conversions(2)	-	Demolitions	=	Total industrial floorspace
1976								1981
751,675	+	226,741	-	86,101	-	20,396	=	871,919

Notes: (1) Floorspace data in square feet

(2) Net conversions include:

- (a) the floor area of units which because of extensions have transferred to a higher size band;
- (b) balance of change from one use class to another;
- (c) loss of floorspace due to partial demolition.

(Source: Department of the Environment, Commercial and Industrial Floorspace Statistics 1976-1981)

As explained in Chapter Two, the national floorspace data categorise premises according to the occupant and not the type of property. The building programme revealed in Cornwall through a survey of development agencies was more than twice as extensive (410,920 sq.ft. compared with 193,287 sq.ft.) as that indicated by the Department of the Environment data. This difference may partly be explained by the inclusion in the national warehouse data of some new industrial buildings utilised by service activities. New small warehouses account for a further 235,576 sq.ft. of accommodation, over half of which is in the eastern part of the county where private provision is concentrated. But public-sector tenants are predominantly manufacturers (see Section 8.4), reducing the possible extent of the transfer between the property sectors. A more important reason for the shortfall in the industrial data relates to the method of collection. The published statistics are collected when surveys for rate valuation are conducted, rather than actual completion dates, and this leads to a lag in the recording of annual changes. As provision gathered momentum at the end of the study period this delay is particularly crucial (1).

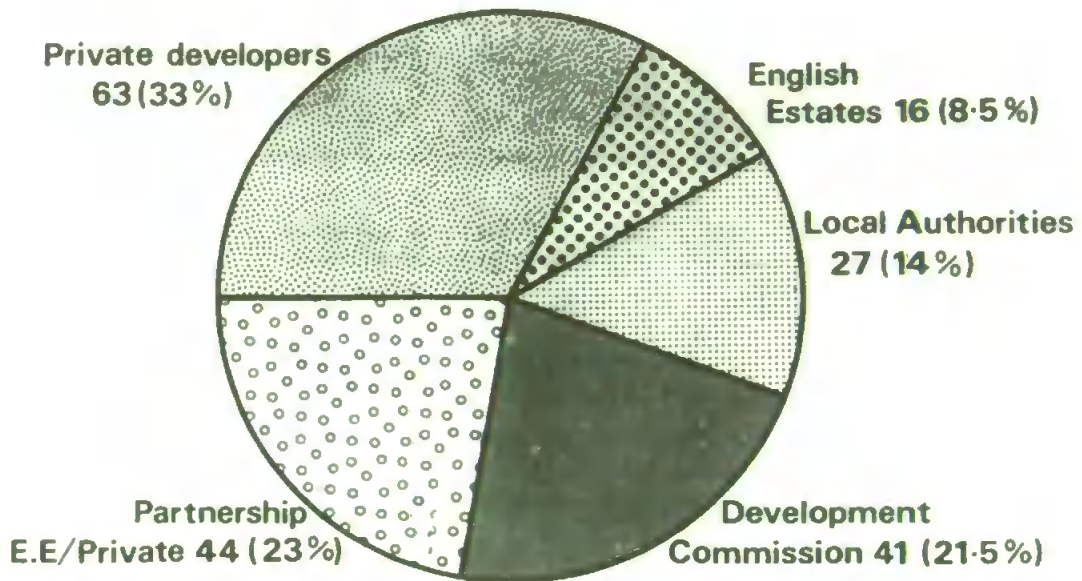
Another point is that the Department of the Environment data include customer-designed units, whereas the survey undertaken for this study does not. However, this is not an important difference because the survey found very little bespoke building on the estates examined and in practice this form of provision has not been important in Cornwall.

The Department of the Environment's floorspace statistics give no indication of the developer responsible for new constructions. For the present study, therefore, this information was collected using the county planning department's records and by interviewing the agencies involved. The relative contributions of the different providing agencies is shown in Figure 8.2. Overall, government bodies (the Development Commission, Department of Industry and local authorities) have financed nearly half of 191 units provided in the 1976-1981 period. Private developers have built about one-third of the units and the remainder are the product of partnership arrangements between the public and private sectors. When the data on the number of units are translated into floorspace areas, the pattern is slightly modified by the fact that the private developers and English Estates' units built for the Department of Industry are generally larger than those of other agencies.

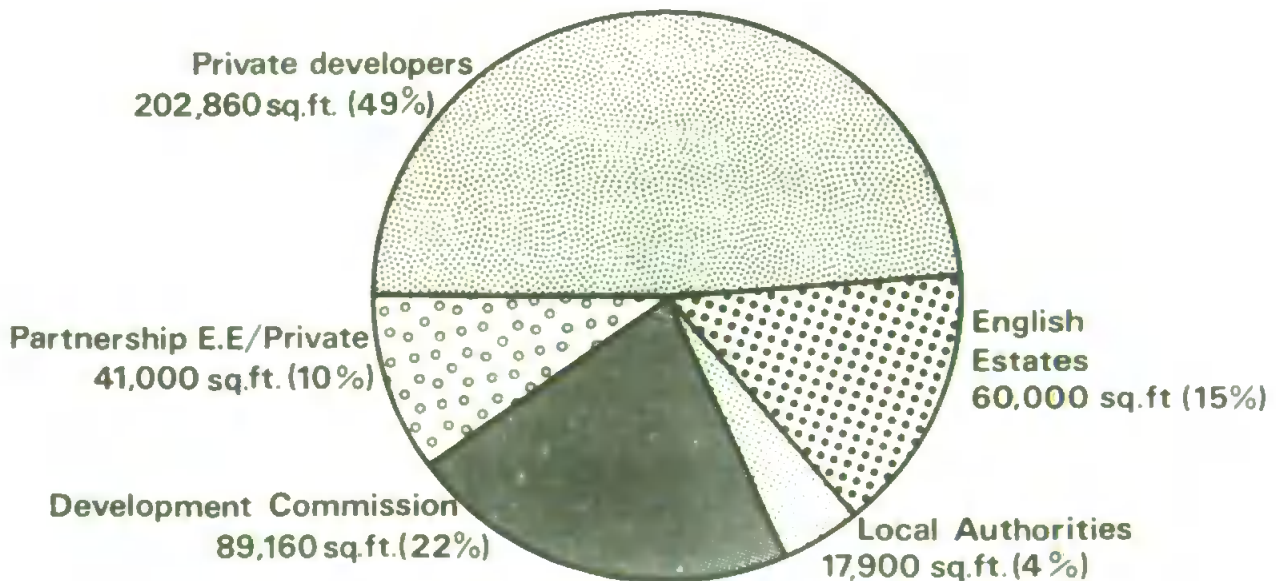
FIGURE 8.2

Developers' contributions to the increase in small industrial premises, 5,000sq.ft. and below, Cornwall 1976 - 1981.

i) Number of units



ii) New industrial floorspace



New small units in Cornwall:
Their spatial distribution and estate management

The units considered in the study have been provided by a number of independent agencies. The detailed locational decision-making processes which produced the geography of provision are beyond the scope of this study and, therefore, the precise extent to which an agency has responded to the developments by other agencies is not known. Nonetheless, there are a number of mechanisms which allow for coordination amongst the public-sector developers, suggesting that recognition is taken of other agencies' building programmes. As explained in Chapter Six, the Action Plan procedure, which guides the Development Commission's factory provision, is coordinated by the county council in consultation with the Commission's agents CoSIRA, district councils and English Estates. There can be a significant time lag between the production of Action Plans and the actual implementation of factory projects, depending on the availability of sites. In Cornwall, the difficulty of obtaining sites, particularly in the coastal resort areas, has caused the Commission to build a high proportion of units close to larger settlements such as Truro (16,277) and Falmouth (18,525) where building land has been readily available. Successful provision in these areas has, however, not excluded provision by other agencies and has even brought the bonus of encouraging small speculative schemes by private developers.

To promote coordination between public agencies in Cornwall, the county industrial development officer chairs bi-monthly meetings of industrial development officers from all the district authorities, representatives of CoSIRA, English Estates and the Devon and Cornwall Development Bureau (an industrial promotion agency concentrating on publicity activities). These officer forums keep agencies informed of the progress of small-factory programmes, and also help them to identify future property needs.

In addition, the county council influences the general distribution of new industrial developments through its role as the Structure Planning Authority. The Cornwall Structure Plan (Cornwall County Council 1982) reaffirmed a general presumption in favour of the establishment of small manufacturing industries, particularly in the main towns. In the rural areas, development has been encouraged in those villages which adjoin the highway network, while policy is more restrictive in the remotest areas.

The Private Sector

Private developers have made the single most important contribution to the stock of new small premises in Cornwall. The 63 units built by the private sector are located predominantly at the more accessible eastern end of the county at Saltash, Liskeard and Bodmin (Figure 8.3). The units at Saltash and Bodmin are developments by local companies and in both cases the small factories form part of a larger scheme on a well-established industrial estate. The premises at Liskeard (Plate 8.1) were developed by a local builder on surplus land adjoining his own premises. More recently, two major insurance companies (Sun Alliance and Eagle Star) have funded units further west, near to Falmouth and Truro. These sites are on local-authority industrial estates in an area where estate agents identified a particular shortfall of new accommodation (Strattan and Holborow 1981).

Table 8.4 shows that the average size of unit built by private developers is significantly larger than those provided by other agencies in Cornwall, with the exception of English Estates. The recent private developments, implemented after the introduction of the IBA incentive have been smaller.

TABLE 8.4

Average size of unit provided in Cornwall 1976-1981

Developer	Mean size of unit (sq.ft.)
English Estates	3,750
Private	3,220
Development Commission	2,175
Partnership	932
Local Authority	663

Private premises have been typically designed with separate office accommodation and large loading entrances (Plate 8.2) to facilitate occupation by a wide range of activities. Nearly all the new private units are let on leases of 21 years and rentals were above the county average with a figure of £2.30 being usual in most areas. Marketing and letting of units is through local estate agents, but with all tenancies requiring the agreement of the property provider. The main consideration when assessing applications is that firms have a good

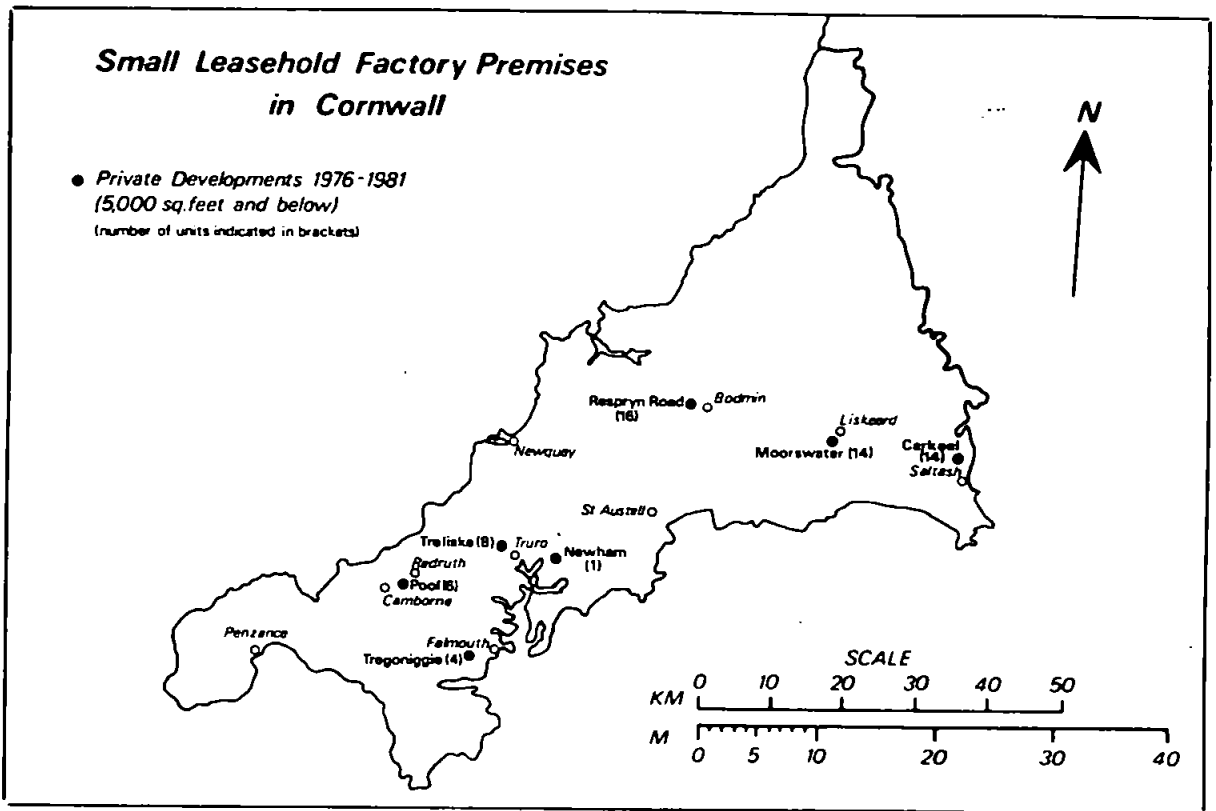


FIGURE 8.3

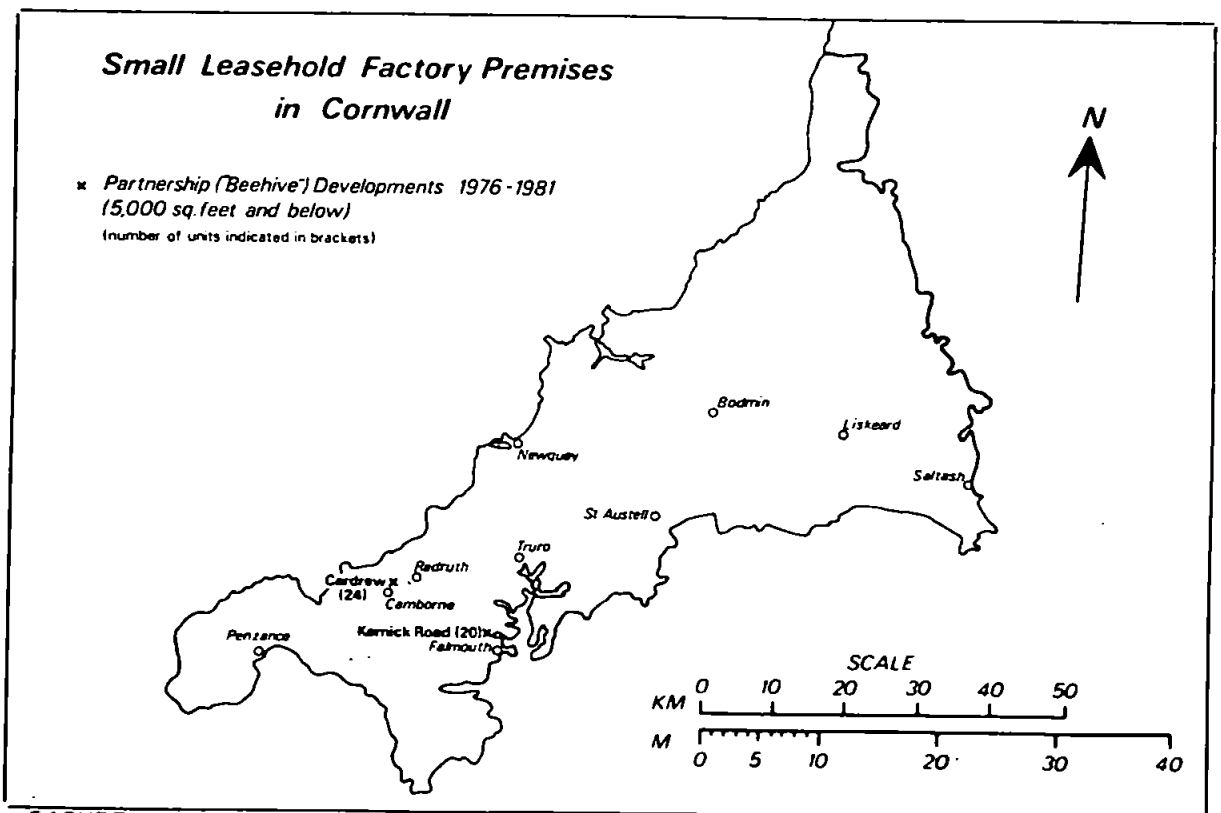


FIGURE 8.4



PLATE 8.1



PLATE 8.2

PLATE 8.1 Private units built by a local builder on the Moorswater industrial estate near Liskeard

PLATE 8.2 Private units financed by a major insurance company on the Treiske industrial estate near Truro

financial covenant, with branch plants of larger companies often being preferred.

CIN/English Estates partnerships

The second most numerous group of premises is the 44 units resulting in a partnership between English Estates and CIN Properties Ltd. (NCB Pension Fund). These "Beehive" workshops are part of the national programme of provision discussed in more detail in Chapter Seven. In Cornwall, the 44 units are located at Penryn and Cardrew (Figure 8.4) on estates where English Estates has previously built much larger units. The Beehive premises are designed to assist new businesses (Plate 8.3). At Penryn, the 20 units are of two small sizes (500 sq.ft. and 1,000 sq.ft.) and at Cardrew the 24 units are of four sizes (500 sq.ft., 1,000 sq.ft. and a few units of 1,500 sq.ft. and 2,500 sq.ft.). The location of these premises is a response to the geography of unemployment and in particular to the needs of the Falmouth-Redruth Special Development Area.

The usual letting criteria adhered to^{by} the private sector are not applied in these schemes. English Estates undertakes no detailed assessment of potential tenants, although they are required to supply bank references. Units are let by licence agreements which commit the tenant to give only three months notice of their intention to vacate. The rental levels (£1.90 to £2.70 for the smallest units) were towards the top end of the market to satisfy the private sector and to comply with English Estates increasingly commercial approach.

The Development Commission

The Development Commission has financed the third highest number of new premises (41), and the second largest amount of floorspace. During the study period the whole of Cornwall, with the exception of major towns, was a Special Investment Area and the county has been designated as a new Rural Development Area. The Commission's building programme, commenced in Cornwall in 1976, has expanded through three phases, with the latest programme announced in 1981 (Cornwall County Council 1981). The distribution of the completed factories reflects not only the Commission's priorities but also where sites have been most readily available (Figure 8.5). Site acquisition problems have been greatest in the congested coastal resort towns such as Looe, Fowey and Padstow; these settlements were included in the second Action Plan but in each case exact locations for premises have still to be agreed.



PLATE 8.3

A terrace of Beehive units at Kernick Road industrial estate near Falmouth.

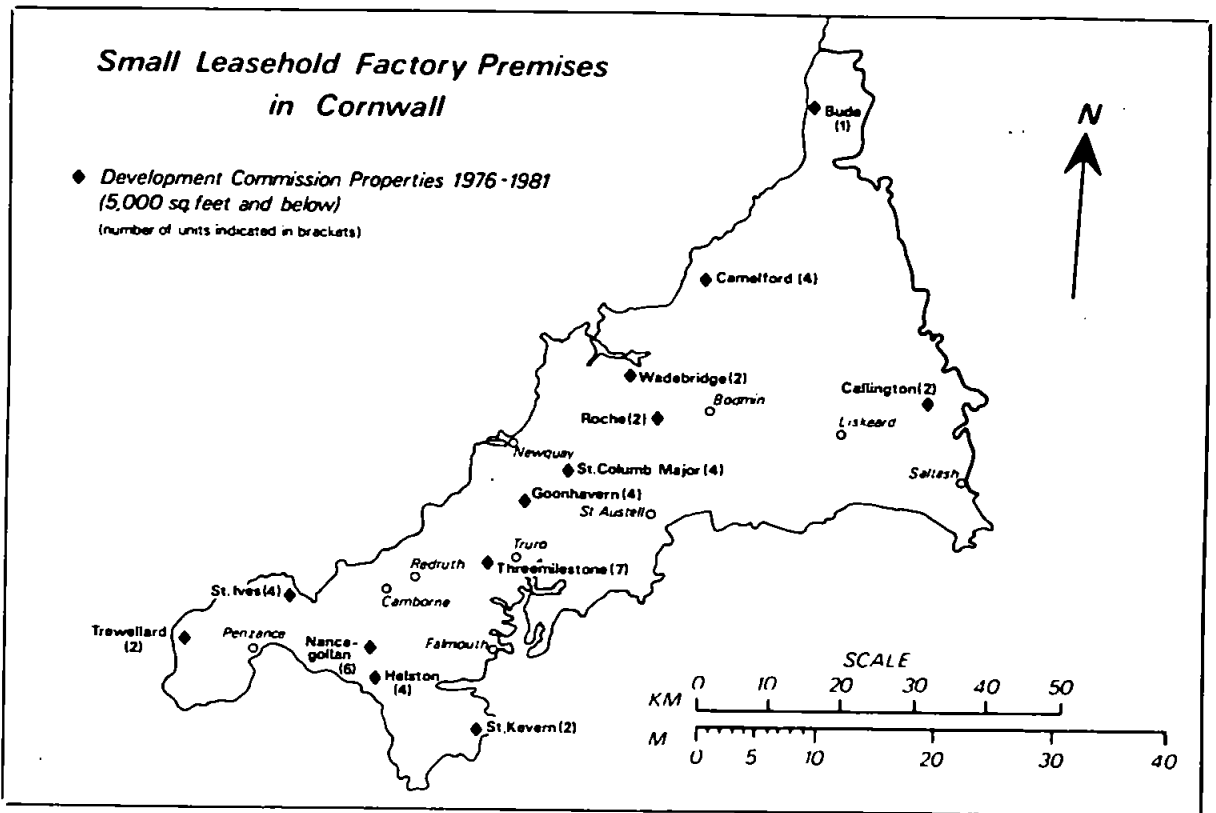


FIGURE 8.5

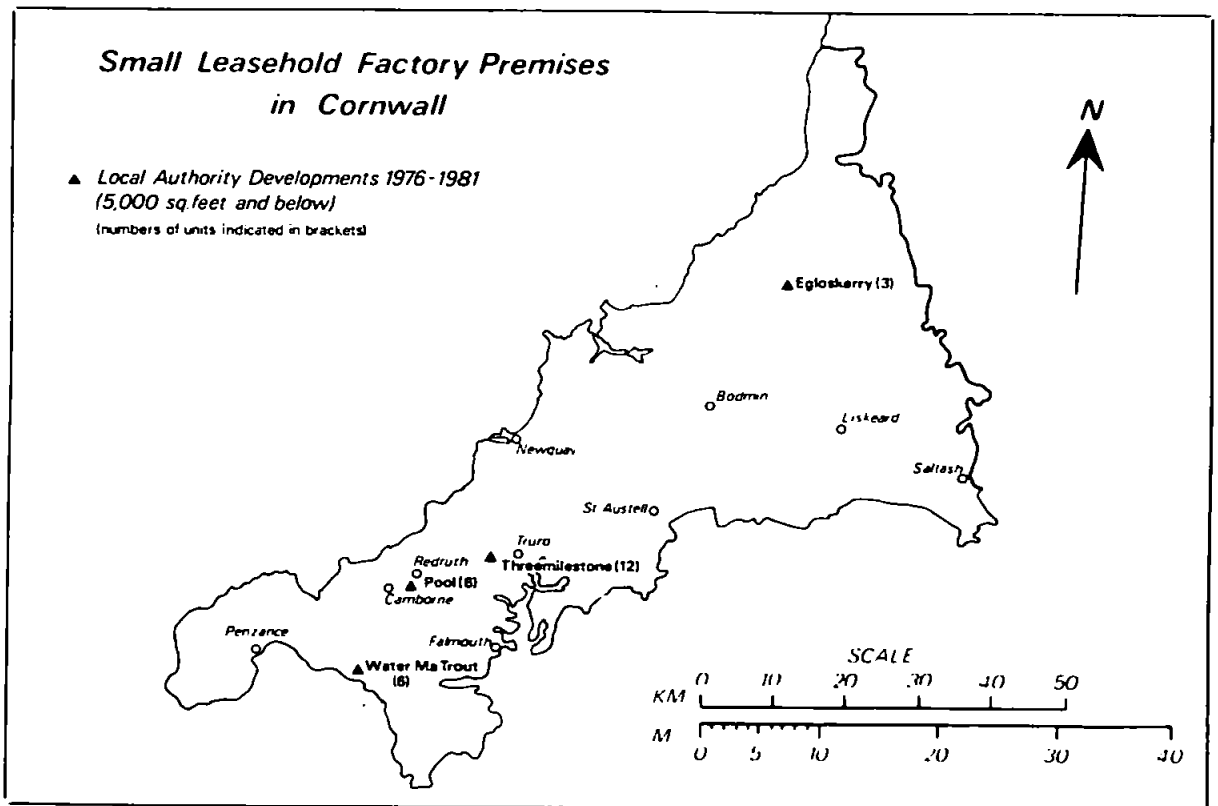


FIGURE 8.6

The first phase of the Commission's programme resulted in a total of nine units based at Helston, Threemilestone and Bude. These sites are all on existing industrial estates. The succeeding phases have taken a greater interest in outlying areas. In isolated villages (such as Trewellard and St. Kevern) the usual practice is to provide a pair of small factories (Plate 8.4), while larger groups of units are built in more accessible areas. Selection of tenants is undertaken by CoSIRA, which operates a very comprehensive financial investigation. CoSIRA aims to achieve four jobs per 1,000 sq.ft. of floorspace and gives priority to manufacturers with links to the local economy. Leases are typically of at least three years duration and, although rentals vary, a figure of £2.00 per sq.ft. was broadly representative.

Local Authorities

Three local authorities (North Cornwall, Kerrier and Carrick) have developed a total of 27 small premises (Figure 8.6) and all have concentrated on workshop-type units (2). The small size of the units provided is partly because of the very limited resources available to these rural districts, and also because they seek to fill the gaps in the market not covered by other developers. (Only the Beehive programme has included similarly small premises). Except in the case of North Cornwall, local authorities have built their units on existing local-authority estates near to the main towns (Truro and Falmouth). In North Cornwall, the factories have been built in the isolated hinterland of the district to assist a community with high unemployment. Each of the providing districts has appointed an industrial development officer who has taken a leading role in encouraging this aspect of the authority's economic activities.

The aim of the local-authority units has been to provide a starting point for new local businesses. Both Kerrier and Carrick let units on tenancies of between three and five years, but the tenant can terminate the agreement with only eight weeks notices without further penalty. Kerrier district does not undertake any detailed financial scrutiny of applicants, while Carrick and North Cornwall seek bank references only. Rental levels were below those for Beehive units; North Cornwall charged only £1.50 per sq.ft. while the other two districts were slightly higher at £1.80 per sq.ft. These low rentals reflect the basic building specifications: the premises have low ceiling heights and are pre-fabricated concrete structures. Manufacturing tenants are preferred as they are considered to have the best prospects for employment growth.



PLATE 8.4



PLATE 8.5

PLATE 8.4 Development Commission units at St. Keverne

PLATE 8.5 Department of Industry financed unit, built by English Estates at Kernick Road industrial estate near Falmouth

English Estates

English Estates' 16 small units form part of a property portfolio which is characterised by much larger premises reflecting the agency's past association with government regional policy. English Estates' small units are concentrated in towns of the far west (Figure 8.7) where unemployment is most acute. The average size of the units is large (3,750 sq.ft.) and none are below 2,500 sq.ft. A typical unit is shown in Plate 8.5.

English Estates' small units were formerly reserved for incoming manufacturing firms willing to sign a long lease. Since 1980 a more flexible approach has been adopted. For example, units of less than 5,000 sq.ft. are now let on negotiable leases of between six and twelve years. The new emphasis is on getting units occupied as quickly as possible, and this is reflected in a willingness to accept service-sector tenants. Rentals are fixed at the maximum market level and this was around £2.30 per sq.ft. for units between 2,500 sq.ft. to 5,000 sq.ft.

Table 8.5 summarises the key characteristics of all the small units built in Cornwall between 1976-1981. Inevitably, a simplified table of this kind cannot do justice to the full complexity and variety of the factories provided but it does serve to outline the general pattern of supply.

TABLE 8.5

Summary of small-unit provision in Cornwall 1976-1981

Development agencies	No. of units	Typical unit sizes in sq.ft.	Typical rental (£)	Typical lease in years	Locational priorities
Private	63	2,000 & 5,000	2.30	21	Profitable locations (large towns)
Partnerships	44	500 & 1,000	2.00	Tenancy Agreement	Special Development Area
Development Commission	41	2,500	2.00	3-6	Small towns & villages
Local authorities	27	400	1.80	3	High unemployment areas
English Estates	16	4,000	2.30	6-12	Special Development Area

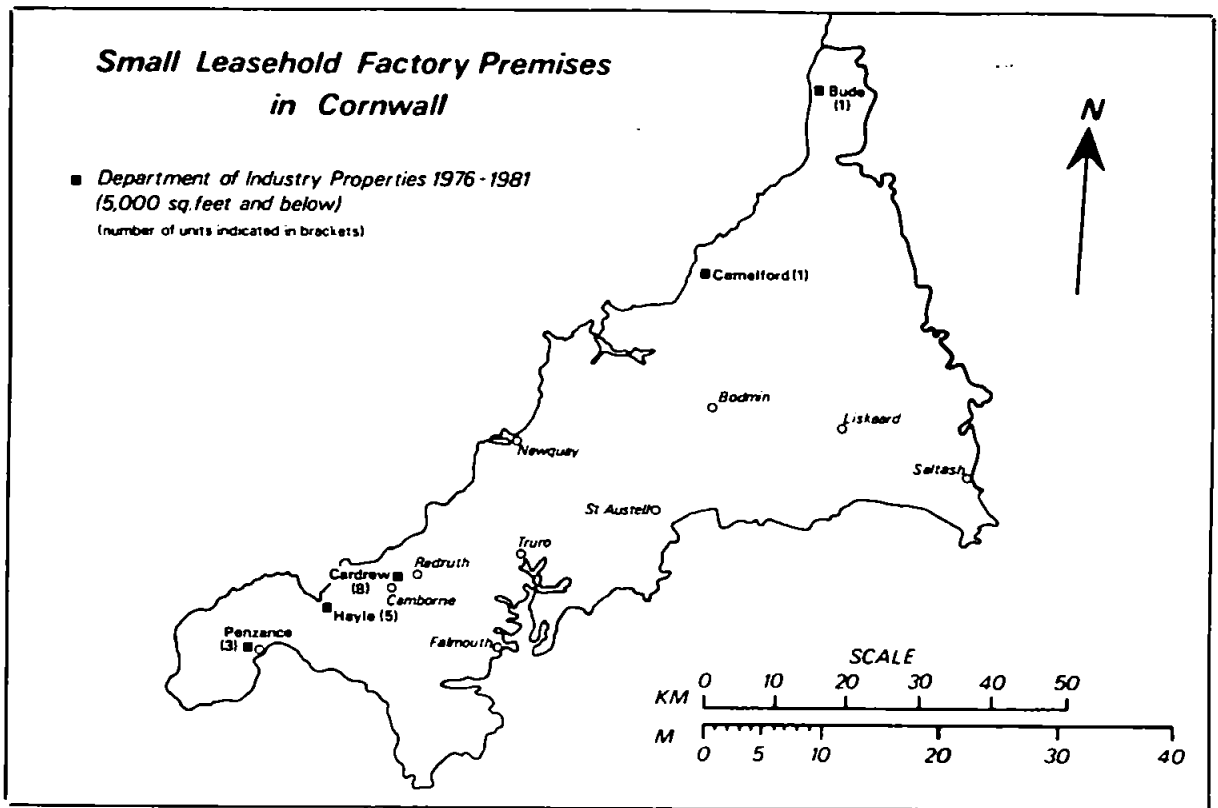


FIGURE 8.7

The overall distribution of the various agencies' units is shown in Figure 8.8. This indicates that all the public-sector agencies have concentrated their activities in the far west of the county. Further east there are large areas characterised by little or no new provision. The only extensive schemes in this half of the county have been undertaken by the private sector and are in the main towns. Nonetheless, three settlements on the north east coast (Bude, Camelford and Wadebridge) have attracted schemes supplying a few premises financed by the Department of Industry and the Development Commission. By contrast, there is a noticeable dearth of provision along the south coast between Saltash and Truro principally because site acquisition problems have so far prevented the implementation of the Development Commission's programme in this area.

8.4 THE OCCUPANTS OF NEW SMALL PREMISES IN CORNWALL

This section tests the extent to which the different management and tenant-selection policies, outlined earlier, are reflected in the characteristics of small-unit occupants. At the outset it was hoped that a complete coverage of all new premises in Cornwall would have been possible by utilising information from each of the developers. However, the agencies did not have the appropriate detail required for this study, and it was therefore necessary to contact firms individually. A postal questionnaire approach was rejected because of the likelihood of a poor response from small businesses, and so the survey was carried out by personal interviews. The scattered locations of many of the 191 units meant that it was not possible to visit all the firms in the time available and therefore it was decided to aim at a broadly representative sample covering two-thirds of the premises.

In selecting the units to be included in the survey, a number of considerations were taken into account. The sample had to include units built by each of the providing agencies, and the number of these units had to reflect the relative importance of each agency's provision within the County. Secondly, it was important that the schemes chosen were broadly representative of that agency's developments; this meant excluding premises in atypical locations and estates with unusual histories (for example, the Bodmin industrial estate which was laid out to accommodate firms transferring from London as part of the town's overspill agreement). The estates included in the survey (see Figure 8.9) have consequently been selected predominantly from the districts

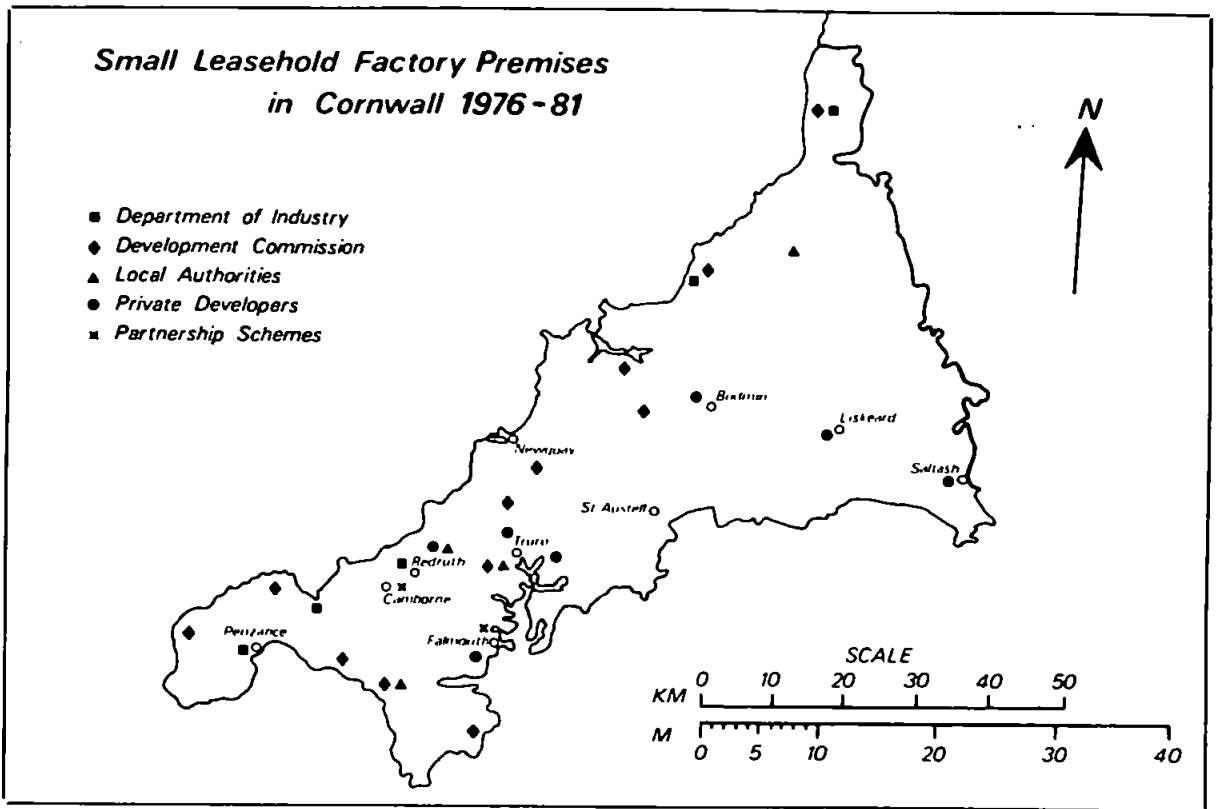


FIGURE 8.8

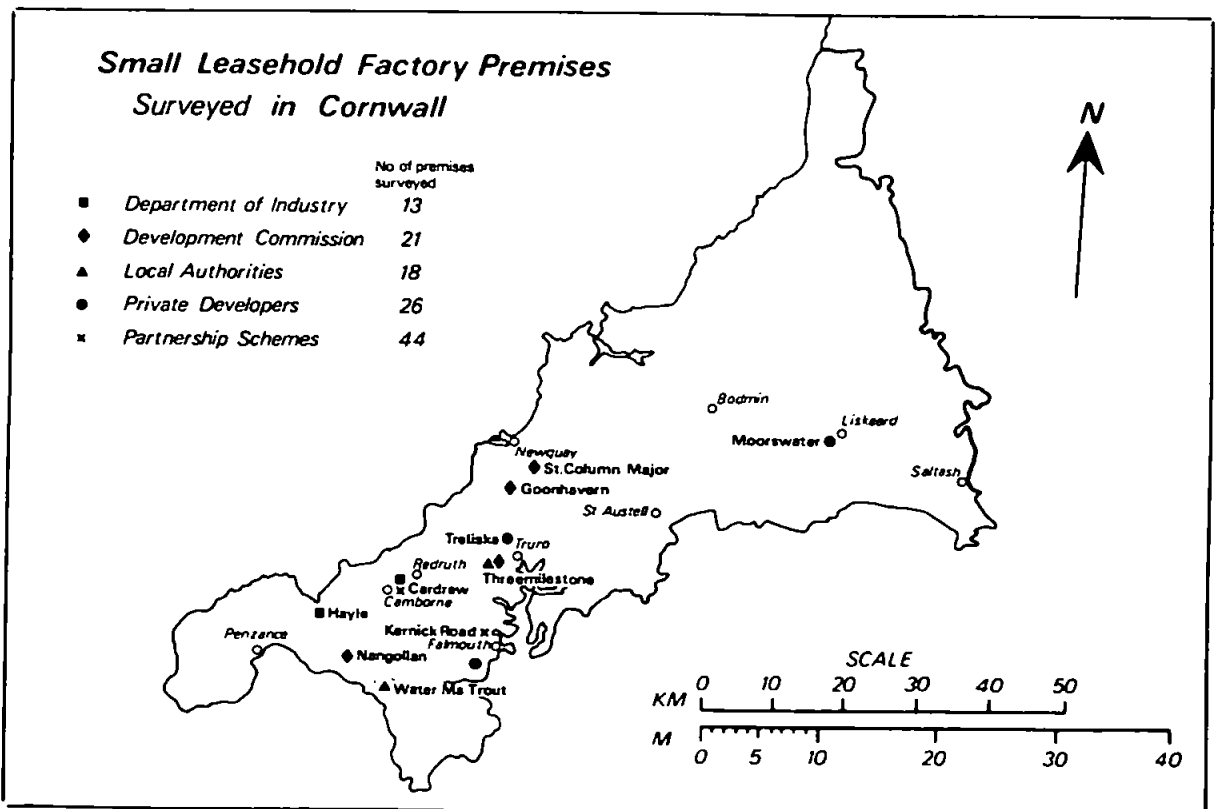


FIGURE 8.9

of Kerrier and Carrick, where all agencies have been active and where the sites are in relatively close proximity to each other. Given that the private-sector units are found mainly at the eastern end of the county, this means that they tend to be under-represented in the sample.

The questionnaire was tested on three firms not included in the main survey, the conclusion being that it worked well and required no change. Interviews were not pre-arranged; instead the questionnaire was designed to be answerable immediately by a representative of the company who was in practice usually the businesses' manager. A copy of the questionnaire is shown in Appendix Four. It concentrated on three main issues:

- (i) the firms (type of business activity, new or relocating business, independent or branch plant);
- (ii) the entrepreneurs (geographical origin);
- (iii) employment (number of employees, changes in employment and future intentions).

Out of the 122 units surveyed, 81 were occupied at the time of the study; but, because some firms occupied more than one unit, the target business totalled 71. All 71 consented to be interviewed giving a 100% response rate. The proportion of vacant properties (34%) largely reflects the length of time units have been on the market. Many of the partnership units, for example, had only been completed in the months prior to the survey. The majority of the businesses interviewed had been in their property for less than two years; only the private and Development Commission units were occupied by tenants of over four years duration (Table 8.6).

TABLE 8.6

Tenant sample by length of occupancy of unit and type of developer

Developer	Under 1 yr.	1-2 yrs.	2-3 yrs.	3-4 yrs.	4-5 yrs.	5 yrs. & Over	Total
Private	5	4	1	0	2	2	14
Partnership	13	9	0	0	0	0	22
Development Commission	3	3	3	4	3	0	16
Local authority	5	4	2	0	0	0	11
English Estates	2	2	2	2	0	0	8
Total	28	22	8	6	5	2	71

Survey results: The firms

The majority of tenants (78%) were independent businesses. Virtually all the branch plants in the sample were either in privately developed or in English Estates' premises. Although over half of the total sample were engaged in manufacturing, Table 8.7 reveals a considerable diversity of activities, with some contrasts between the units built by different developers. For example, the private sector has a significantly higher proportion of non-manufacturing businesses, ($\chi^2 = 5.5$, significant at 95% level with 1 degree of freedom) presumably because its premises are leased on exclusively commercial criteria free from the manufacturing preference which has traditionally tended to characterise public-sector letting and estate management practices.

Throughout the sample there were few examples of firms in "modern" sectors of the economy, with only one tenant working in computer technology. Most companies were in traditional small-firm activities including, for example, machine servicers, fibre-glass products and craft-based enterprises. These types of firm are unlikely to exhibit really high growth rates because of their dependence on largely local markets.

There were relatively few firms which had begun operation in their present accommodation, new-starts comprising only 20% of the firms interviewed. Not surprisingly, the partnership and local-authority units, being the smallest in terms of floorspace, had above average proportions of new firms (Table 8.8). But, even so, in both cases two-thirds of their occupants had been operating for over a year (and many for over three years) before they entered the new units. In spite of the modest rentals charged for the survey premises (typically between £2.00 and £2.50 per sq.ft.) and the generally flexible, short-term tenancy conditions, it would seem that most enterprise births are still taking place in other forms of accommodation.

TABLE 8.7

Distribution of tenant sample by industry and type of developer

Developer	Manufacturing	No.	Service	No.	Distribution/Supplies	No.
Private (14 firms)	- Pottery - Metal fabrication - Boat builders	3	- Parcel carriers - Car servicing - Installation depot for double glazing - Radiator servicing - Transmission repair	6	- Catering equipment - Dairy products - Crop and animal products - Fasteners - Kitchen showroom	5
Partnership (22 firms)	- Toys - Flowmeters - Light engineering - Electrical engineers - Draft excluders - Double glazing and sealed units - Garden furniture - Hydraulic engineers - Clothing (2) - Disco equipment - Timber frame houses - Glass fibre products(2) - Plastic	16	- Joiner - Recondition engines - Sign writers - Welders	4	- Meat - Attache cases	2
Development Commission (16 firms)	- Textiles - Glass fibre products(2) - Tanners - Communication systems - Cheeseboards - Gaskets - Engineering - Skin diving equipment - Electronics	11	- Recondition engines - Scaffolding - Caravan maintenance	3	- Lights - Meat	2
Local Authority (11 firms)	- Steel fabrication (2) - Engineering (2) - Tool makers	5	- Furniture restorer - Maintenance of agricultural machinery - Micro-computers - Recondition washing machines - Upholsterer	5	- Hire traffic control equipment	1
English Estates (8 firms)	- Crates - Meteorology equipment - Engineering	3	- Service agricultural machinery - Bakers - Printers - Tyre reconditioners	4	- Health food distribution	1
Total		38		22		11

TABLE 8.8

Distribution of sample firms according to when businesses were started

Developer	Started in unit	Started within 1 yr of move to present unit	Started between 1-3 yrs of move to present unit	Started over 3 yrs before
Private	0	1	2	11
Partnership	6	3	6	7
Development Commission	3	2	5	6
Local Authority	2	0	0	6
English Estates	3	1	0	7
Total	14(20%)	7(10%)	13(18%)	37(52%)

Most of the study businesses were, in practice, Cornish transfers: only 12% had previously been operating outside the county. Even in the case of units built by English Estates (which has traditionally aimed to accommodate in-migrating businesses) there were only two moves from outside Cornwall (Table 8.9). The degree of localism is underlined by the fact that 30% of study firms had transferred operations from within ten miles of their current property. Two agencies, in particular, accommodate a significantly higher proportion of these very local transfers; these are the partnership and Development Commission schemes ($\chi^2 = 9.16$, significant at the 95% level with 1 degree of freedom).

TABLE 8.9

Location of previous accommodation of sample firms by developer

Developer	New starts	Within 10 miles of present site	Further than 10 miles but within Cornwall	Outside Cornwall
Private	0	3	8	1
Partnership	6	9	5	2
Development Commission	3	7	3	3
Local Authority	2	3	5	1
English Estates	3	0	6	2
Total	14(20%)	22(31%)	26(36.5%)	9(12.5%)

There is one respect, however, in which the figures overleaf may underestimate the contribution of new units to business births. It is possible that in releasing and making available their old premises, the transfer firms initiated chains of moves which might have terminated in the emergence of new businesses in older, cheaper premises (low rentals being an especially important consideration for new businesses). Although a full exploration of this chain effect was beyond the scope of the present survey, relocating respondents were asked about the character of their previous premises. In practice, the single most common pattern (42% of firms) was for businesses to have moved out of older, second-hand premises. In other cases the previous property had been either another advance factory, a building due for demolition or the owner's home. Obviously the sizeable proportion of "second-hand" moves points to the potential for at least a modest chain effect on births.

The entrepreneurs

In gathering information on the background of the entrepreneurs, special interest focussed on the new start-ups and on the extent to which the survey units demonstrated the allegedly commonplace pattern in Cornwall of business formation by in-migrants. In practice, of the 14 entrepreneurs with new businesses only 3 had moved to Cornwall in the 12 months before starting their firm. Perhaps the typical in-migrant is looking for older, second-hand accommodation or perhaps a more comfortable and attractive working environment than low-cost, advance small-units can generally offer. The three in-migrants were all former managers in larger companies who had decided to move into Cornwall and into self-employment in their pre-retirement years.

There is no evidence that the new units have sparked off any marked drive towards self-employment among the local unemployed. Two firms had been started by persons recently made redundant but no entrepreneurs had experienced a long duration of unemployment. The majority of new firms had been established by former employees of small firms who set up their business in an activity closely related to their previous employment.

Workforces and employment

At the time of the survey there were almost 400 full-time jobs distributed amongst the 71 firms. Two-thirds of the jobs were occupied by men: a few firms had a preponderance of females working as

machinists, but most female employment was concentrated in clerical and secretarial work. Some caution is necessary, however, in interpreting the employment data as many firms emphasised that the number of employees could vary within a short period of time if the demand for their product changed. It was interesting that the number of employees per unit of floorspace was lowest in the private premises (Table 8.10). This presumably resulted from the public-sector agencies, when screening possible tenants, giving a higher priority to job creation than is usual in the private sector where profitability rather than employment is the key criteria in estate management. The Development Commission units have the highest density of employment and at the time of the survey they were close to achieving their target of 4 jobs per 1,000 sq.ft. During a period when there was a marked shortage of new factories, the ability of estate managers to select employment maximisers was, however, greater than today.

TABLE 8.10

Employment provided by firms in the sample

Developer	No.of firms	F/t jobs		P/t jobs		Average f/t jobs per firm	Jobs per 500 sq.ft. of floorspace
		M	F	M	F		
Private	14	64	26	3	2	6.5	0.93
Partnership	22	77	18	6	1	4.5	1.63
Development Commission	16	82	37	7	5	7.5	1.8
Local Authority	11	19	0	0	1	1.5	1.35
English Estates	8	56	19	5	12	8.5	1.25
Total	71	298	100	82	45	5.5	1.35

Given the current recession and the fact that two-thirds of the firms had been in their premises for less than two years, it was expected that few new jobs would have been created in the units. In practice, however, as Table 8.11 shows, almost half the firms had increased the size of their workforce since moving into their present accommodation. In all, 162 new full-time jobs had been created "in situ" as against only 26 jobs lost. (These figures obviously ignore both the gains of expanding firms now moved on to larger premises and the losses of previous tenants now moved to smaller accommodation or closed down). It is interesting that almost 75% of the new jobs in

the survey were in the manufacturing sector. Moreover, over half of all the new employment in non-manufacturing is accounted for by one exceptional business engaged in the distribution of health food products which took on 23 extra workers. The particularly strong growth rate amongst Development Commission tenants may well be a result of the Commission's especially thorough vetting of potential tenants, and of its estate management preference for manufacturing firms with good employment prospects.

TABLE 8.11

Employment change in sample firms by developer

Developer	No. of firms	No. of firms with increase	Employment gains	No. of firms with no change in labour force	No. of firms with decrease	Employment lost	No. of firms with plans to increase employment
Private	14	5	29	7	2	4	4
Partnership	22	13	46	8	1	1	9
Development Commission	16	7	53	6	3	15	7
Local Authority	11	2	4	9	0	0	8
English Estates	8	4	30	2	2	6	2
Total	71	31	162	32	8	26	30

Finally, firms were asked to indicate whether they had any plans to increase their labour force over the next 12 months. Although 60% were anticipating taking on additional employees, in most instances the expected increase amounted to only a few persons and was dependent on securing extra markets. At a time of recession it is likely that many of these plans will not have come to fruition. Nonetheless, in the light of the record of past expansion and the intention of future growth, it would seem that the new units can claim a reasonably satisfactory employment performance.

8.5 SUMMARY AND REVIEW

Over 400,000 sq.ft. of new small firm's accommodation was built in Cornwall between 1976 and 1981 and, although most recently the pace of provision in Cornwall and elsewhere has slackened, the county's stock of small-business accommodation has been enlarged by a fifth.

In addressing the question, "who is occupying these units?" this chapter has shown that the precise answer varies according to the size of the unit and the estate management practices of the providing agency.

The salient characteristics of the tenants in the survey are summarised in Figures 8.10 - 8.14. Very small floor areas, short lease terms and lenient financial screening, as with the local authority and Beehive premises, are commensurate with attracting higher proportions of new local enterprises. The Beehive workshops are associated with a slightly more rigorous financial vetting and, perhaps reflecting this, the partnership units have a more successful employment record. The even more searching selection process operated by CoSIRA seems to produce still more success in employment terms, although it is recognised that the slightly longer period of occupancy typical of Commission tenants has given more opportunity for employment levels to fluctuate. But, while the Commission has achieved its employment target, this appears to have been at the expense of another objective, namely assisting new businesses. The management of English Estates units has been changing away from its traditional focus on attracting established manufacturing companies, and this is reflected in the diversity of enterprises found occupying their premises. The private sector's tenant profile was distinctive because of the balance in favour of established companies (and particularly branch plants) in service-related activities.

The fact that agencies have not achieved all their objectives partly reflects the level of demand for new units. With one-third of the new stock lying vacant at the time of the survey, agencies have clearly relaxed their tenant preferences rather than wait for an applicant that fulfills all of their objectives. Key criteria (for example, the type of enterprise, its financial status and business potential) are compromised only reluctantly, but other preferences (for example, new and local businesses) are abandoned more readily. In broad terms the typical tenant of Cornwall's new small units can be described as an established, manufacturing firm which currently employs about 6 workers and which has moved to the new unit from another part of Cornwall. (These findings are in many respects similar to the surveys of similar advance factory programmes in other parts of the country that were discussed in Chapter Six, section 6.2).

Overall, the survey firms had experienced a 52% growth in jobs while in their new accommodation. It is not possible in a limited survey of this kind to reach definitive conclusions about exactly how

FIGURE 8.10

Tenants of local-authority units in the survey

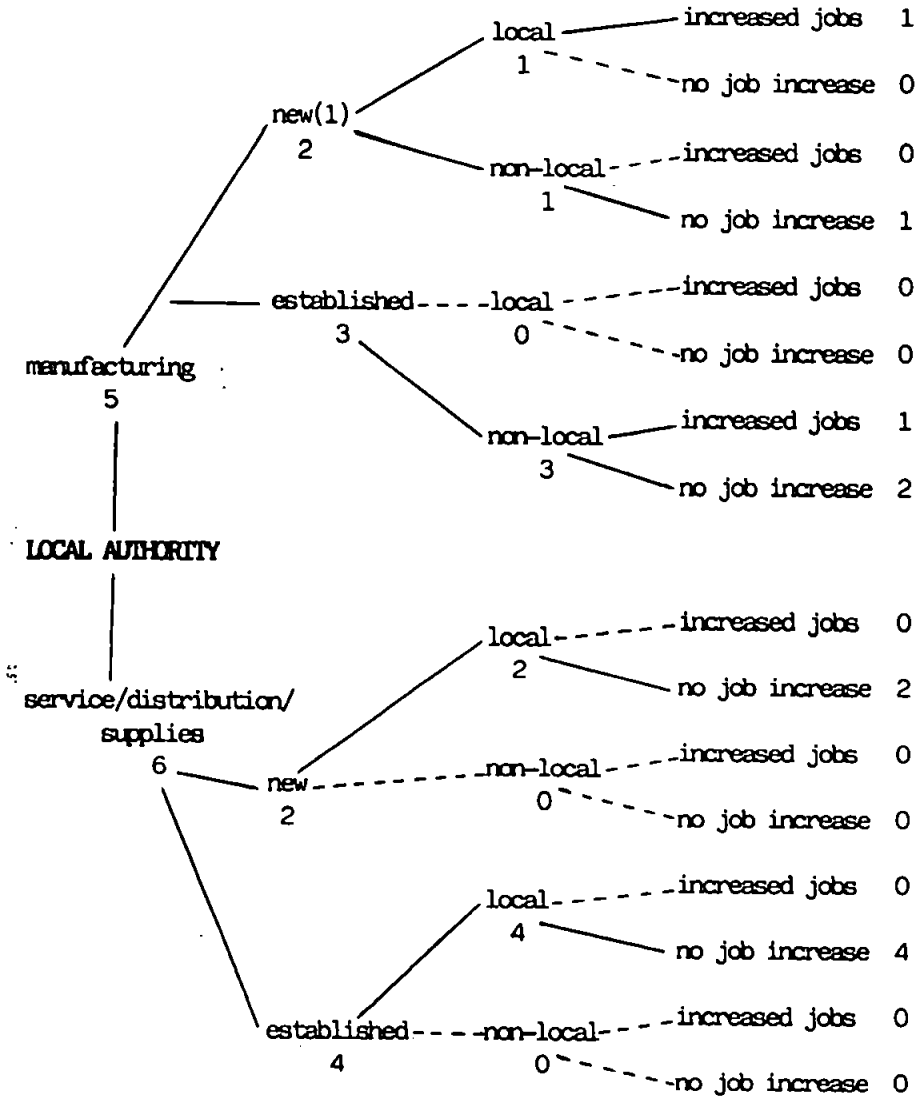
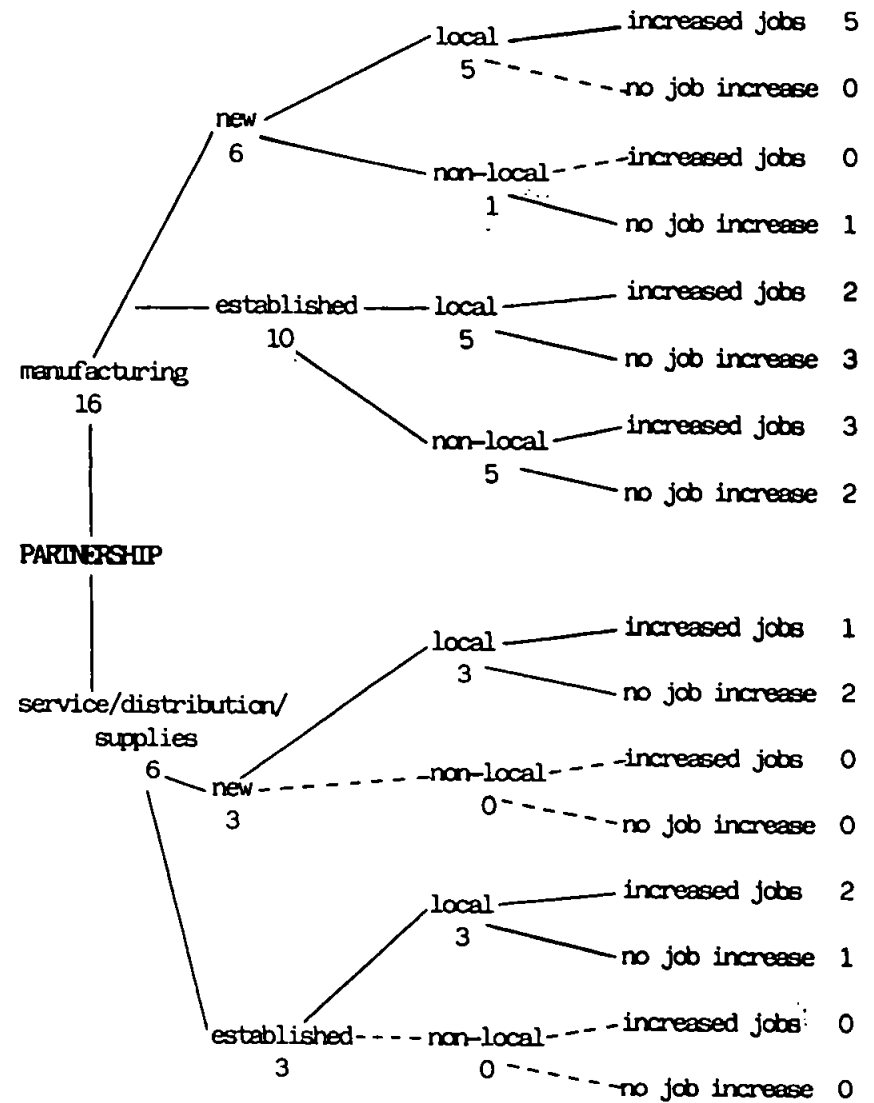


FIGURE 8.11

Tenants of partnership units in the survey



(1) Note: 'new' firm defined as business with less than 12 months business experience

FIGURE 8.12

Tenants of Development Commission units in the survey

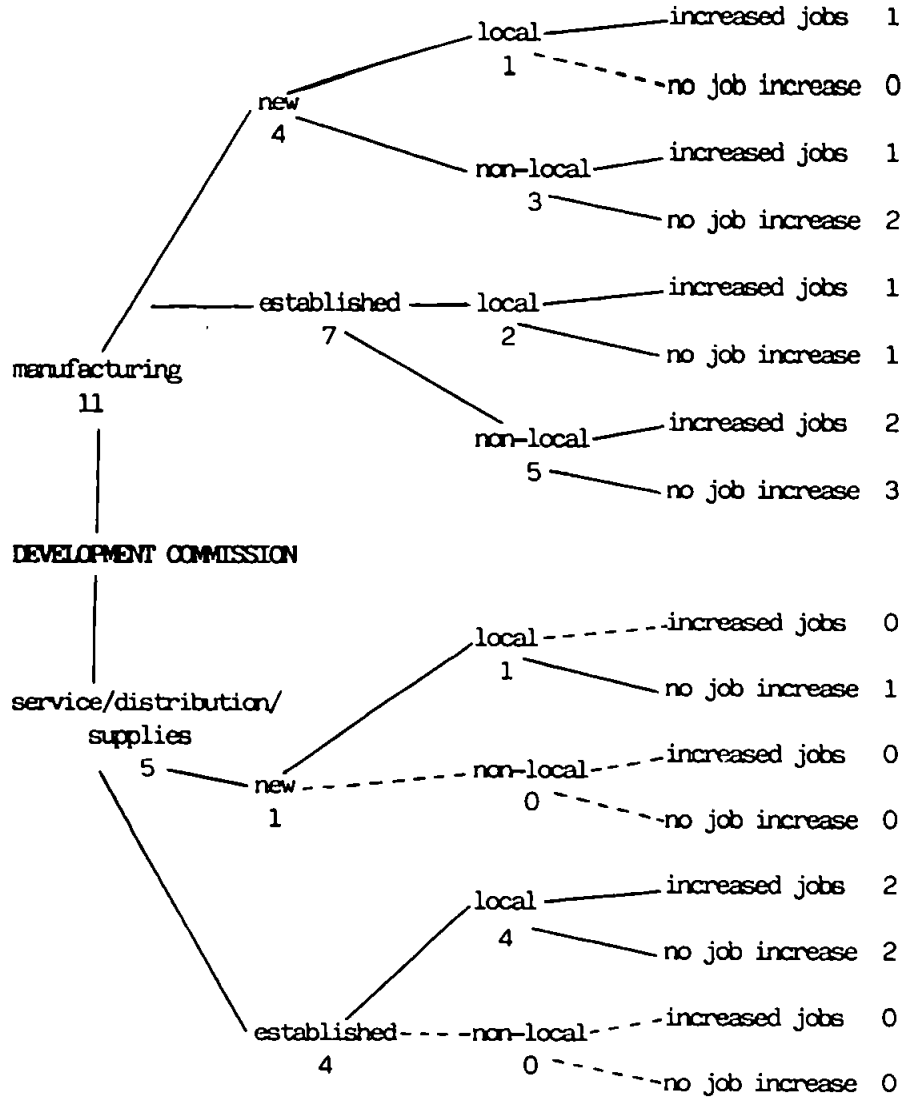


FIGURE 8.13

Tenants of English Estates units in the survey

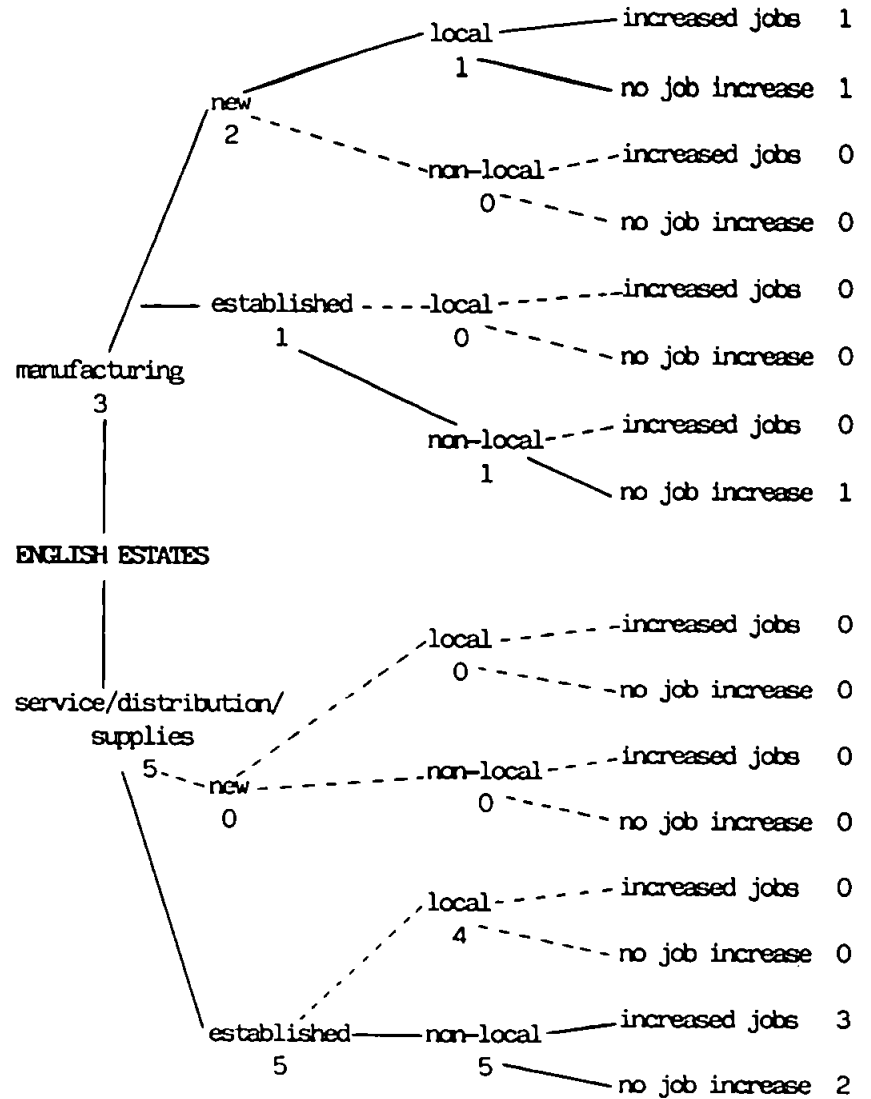
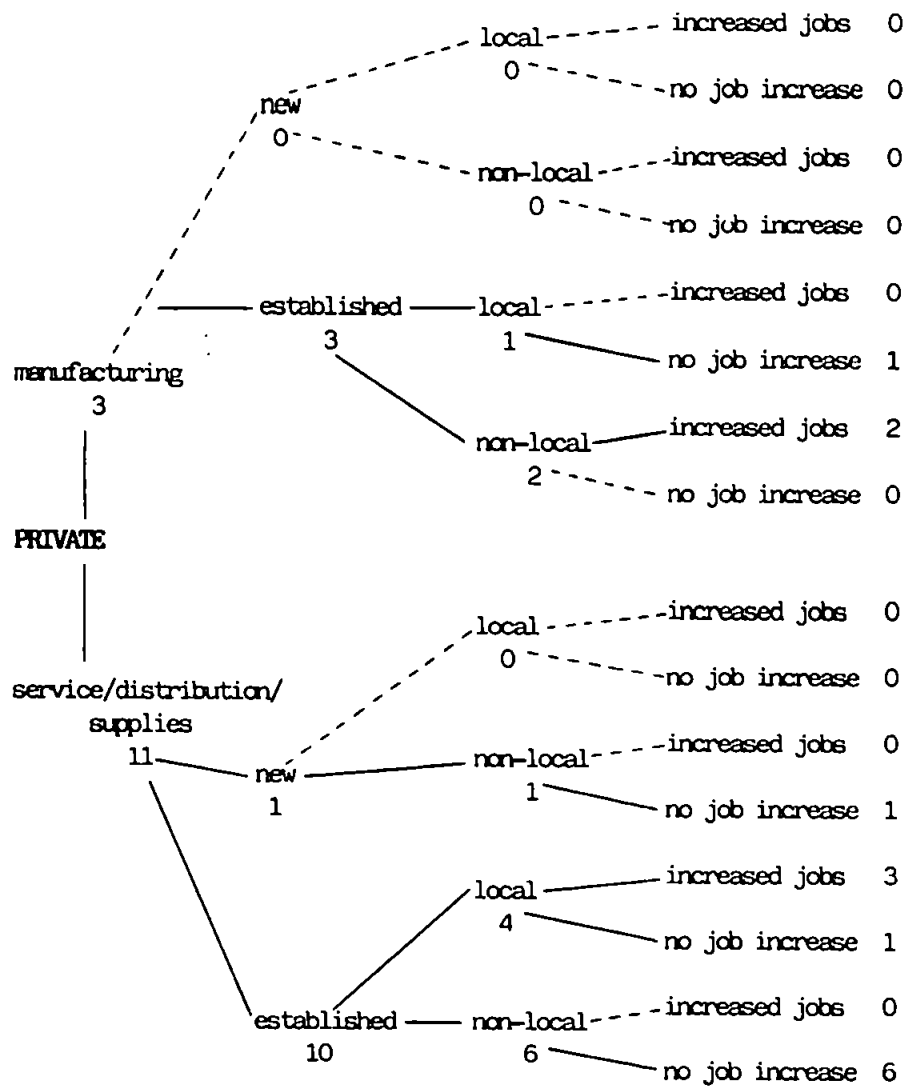


FIGURE 8.14

Tenants of private units in the survey



many of these new jobs would have been forthcoming anyway, at other sites, if the survey premises had not been built. Moreover, it must be recognised that the availability of suitable properties may be a necessary but not a sufficient condition for employment growth: premises permit growth, they do not cause it. Nonetheless, these caveats aside, Cornwall's small units have clearly been successful in accommodating job creation and in providing an environment in which young firms can grow.

But if the new units have helped develop new jobs, they have generally been less effective in helping to create new businesses. The advance premises have performed poorly in accommodating first-time enterprises: their role has been as entry points into modern industrial property for young businesses rather than as starting grounds for new ones. In future smaller and still cheaper premises will be needed to assist more directly the establishment of incipient enterprise. The recent building initiatives of the Development Commission and the county council have recognised this with the commencement of refurbishment schemes providing low-cost accommodation in older properties.

NOTES ON CHAPTER EIGHT

- (1) The author's survey included a number of premises which were not fully complete in 1981, comprising the Beehive developments and private development at Pool: in both cases only half of the 50 units were available for occupation at the time of the survey (December 1981). Nonetheless, all the premises were being actively marketed and were subsequently completed in the Spring/Summer 1982. The 1982 floorspace data indicate an addition of 52,750 sq.ft. of floorspace in new small units in Cornwall.
- (2) In 1982 Cornwall County Council completed its first factory development involving the conversion of a village school at Indian Queens to provide four small workshops.

CHAPTER NINE: SUMMARY AND CONCLUSIONS

Like every small business, each industrial property has a location, but decision-makers concerned with developing factory premises possess motives and strategies different from those which influence the businessman's choice of location. As the introduction to this study argued, the decision-making process at the firm level has been quite extensively researched, but similar studies for property providers have not yet formed part of geographical investigation. Since it is obvious that the role of factory-providing agencies is critical in the final locations of many small firms dependant on leasehold property, the spatial impact of such agencies seems undervalued in Industrial Geography. Moreover, even where the spatial preferences of developers and tenants coincide, the admissions criteria of property managers may exclude certain businesses. In periods of relatively depressed demand, the ability of estate managers to select between potential occupants is reduced, but even in the current recession there are important letting and management issues which remain largely unexplored by Industrial Geography.

This final chapter opens with a brief summary of the principal empirical results of the surveys undertaken and then proceeds to consider their conceptual implications. Following this assessment, certain policy conclusions are drawn and recommendations made relating to the future direction of public-sector support for small-business property provision. The final part of the chapter highlights aspects of the industrial property market which would seem to merit further research.

9.1 SUMMARY OF MAIN FINDINGS

This study has focussed on two aspects of new small-factory provision: the geography of recent speculative building and the procedures by which applicants for premises are screened and selected. The research has progressed through a survey of the principal providers in England between 1976-1981; namely, local authorities, New Towns, the Development Commission, English Estates and the private sector. During the period examined, the small-firms' industrial property market was transformed following a marked increase in new provision. In the 1960s and early 1970s small firms were viewed as relic features surviving only by paying low wages to non-unionised labour working in shoddy, back-street premises. Small industries whose locations

were inconsistent with planning policies were weeded out as "non-conforming uses". In addition, urban renewal schemes and road widening programmes demolished large areas of cheap, old industrial premises. Now the wheel of policy has turned full circle: sweatshops have become seedbeds and public and private developers have made major investments in new small-factory accommodation. This study was, therefore, undertaken at a particularly apposite time when the building of small-factory accommodation became a major policy initiative as part of a wider growth of interest in the contribution of small firms to employment growth.

The pattern of provision

An examination of national floorspace data revealed that in 1976 units of less than 500 sq.m. (5,382 sq.ft.) represented 11% of that year's new factory space in England: by 1981 this proportion had almost doubled. Between 1976-1981, 19.2 million sq.ft. was added to the stock of small premises (an increase of 16%). Of this new development, by far the greatest contribution has been made in the form of public speculative provision. The combined activity of local authorities, New Towns, English Estates and the Development Commission has made an estimated contribution of 75% to the growth of the stock of industrial floorspace in new small units.

The emphasis in the responses of local authorities to recent economic decline and rising unemployment has been concentrated on the supply of physical infrastructure for industrial development. The survey of English local authorities and New Towns (see Chapters Three to Five) found that the precise level of activity has varied according to the type of authority (Table 9.1). Over 90% of metropolitan borough councils have built small units, as have all the metropolitan counties except the West Midlands which remains sceptical about small-firm policies. Even in London, where the private sector has shown a greater willingness to invest, two-thirds of boroughs have supplied small premises.

TABLE 9.1

Small-unit provision by type of authority

Type of authority	% active	Mean no. of units	% of total provision
County council	42	49	9
District councils	49	26	44
Metropolitan BCs	92	51	17
London BCs	66	49	15
New Towns	82	106	15
All authorities	54	37	100

The more active and direct involvement of local authorities in industrial development has drawn them into closer and more complex relationships with private developers and financial institutions. Whereas for larger industrial projects authorities have traditionally disposed of land freehold or on long leasehold, the provision of small industrial premises required a more active role in the development process. Financial institutions' participation in the speculative building of small factories has often depended on a local-authority guarantee of the rentals on the completed units. Under these leaseback arrangements, the employment objectives of local authorities (and New Towns) are pursued at the expense of lower financial returns compared with sole developments but they nonetheless became popular following increasing restrictions on local-authority capital resources. Overall, one-third of the survey premises were found to be in partnership schemes with the private sector. Reflecting the institutions demand for property with prospects of high rental growth, these joint developments are particularly characteristic of authorities in the southern and central parts of the country.

The Government's inner-city programme has encouraged above-average provision in the major cities, and virtually all the designated authorities have been providers. Most of the New Towns have also been active but by contrast the figure drops to below 50% for both the county and district councils. County councils are primarily concerned with issues that have a strategic importance for the whole of their area, and whilst in the past they have built large speculative premises, small-factory provision has generally not been viewed as a county responsibility. Amongst district councils, the pattern of provision has varied spatially with two large areas of inactivity, one in the prosperous South East outside London and the other in a mainly rural band from Cumbria, through Yorkshire to Humberside.

The survey revealed a concentration of provision in the larger towns and cities, but there is no simple urban/rural dichotomy in the pattern of activity. Indeed amongst active urban and rural authorities average provision per head of population is very similar. Provision has clearly not been tightly targetted or concentrated on the problem regions. Often it would appear that decisions to supply premises have been influenced by the views of individual officers and the internal organisation of authorities. Politically, Labour councils tend to be the most committed to intervention in the local economy, but many Conservative authorities now also have large factory programmes. For

local authorities, the implementation of small-factory schemes requires the collaboration of officers connected with finance, estate management, planning and industrial development. The extent of activity may, in part, be explained by the success in uniting these traditionally separate departments and particularly in overcoming the typically more cautious approach of estate departments. But overall it is clear that we are still far from a complete understanding of the complex processes by which economic problems and issues are translated into local action.

The Development Commission's factory programme (outlined in Chapter Six) has been on a much smaller scale, contributing about 6% of the new industrial floorspace in small units. In the small towns and remoter rural areas where the Commission operates, this provision is nonetheless of importance. The Development Commission's factory programme commenced on a significant scale in the mid-1970s when it was conceived as a means of stemming rural depopulation. By 1982 its portfolio had grown to over 550 small premises.

As a result of a number of trends in rural areas, the Commission has redrawn its guidelines for areas eligible for factory assistance. During the 1970s many of the rural areas assisted by the Commission were actually increasing in population and its activities were criticised as being a programme in search of a policy (Williams 1983). A government review of the Commission has led to the agency being empowered to define its own Rural Development Areas. The major significance of this change was to widen the basis for Development Commission action as the actual priority areas for factory investment were largely unchanged. Problems of unemployment, unfavourable population and employment structures and accessibility are now addressed by the Commission.

English Estates' programme on behalf of the Department of Industry contributed approximately 3% of the new floorspace built between 1976 to 1981. The spatial distribution of these units is related to the geography of unemployment in the Assisted Areas, with major concentrations in the North East and Merseyside and secondary concentrations in industrial Yorkshire and West Cumbria. Since 1980, English Estates has been responsible for devising its own investment strategy rather than implementing a programme devised by the government. The planning of the building programme is now on a more formal basis including a requirement to earn specified rates of return. Given an increasing difficulty in letting large factories, there has been a switch in favour

of small factories. By 1982 over 60% of the agency's total portfolio (occupied and vacant) of 2,100 factories was in small units, compared with 6% in 1975. This provision, and more recent activity, has diversified the spread of English Estates' investment with large numbers of new factories located in North West Lancashire, Yorkshire and Humberside and the south west. A significant contribution to this growth has been made by the "Beehive" workshop programme organised jointly with private funding institutions.

The examination of private-sector agencies (Chapter Seven) highlighted the increase in investment by financial institutions - primarily insurance companies and pension funds - in financing industrial property development. But despite the overall growth in this investment, it remains limited largely to a narrow definition of "prime" property. The spatial, physical and tenorial conditions imposed by the major funds has produced two district property markets: a small market of prime properties for which there is an over-supply of finance and a larger market for non-prime properties for which there is a scarcity of funds. Typically, outside the south east, private speculative provision of small factories relies upon an alternative financial system made up of a combination of public-sector incentives (tax concessions and rental guarantees) and private-sector funding from smaller pension funds and local development funds.

The Industrial Building Allowance has been a particularly important influence encouraging large numbers of small-scale development companies to enter the market for the first time. This incentive was introduced at a time when local-authority financial resources for capital projects were being reduced. Thus the emphasis in provision has switched somewhat from direct public provision in favour of public subsidies to private developers. Within the public sector, however, there has been increasing provision by English Estates: in the two years 1982-1984 it completed $\frac{e}{\sqrt{r}}$ one million square feet of small industrial floorspace, increasing by one-third the stock of this accommodation financed by the Department of Industry (English Estates 1984). Thus a review of the period 1981-1985 would reveal that private developers and English Estates are far more important builders compared with the years examined in this study.

Property allocation

Local authorities and New Towns aim to promote employment in their small factories through management terms that are designed to minimise

the financial commitment from tenants. Leases are typically of 5 years or shorter, with terms of 21 years or over almost limited to a few authorities in the south east. Although most authorities state that their rents are fixed at market levels, this may often imply some element of public subsidy as small businesses are reluctant to pay high rentals. One kind of "non-commercial" practice now common is to offer rental concessions during the early period of a tenancy.

There is a general preference amongst local authorities and New Towns to let units to manufacturing firms, but in few cases are units reserved exclusively for such tenants. At a time when the demand for new premises has declined relative to supply, selection procedures have been moderated to widen the availability of accommodation. Similarly, while estate managers give priority to firms with good employment prospects, job targets or minimum employment densities are rarely set. The detail with which the financial security of applicants is assessed varies according to whether estates or planning officials undertake the investigation. Estates officers, through a keener sense of financial accountability, operate the most comprehensive screening procedures. Nonetheless, it is clear that the financial investigation of tenants is less rigorous than that operating in the private sector; only one-fifth of authorities regard a good financial standing as an essential prerequisite for a tenancy and many are clearly prepared to accept secondary covenants.

In contrast the outstanding feature of the management of the Development Commission's factory stock is the detail with which tenants' business records and prospects are assessed. For example, all applicants are required to produce detailed business plans showing how a tenancy will contribute to the development of their company. In addition, past accounts and a full trading history are sought as further evidence of the firm's viability and need for new premises. Thus, although lease lengths and rental terms are similar to local authorities, the proportion of rejected applicants is greater reflecting the search for firms with better covenants.

English Estates has traditionally reserved their factories for new branch plants or companies transferring into the Assisted Areas. Since 1980 the priority is to get units let as rapidly as possible. It is, for example, no longer a requirement that tenants be engaged in manufacturing and firms relocating over short distances within the Assisted Areas are now eligible. The financial screening of applicants relies largely on an examination of past accounts and bank references

and produces a lower rate of rejection compared with the Development Commission. In contrast English Estates' management terms tend to be stricter: there is a minimum lease of 6 years for units below 3,500 sq.ft. while 24 years is not uncommon for larger premises. The "Beehive" workshop programme does, however, provide very small units on more flexible management terms.

Management and tenant-selection policies in the private sector were explored through a small number of case studies. These generally confirmed the well-known priorities of private-sector landlords to select tenants with good financial covenants, a successful business record and which are prepared to sign leases of up to 25 years. There is, however, some evidence of a softening of management practices where smaller units are involved, although this often depends on a public-sector rental guarantee. Issues related to the type of business activity and employment are not taken into account, except that noxious and other bad-neighbour industries are excluded. But in this respect there is relatively little difference between any of the agencies examined in the study.

A survey of the occupants of two-thirds of the new small premises in Cornwall found that the character of the tenants varied according to the size of the unit and the estate management policies of the providing agency. For example, small floor areas, short-term leases and lenient selection procedures (as with the local authority and Beehive workshops) attracted high proportions of new, local businesses. Similarly, the private units being let purely on commercial grounds, were the only new factories with a preponderance of service activities.

But generally the Cornish case study found that management criteria are not rigorously enforced. Although key criteria (for example, the type of enterprise, its financial status and business potential) are maintained, other preferences may be compromised (for example, whether firms are new or established ventures). In broad terms, an established manufacturing firm, employing about half a dozen workers and which has moved to a new unit from another part of Cornwall, characterises the typical features of most factory tenants in the county.

9.2 CONCEPTUAL ISSUES

Having summarised the main survey findings, this section seeks to place these findings and the overall research approach within a rather broader conceptual framework. The argument was outlined in the introduction to this study that a full explanation of industrial

location patterns must take account of the significance of property considerations and the workings of the property market. Focussing attention, for example, on the costs facing firms may reveal that some locations are more profitable than others, but unless space is available to accommodate additional production in that location, financial advantages may not be translated into location decisions. In returning to this wider theme, three issues are concentrated upon in this section:

- (i) how far property influences the spatial pattern of business;
- (ii) how far the provision of new property is a response to demand;
- (iii) how far developers of new property create sub-markets.

Property and the spatial pattern of activity

In considering the importance of the property stock in explaining geographical contrasts in the level and nature of economic activity, it must be recognised that a supply of available premises is not by itself a sufficient condition for industrial development. Factories permit growth, but they do not cause it. Moreover, focussing attention on the supply of new accommodation ignores the fact that most industrial establishments occupy old property. The small-firms' industrial property market is exceptional in the extent of new provision. But, even following 5 years of accelerating development, by 1981 just 16% of industrial floorspace was in new units built during the study period. The majority of property transfers are accommodated within the large market for "second-hand" properties. Within the small-firms' sector, two characteristics further reduce the extent to which spatial contrasts in new property supply can explain area-wide location patterns. First, the search area is typically very constrained with most small businesses wishing to remain within the area of their origin. Thus small businesses tend to compromise their property selections rather than transfer long distances. Second, the availability of cheap, old premises is more important for new firm formation than modern, purpose-designed accommodation.

Over the long-run, persistent variations in property supply may influence firm performance by reducing the opportunities for expansion. Here the supply of new premises is directly important for the businesses occupying them, and for facilitating the release of older premises for newer firms. This study, however, found that provision was high in all regions and broadly in line with patterns of industrial activity. There are spatial contrasts in the developers responsible for the new supply, public agencies being generally more significant in the Assisted

Areas. But such contrasts are far from consistent and unlikely to induce long-distance transfers, not least because small businesses are probably not aware of differences in tenure and allocation procedures between agencies.

But if variations in new small-factory building are not a significant influence on broad spatial contrasts in business activity, the same is not true of precise location and site-selection decisions. In selecting sites, most small firms are constrained by an opportunity set consisting of only a limited number of properties, namely those which are on offer and which (though perhaps not meeting all the firm's preferences) are nonetheless broadly acceptable. The number of vacant premises is generally a small proportion of the property stock and so new premises entering the market are likely to form an important component of the locally available space. Moreover, new factories are suited to only a limited range of enterprises able to pay relatively high rentals and typically with several years trading experience. For these businesses, readily available new accommodation is a key influence on their relocation decision within their tightly-drawn property-search areas.

Thus, in response to the question "how far do property developers initiate industrial change as against merely accommodating it?" the precise answer depends partly on the geographical scale under consideration. Explanations of sites must always take account of property availability, but property supply sheds considerably less light on regional-level patterns. In general terms, only footloose firms can allow its site and property needs to control the selection of its location and such enterprises are comparatively rare in the small-firm sector. This conclusion should not, however, undervalue the wider importance of industrial property considerations for Industrial Geography. Within the larger stock of industrial premises (for all sizes of business) are important spatial contrasts in the availability and suitability of accommodation that have, for example, been shown to be a principal influence on the pattern of economic decline in the conurbations (Fothergill et al 1984). New factories are obviously a minor component of industrial space and, therefore, can only explain part of the geography of industrial activity.

Property supply and demand

The speculative provision of new property in an area is not an independent or autonomous process, since it is often a response to

as well as a contributor towards local economic potential. If supply is controlled largely by the pattern of demand, then arguably the locational preferences of businesses are of paramount importance in shaping the investment decisions of developers. But in practice accommodation supply and demand are far from perfectly matched. In respect of all the agencies considered there was little evidence of provision being based on market studies of the nature of local property needs. Developers rely on their own interpretations of market trends (or on information passed to them by market professionals) and these have not fully reflected the preferences of firms. In terms of the physical character of buildings, for example, developers have tended to build too large and too expensive for the needs of many small businesses.

The motives for local-authority provision are primarily to combat local economic decline and rising unemployment, rather than to make-up property shortages. Moreover, interest in economic development is a recent phenomenon and authorities have differed in their view of it as a legitimate area for local intervention. The availability of capital funds has been a key influence on the scale and nature of local-authority involvement in factory building. Possibly equally significant has been the extent to which traditionally separate departments can be coordinated to implement a factory programme. Supply is, therefore, far from simply a response to variations in the strength (or perceived strength) of local demand.

The same conclusion broadly applies to the Development Commission and English Estates. Both these agencies seek to deflect location patterns in pursuit of public policy goals, rather than passively accommodating existing demand. The Commission's objective of assisting remoter rural areas often leads to factories remaining vacant for a considerable length of time. English Estates has become more market orientated with new provision controlled partly by the level and character of vacancies in their existing property stock. But English Estates invests in areas of uncertain demand and the general approach is to ensure a surplus of accommodation is always available, rather than supplying to satisfy current demand. Thus to understand the spatial pattern of the Commission's and English Estates' provision primarily requires knowledge of their organisation and objectives rather than variations in demand.

Within the private sector, the supply of new premises has to be considered separately according to the type of developer involved.

It is the expectation of demand, rather than demand itself that stimulates institutional investment. The major funds supply units where demand is anticipated to operate at a high level relative to supply, enabling large upward rent reviews. Reflecting past experience, institutional investment displays a strong inertia to remain in the south east, close to the centre of their operations. But actual industrial performance has not been entirely consistent with the assessment made by the funds. Parts of Scotland have, for example, achieved particularly high rental growth while an over-supply of property has been reported in parts of the Home Counties. The claims on land for institutional investment in industrial space in the most favoured locations now clouds the issue of whether there is a real demand for that space from entrepreneurs.

The second component of private speculative provision is that by development companies and smaller-scale funding bodies. This investment has tended to be more market orientated with supply designed to satisfy local market niches. The information source on which these decisions are based is, however, haphazard. Few development companies employ specialists in identifying investment opportunities, rather reliance is typically placed on details received from estate agents which provide only a partial indication of the pattern of demand.

Overall, therefore, property supply may be viewed as an independent variable in the spatial pattern of industrial activity. Developers act as interpreters of industries' changing locational preferences and demands, shaping the evolving industrial landscape and fashioning the prospectus from which site selections are made.

New property and sub-markets

At the outset of this research it was suggested that the urban managerialist perspective offered new insights into the workings of industrial accommodation markets. The essence of this approach is that each type of property provider operates distinctive eligibility and allocation policies that lead to the creation of sub-markets, each with separate characteristics. This section returns to this theme and considers the extent to which each developer provides accommodation for a relatively homogenous cluster of small firms that could not easily transfer into another sub-market.

As already emphasised, the strongest difference was found between the private and public sector as a whole. Private-sector property is let on a purely commercial basis, with units largely reserved for

well-established enterprises that can demonstrate long-term viability. Moreover, this sub-market exists not only in terms of the character of occupants, but also in space. Private developers build in the more prosperous cities and towns, and within settlements sites adjoining the principal communication links are sought.

Within the public sector, the differences between agencies are less clear. Although each agency has spatial priorities, actual patterns of provision tend to merge into one another. In terms of the two principal aspects of the tenant-selection process, namely the investigation of the applicant's financial viability and the range of enterprises preferred, the admittedly somewhat crude typology illustrated in Figure 9.1 may be derived. At one end of the spectrum is the Development Commission which operates a comprehensive financial investigation and often seeks to limit tenancies to firms with good expectations of employment growth. In contrast local authorities, New Towns and English Estates tend to be more flexible on both accounts. The partnership units occupy an intermediate position being associated with a minimum financial screening but with the objective of letting units to new businesses with an expanding market.

FIGURE 9.1
Typology of factory-providing agencies

		Financial screening	
		Rigorous	Flexible
Tenant preferences	Priorities established	Development Commission	English Estates/Private partnerships
	Flexible	Private sector	Local authorities, New Towns and English Estates

But the reality of the market in recent years is that all public agencies (and to a lesser extent private developers) have relaxed their vetting procedures producing a considerable similarity in the types of enterprise associated with each developer in the public sector. Most estate managers act as satisficers, accepting the first applicant who broadly fulfills their objectives rather than experience potentially long void periods.

The absence of a more strongly differentiated market has been accentuated by the tendency to supply similar types of property. But there are also long-term trends leading to an increasing convergence

in the small-firms' industrial property market. English Estates has a stronger influence over the Development Commission's programme and this may encourage some further standardisation of management practice. In addition, the more commercial approach being injected into English Estates' programme will strengthen their affinity with the private sector. Thus even should the demand for small units rise, this may not lead to more distinctive sub-markets being created.

But while this study suggests that the tenant profiles of public agencies differ in only relatively minor respects, management and allocation policies are nonetheless a significant area for geographical enquiry. One aspect of this is to highlight the comparison between the public and private sectors. In addition, studies in the housing market have illustrated that property management policies may have effects different from those stated or intended, and this is also true for industrial accommodation. For example, the case study of Cornwall's new provision revealed that the rigorous financial screening employed by the Development Commission can conflict with its aim of supporting new locally-based enterprises. Similarly, the "Beehive" programme has been intended as an entry point into the property market for firms without a proven business record, but often the units fall short of this objective presumably because the high rentals and requirement for financial references deter some new enterprises. Management policies, therefore, have consequences for the employment impact of factory programmes. This issue is discussed further in the following section which identifies the key policy questions for public policy arising from this study.

9.3 POLICY CONSIDERATIONS

The impact of the massive public investment in small factories is difficult to assess: factories can help to create jobs but it is not clear how much of this employment would have been forthcoming without the new premises. Hodge and Whitby (1979) argue that it is misleading for any authority to develop an industrial estate and claim that all jobs that appear on that estate have been created by that authority. The precise calculation of the number of jobs which can be fairly ascribed to the new property is fraught with methodological problems. Perhaps as a result there has been little detailed research to gauge the policy's employment consequences. It was not the major objective of this present research to address this issue, but because of its significance and because of the dearth of existing research

it is perhaps useful to provide some comments on this subject.

If we assume an average of 6 workers per small unit (as is consistent with the Cornish experience) then the total local authority and New Town programmes may be accommodating approximately 35,000 to 40,000 persons. Given that an average new factory costs up to £40,000 to construct, this represents an expenditure of around £6,500 per job. But this cannot be regarded as the cost to local authorities of creating new jobs. Most of the employment is in established companies, who may have continued in their previous premises or found alternative accommodation. In Cornwall (and elsewhere, see Cameron et al 1982, Richardson 1983), the major impact of new provision has been a redistribution between local areas in the process of which a significant proportion of firms take on a few additional workers (while a smaller number shed labour). Of the total employment in the Cornish units, 40% had been generated since occupying their new premises. This expansion represents a more accurate impression of the job gains which could be attributed to factory programmes.

Translated to the nation as a whole, this implies a more modest employment benefit in the order of 15,000 jobs at a cost of £16,500 per person. This assumes, however, that the firms expand with no loss of jobs amongst the existing population of firms: where new factories are occupied by businesses serving purely local markets, net job gains are likely to be reduced. More positively, the relocation of firms in new properties will open up vacancies elsewhere in the market, thereby initiating a chain of movement with perhaps a number of firms benefitting from more suitable premises.

A slightly more accurate estimate can be made of the employment impact of the Development Commission's programme. Factories occupied in 1982 provided 4,170 jobs (Development Commission 1982) at an average density of 2.85 workers for every 1,000 sq.ft., therefore falling short of their job creation target. With some 1.6 million square feet completed and occupied by the end of March 1984, total actual employment is likely to have been around 4,700 obtained at an estimated cost of £32.5 million (equivalent to £7,000 per job). English Estates' portfolio built for the Department of Trade and Industry and in partnership with the private sector provided an estimated 10,800 jobs in 1984, assuming an average occupancy of 6 workers per 2,500 sq.ft. of floor-space (at a total cost in the order of £65 million or £6,000 per job). Of course, exactly the same caveats apply to these employment figures

as for local-authority provision. The most recent evaluation of the Commission's programme, for example, found that around half of the total jobs existed prior to the take-up of new accommodation (JURUE 1983b).

A further difficulty in interpreting the various job creation figures is the possibility that the private sector would have found it worthwhile to construct more accommodation in the absence of public-sector involvement. As early as 1979 local authorities were criticised for precluding the private sector in small-unit provision because their programmes do not operate to commercial criteria, driving down market rents, often creating surpluses of accommodation and so reducing the potential for private investment. Hookway (1979) stated;

"Local authorities should resist the temptation to continue with a measure once their innovation has called the attention of the private sector."

Storey (1983) suggests that the private sector had not undertaken small-factory schemes when public provision commenced because their price had not risen sufficiently to make them a good investment, and he has therefore questioned whether there was in fact a "shortage" of accommodation.

This view, however, seems to understate the reluctance of private developers to initiate schemes in secondary locations without public support. In favoured parts of the country private investment may satisfy the future property needs of industry, but in many areas it will be left to public developers to fill market gaps, particularly at the smallest end of the market. The need for a continued but more selective public involvement was indicated by the present survey of local authorities which found that most reported shortages of only very small units. Similarly, Richardson (1983) found that in inner cities where both private and public investment had occurred, private development was limited to prime sites, in new units above 1,000 sq.ft. and undertaken by local developers with little evidence of investment from major funding institutions. The withdrawal of the Industrial Building Allowance from 1985 is likely to cause a reduction in private speculative provision, particularly in the more depressed local economies where the public sector will continue to be an important property provider.

In addition, there are certain types of small-business accommodation which are difficult to provide on commercial terms in any location without significantly deterring demand from the firms preferred

by public policy. To stimulate more new activities, enterprise workshops have been built to provide occupants with shared services and assistance with business problems. Such developments require substantial management involvement and so typically involve some element of public subsidy, particularly if they are to succeed in their goal of encouraging new enterprises and high risk ventures. More generally further public involvement may be justified on the grounds that they are able to let premises at subsidised rents. Although rental assistance has been criticised (Coopers and Lybrand 1980) it can have a role to play when applied selectively. For example, they can be granted to encourage new businesses and to enterprises which offer particular employment advantages or benefits in terms of the training facilities offered.

But while there is a role for continuing activity by both the private and public sectors, it may be questioned whether the duplication of public agencies supplying premises is justified. Given the level of building activity during the study period and the increasing similarity in the management of the property stock, in some local areas several agencies have been competing for the same tenants. This problem has been most acute in the Assisted Areas, and particularly outside the main urban centres where the Development Commission, English Estates and local authorities are potentially active. Although very recently the reduction in local-authority activity has moderated potential competition, there is nonetheless a need for much greater monitoring of the local property market. This work should include the recording of all units (new and old) entering the market each year, their size and location, and the lettings and vacancies occurring annually. The monthly registers of vacant premises, already compiled by the more active authorities, provide the starting point for this more detailed monitoring. This work is most appropriately the role of county councils who could use the information to help identify areas in short supply and so guide the future provision of district councils (for the smallest units), public agencies and to promote investment by private developers.

In relation to the management of property, one issue that should be considered more important is the opportunity for applicants to gain a tenancy in the private sector. While not proposing that units in the public sector should be the preserve of secondary enterprises, where private premises are locally available, and demand for accommodation is relatively buoyant, firms with covenants likely to satisfy

private landlords should be encouraged to apply for private-sector units. This will increase the opportunities for more marginal enterprises to obtain property, in line with the social goals of public-sector agencies. One existing practice that should be reviewed by public developers is the tendency to prefer manufacturing tenants. They have become more flexible on this issue and a further move towards accepting a wider range of businesses is called for, particularly as many enterprises start at the service end of a trade before considering manufacturing (Nicholson et al 1981).

Overall, therefore, while it is obviously not possible to gauge its precise impact and effectiveness, there are grounds for maintaining public support for factory provision. This activity should, however, be predicated on much closer monitoring of local property markets, with more clearly defined goals to ensure duplication of provision is minimised. Although the widespread shortages of small-factory space reported in the 1970s have been overcome, the increased rate of new firm formation in recent years (Ganguly 1983a) suggests that the demand for accommodation will remain strong. The precise levels of future public provision will be determined, in part, by the reaction of private investors to the removal of the Industrial Building Allowance.

9.4 SOME DIRECTIONS FOR PROPERTY MARKET RESEARCH

This study has started to exploit a broad and largely untapped research area in which there is a clear need for further work. One major subject for investigation is to evaluate more closely the impact of factory provision and to compare its effectiveness and costs with other policies aimed at combating local economic decline. As indicated in the previous section, methodological problems beset this work, but only when further evidence is provided will we be able to judge more accurately the value of factory programmes in job creation terms. There is a need both to identify the position with the particular accommodation provided, as well as the alternative which would have occurred in the absence of any policy intervention. The estimation of how events would have progressed without new development represents a significant area of uncertainty, but it is generally not acceptable to assume that nothing would have changed. Some firms might have shelved their expansion plans, but no doubt others would find alternative property solutions. To gain an insight into the "policy-off" situation, control groups of similar firms to those in new premises which failed to obtain accommodation, may provide some interesting

comparative data. Closely related to this issue is the need for further consideration of the relationship between the public and private sectors. Would, for example, the shortage of accommodation eventually have attracted more private investment in the absence of public provision, or was the latter necessary to demonstrate the potential profitability of small-unit schemes? With greater knowledge of these issues, local expenditure on economic development may be deployed more effectively and central government will be in a better position to assess the appropriate role of its several factory-building agencies.

The survey of local authorities indicated the influence of professional officers in shaping factory provision policies and highlighted the particularly important relationship between estates and planning and industrial development officers. The tentative nature of the findings on this issue clearly raises the need for additional examination of the influence of organisational structures on local policies. Related to this subject are the influences which shape particular decision-making structures. For example, it would be revealing to investigate whether authorities where estates officers' perspectives dominate policy reflect the characteristics of the communities in which they are located. Young et al (1980) have suggested that locality characteristics and policy outcomes are linked via the mediating processes of political and professional recruitment, although definitive evidence on this topic has yet to be presented. Conventional survey research may be of limited value to uncover the relationships between environment, organisation structure and policy outcomes given the sensitive and detailed nature of decision-making processes. Rather interviews and participant observations are probably best suited to this type of research. Ultimately, however, a better understanding of the nature of the policy process and of the professional perspectives within it may contribute to better-informed policy making and a clearer understanding of the spatial distribution of initiatives.

This research has concentrated exclusively on new advance factories, but has shown that these form a minor part of the property stock. Our information on the character of the older stock of accommodation is limited to a few local surveys (for example, Williams et al 1980). The Census provides information on housing, but there is no comparable data source for industrial property. Most firms (like most households) find themselves occupying "second-hand" properties

and the majority of moves are accommodated within this sector. Research should therefore not be confined to new factory provision, but should consider property management and allocation in the inherited stock also.

Indeed perhaps some of the potentially most interesting changes take place as property ages as this may influence the pattern of occupancy. Within Industrial Geography there has been little examination of the historic profiles of the property stock. Social Geographers refer to such processes in the housing market as filtering. Bourne (1981) has described the filtering process as analogous with a person walking up on a downward escalator: households move up the property market whereas there is a downward slide in the quality of premises vacated with age. The development of advanced technologies, generating new property requirements, will accelerate the rate of obsolescence amongst the inherited factory stock, further emphasising the need to examine the underlying mechanisms in the industrial property market.

Within the housing literature a close relative of the filtering concept is the idea of the vacancy chain. When a household moves it leaves behind a property which is then available to another household whose move in turn creates another vacancy. The construction of one new house may have a ripple-effect producing a sequence of moves referred to as a "housing chain". Chains are usually terminated by the demolition of old houses or by the formation of new households. This idea was partially examined in Chapter Eight which suggested that chains of property opportunities are also important in the industrial sector. To date, however, one study by Valente and Leigh (1982) of the chains resulting from eighteen new factory units in Lambeth would appear to be the total research effort in this field. Yet the introduction of the chain concept more widely into studies of industrial change could be helpful not only as a descriptive device but also as a means of assessing the full impact of new industrial accommodation.

Industrial Geographers have hitherto paid insufficient attention to the role of property developers in shaping the industrial landscape. In undertaking this research into the geography of new small-factory provision there has, therefore, not been the benefit of an existing corpus of research findings from which to draw inspiration and detailed hypotheses for testing. Rather our principal source of guidance has been concepts and approaches derived from studies of residential

property markets. In focussing on small units, a sector of particular policy interest has been examined and an attempt made to place the findings in a wider conceptual framework. Inevitably the research has left unanswered many questions, but in highlighting the potential of property market studies for Industrial Geography this research may perhaps serve to draw attention to a rewarding area for future enquiry.

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APPENDIX ONE: LOCAL AUTHORITY QUESTIONNAIRE

PROVISION OF SMALL FACTORY PREMISES

NOTE

For the purposes of this study, small units are defined as any industrial property of 5,000 sq.ft. (465 s.m.) and below. To some authorities this may appear a very large "small unit", however this study seeks to take a wider perspective particularly as it is this size which has traditionally marked the cut-off point for private sector developments.

1. Name of authority
2. Name of respondent
3. Position of respondent

Provision

4. Has the local authority provided any small industrial units either new or rehabilitated over the past five years? If "yes" please indicate the total number provided.

YES NUMBER NEW

NO NUMBER REHAB

5. Have any of these industrial units been in financial partnership with:-

(i) A private developer/financial institution? YES NO
NUMBER

(ii) Other public agency (e.g. EE, CoSIRA or other local authorities?) YES NO
NUMBER

Please specify which

.....

If the answer to questions 4. and 5. is "NO", this is the end of the questionnaire for you - but please return it as this information is of value.

Thank you.

6. What proportion of all the small properties that the local authority have provided in the past five years (either solely or in financial partnership with another agency) have been for sale and lease?

FREEHOLD _____% LEASEHOLD _____%

If the answer to question 6. is 100% freehold, please ignore the following questions and answer only questions 15 - 17.

Leasehold Properties

7. (a) What are the current average rental levels per sq.ft. of your local authority small industrial units?

_____ per sq.ft.

(b) Does this represent (i) A commercial rent? (Please tick appropriate box)
(ii) A rent below market levels?

(c) Does the local authority offer any rent-free periods or other rental concession? If "yes" please specify the nature of these.

YES NO

.....
.....
.....

8. (a) What is the average length of lease currently granted on a small industrial property?

Less than 1 year (Please tick appropriate box)

1 - 5

6 - 10

11 - 21

22 - 50

51 - 99

More than 99

(b) Does the local authority grant any special leasing arrangements, for example, short-term licence agreements to allow a tenancy of only a few months or less? If "yes", please give details.

YES NO

.....
.....
.....
.....
.....
.....

Letting Policies

9. (a) In most cases who makes the decision to accept or reject a particular application for a local-authority property?

(i) Officer(s)? (Please tick appropriate box)
 Please specify which

(ii) Council members?
 Please specify Committee

(iii) Others?
 Please specify

(b) Are there any particular circumstances when this changes?
 If the answer is "yes" please indicate how and why.

YES NO

.....

10. (a) When considering the financial viability of a potential tenant with an existing business, how often are the following checks and measures made? (Please tick appropriate box)

	Always	Usually	Rarely	Never
(i) Interview with applicant?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(ii) Examine the firm's accounts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iii) Ask for bank references?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iv) Ask for cash-flow projections?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(v) Ask for a study of the market for the firm's product?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(vi) Ask the Company's Directors to guarantee the rent?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10. (a) cont'd

(vii) Other (Please specify)

.....
.....

(b) Does this pattern vary if the applicant is a new enterprise? If "yes" please indicate how.

YES NO

.....
.....
.....

11. In general, how much priority is given to the following types of applicant in determining the selection of tenants for occupation of a local authority factory?

	Essential	Some Priority	Not Important
(i) It is a <u>manufacturing</u> firm?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(ii) It is a <u>locally owned</u> firm?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iii) It is a <u>new</u> undertaking?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iv) It is of a <u>good financial</u> standing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(v) Achieves a minimum jobs/sq.ft. ratio?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please specify			
(vi) It shows good prospects of <u>increasing its labour</u> force?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(vii) It has been affected by a <u>redevelopment</u> scheme?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(viii) It has <u>failed to obtain</u> premises provided by another agency?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(ix) Other (Please specify)

.....
.....
.....
.....

12. When letting a small industrial property, in what proportion of cases does the local authority:

(i) let premises on a "first come, first served" basis? _____ %

OR (ii) select between two or more acceptable applicants? _____ %

13. Have letting practices changed over the past five years, either in the stringency of their operation or in the types of applicant preferred?

If "yes", please indicate how and why.

YES NO

.....
.....
.....

14. Have the local authority provided any of the following types of facility or accommodation?

	YES	NO
(i) Small <u>starter workshops</u> ?	<input type="checkbox"/>	<input type="checkbox"/>
(ii) Premises with <u>shared on-site business services</u> ?	<input type="checkbox"/>	<input type="checkbox"/>
(iii) Premises in <u>rehabilitated buildings</u> ?	<input type="checkbox"/>	<input type="checkbox"/>
(iv) Accommodation for <u>service</u> or <u>distribution</u> firms?	<input type="checkbox"/>	<input type="checkbox"/>

Local Economic Context

15. In the local authority's small-factory programme, how important are the following goals? (Please rank your replies with number one representing the most important goal).

- (i) Attracting firms from other parts of the country?
- (ii) Helping existing small-firms to survive and grow?
- (iii) Encouraging new local small-firms to grow?
- (iv) Other (Please specify)
-
-

16. Which of these statements fairly describe the local-authority's perception of the market for small industrial premises in your area?

(i) A significant overall shortage of small units?

(ii) A shortage of some types of small property?

Please give details

.....

.....

(iii) An adequate supply of small units?

(iv) An excess supply of certain types of property?

Please give details

.....

.....

(v) A significant over supply of small properties?

17. Finally, it would be very useful, should the information be readily available to you, if you would supply further details on the number and size of industrial units provided by the local authority.

(a) How many small factory premises have been provided solely by the local authority over the past five years?

<u>Floorspace (sq.ft.)</u>	<u>Number</u>
500	
500 - 2499	
2500 - 5000	

(b) How many small factory premises have been provided by the local authority in partnership with:

(i) Private Developers?	<u>Floorspace (sq.ft.)</u>	<u>Number</u>
	500	
	500 - 2499	
	2500 - 5000	

(ii) Other public agency? (e.g. E.E, CoSIRA or other local authorities)	<u>Floorspace (sq.ft.)</u>	<u>Number</u>
	500	
	500 - 2499	
	2500 - 5000	

Please outline the nature of the partnership arrangement.

.....
.....
.....
.....

Further Comments

If you have any comments on the issues raised in the questionnaire, or the successes and failures of your factory building programme, please give them here.

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Thank you for your assistance in completing this questionnaire; a "Freepost" envelope is provided for its return.

APPENDIX TWO: INTERVIEW SCHEDULES FOR THE DEVELOPMENT COMMISSION AND ENGLISH ESTATES

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Survey of Small-Firm Development Agencies

Interview Schedule for the Development Commission, London

1. Organisational Structure of the Development Commission
 - Links between the D.C. and the Department of Environment and Department of Industry.
 - Links between the D.C. and English Estates, before and after 1981.
 - Why have the changes taken place between the D.C.'s agent CoSIRA and E.E? How does the D.C. maintain an influence over the factory building programme?
 - What is the breakdown of the E.E.'s factory building programme between D.C. financed and Department of Industry financed units? Implications?
 - On what basis is the D.C.'s annual budget distributed:-
(i) between the Assisted Areas and the non-Assisted Areas; and (ii) between individual counties?
 - What links are maintained between the D.C. and the county Small Industry Committees?

2. Location of Factory Developments
 - Criterion for the designation of Special Investment Areas and Pockets of Need? Are these areas subject to review?
 - Strategy plans, by whom? how often? for what purpose? who ratifies the plan's recommendations?
 - Action plans, relation to strategy plans? how often? who ratifies the plan's recommendations?
 - Distribution of units between the Assisted Areas and the non-Assisted Areas, and between the Special Investment Areas and Pockets of Need?
 - What replaces the Action Plans outside the S.I.A.'s?
 - Regional variation in the D.C. programme, e.g. does the D.C. tend to finance smaller premises in particular locations? Estates, or one-off developments?
 - What commercial guidelines does the D.C.'s factory building programme operate within; have these now to conform to E.E.'s standards?

- Competition between the E.E. and the D.C. - how is this contained? Have recent changes given more weight to E.E?
- Partnerships with local authorities; private developers.

4. Tenant selection and management of units?

- What role did/does the D.C. play in the selection of tenants for D.C. factories?
- How does the D.C. express it's preferences?
- What role does CoSIRA play in the selection of tenants for D.C. factories outside the Assisted Areas - are all D.C. factories subject to the same initial vet (i.e. financial, technical and business characteristics)?
- Is the E.E. solely responsible for the acceptance or rejection of CoSIRA's recommendations? What proportion, in general, will be rejected?
- Who fixes rent and lease terms for D.C. factories? Are these what the D.C. would prefer?
- Regional variation in management terms and tenant selection priorities.
- What arrangements exist for partnership schemes?
- 1981 Census implications.

5. Data Availability

- Location and size of units.
- Nature of occupants (S.I.C. group).
- Origin and age of firms occupying premises.

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Survey of Small-Firm Development Agencies

Interview schedule for CoSIRA

1. Organisational structure of CoSIRA.
 - Pre-1981 what were the links between CoSIRA and the Development Commission and E.E?
 - Post-1981 what changes have taken place? Why? Implications?
 - What links exist between CoSIRA HQ and the county branches and local authorities? On what basis is finance distributed to the counties?
 - Special Invest Areas
 - Action Plans
 - Local authority partnerships
 - Department of the Environment

2. Location of factory developments.
 - Influence of E.E., areas of disagreement, post-1981 situation.
 - Role of Development Commission, CoSIRA HQ, County offices and local authorities.
 - Pockets of need
 - Partnership locations - on whose terms?

3. Tenant Selection and Management of Units

- What role did/does CoSIRA HQ play in the selection of tenants for Development Commission factories?
- What has been/is the role of E.E. in this process?
- Financial vetting of applicants, who was/is responsible?
Nature of the assessment?
- How did/does CoSIRA HQ express its preferences about desired tenants? what are these preferences?
- Are factories let on a "first come, first served" basis, or is it generally a process of selection?
- Rental levels and lease terms - are these standard? Open to negotiation? More flexible for small-firms? Who decides? Is there any regional variation?
- What proportion of CoSIRA tenants fail? What action is taken when an occupant falls into rent arrears?
- How do these issues - tenant selection, financial screening, lease terms - vary when CoSIRA enters partnership developments with local authorities?

4. Data Availability

- Location and size of units
- Nature of occupants
- Origin and age of firms occupying premises

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Survey of Small-Firm Development Agencies

Interview schedule for English Estates, Team Valley, Gateshead.

1. Organisational structure of E.E.

- Internal structure of E.E.
- Relations with branch offices.
- Administration of "beehive" developments
- Relations with other bodies - Department of Industry
 - Development Commission
 - Local Authorities
- What changes have been taking place to this structure since 1980?
- Finance

2. Location of factory developments.

- Department of Industry financed factories
 - pre- 1980) possible locations
 - post- 1980)
- What influence did/does the Department of Industry have over the factory building programme? How is this influence expressed?
- What is the nature of the economic model used by E.E. to determine the location of new factory developments? Is this rigidly enforced; are special cases made? Who is consulted on the outcome?
- Role of branch offices and local authorities in selecting sites.
- Is the locational dimension/planning etc. different in the case of small units as compared with units say in excess of 5,000 sq.ft.?
- "Beehive" units, how are these locations determined? By whom?
- Are there any other E.E./private sector partnership schemes?
- Development Commission factories; what role has/is E.E. playing in determining their location?
- Partnerships with local authorities - why? where? what terms?

3. Tenant selection and management of units.

- Pre-1980 situation - what was the influence of the Department of Industry over the management and letting of E.E. units, did they e.g. provide guidelines on preferred tenants, rents/leases?
- Post-1980 situation
- Relationship between regional policy and E.E. factories
- Development Commission units - pre-1980) influence of E.E.
- post-1980) over factory management and tenant selection
- Private sector partnership scheme, who is responsible for management policies and tenant selection?
- What is the exact role of Gateshead in determining management issues and tenant selection?
- Financial vetting of prospective tenants; who undertakes this task? How? Does the practice differ for small-firms/new firms?
- What priorities does E.E. have in terms of the type of occupant (e.g. manufacturing, locally owned, branch plants etc?) Do these priorities vary for small-firms?
- Are factories let on a "first come, first served" basis, or is it generally a process of selection?
- Rental levels and lease terms - are these standard? Open to negotiation? More flexible for small-firms? Who decides? Is there any regional variation?
- What proportion of E.E. tenants fail? What action is taken when an occupant falls into rent arrears?

4. Data Availability.

- Location and size of units
- Nature of occupants
- Origin and age of tenants

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Survey of Small-Firm Development Agencies

Interview schedule for private sector developers

1. Organisational Structure

- What is the main focus of this company's activities in relation to industrial property? - construction, development, investment?
- If you do not develop property directly, what links are maintained with builders?
- Do you retain all the industrial property developed or purchased by the company? Are industrial units sold to tenants, or financial investors? What considerations influence this process?
- Does the company have any direct links with other agents in the property market e.g. finance institutions, or property managers?
- What proportion of the company's assets are held in
 - (a) industrial property and
 - (b) what proportion of this holding are in industrial units of 5,000 sq.ft. or less?
- Has this pattern been changing? If so, why?
- How is the decision-making in the company distributed? What outside influences affect the interest in industrial property?

2. Location of Developments

- Description and details of location of industrial developments
 - (a) all)
 - (b) units of 5,000 sq.ft. and below) relative importance
- What variation is there in the distribution of large and small units? Why?
- What factors influence the regional distribution of holdings? Is there any national "redlining"?
- What influences affect the process of site selection? How important are good road links, and proximity to large towns? Other influences?

- Development appraisal - what financial considerations are studied? How?
- Change in the location pattern? Causes?
- Local authority partnerships - are these entered into? On what terms? Locations? Who maintains management responsibilities?
- Are partnerships entered with other public development agencies, or private sector agencies?

3. Tenant Selection

- Can you provide some insights into the financial vetting of potential tenants? Who undertakes this task?
- How frequently are the following measures taken?
 - interviews with potential tenants
 - request to see firm's accounts
 - bank references required
 - ask for cash flow projections
 - ask for a study of the market for the firm's product
 - ask the company directors to guarantee the rent
- How does this pattern vary with?
 - (a) a new firm
 - (b) a small firm occupying a unit of 5,000 sq.ft. or below
 - (c) a larger firm
- How influential are the following factors in determining the company's tenant preferences?
 - manufacturing or service firm
 - locally owned or branch plant
 - new compared with well established enterprises
 - firms with good employment prospects
 - attempt to achieve a "suitable" mix of tenants on a particular estate
- To what extent are choices made over these issues - i.e. are most factories let to the first suitable tenant, or are tenants selected from two or more applicants?
- Rental levels and lease terms - how are these determined? Are they standard or open to negotiation? Is there any regional variation, or variation with the size of unit concerned? Modern developments.
- What position does the company adopt when a tenant falls into financial difficulty? Are tenants allowed to sub-lease? What proportion of the company's tenants fail?

APPENDIX FOUR: QUESTIONNAIRE FOR SMALL-FACTORY TENANTS IN CORNWALL

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SURVEY OF SMALL FIRMS IN CORNWALL

- Name of firm
- Name of industrial estate
- Premises provided by
- Nature of business
1. Type of plant (i) Independent (ii) Branch
2. Date occupied current premises
3. How long, if at all, had the business been trading (as a full-time operation) prior to the take-up of the premises?
.....
4. (i) If a relocated business, where was the business located previous to it's current location?
(a) Geographical location
- (b) Type of property
- (ii) If a new business, how long has the firm's owner lived in Cornwall?
.....
5. How many people are employed on these premises?
- | | <u>Male</u> | <u>Female</u> |
|----------------|-------------|---------------|
| (i) full-time | | |
| (ii) part-time | | |
6. (i) Has the labour force increased since occupation of the unit?
YES _____ NO _____ DECREASED _____
- (ii) By how much has the labour force changed?
- (iii) Do you have any plans to increase your labour force over the next twelve months?
Please specify
-