

Small Business Study

Planning Committee
12 January 2006

1 Purpose of report

- 1.1 This report seeks to inform the Committee of the findings of the recent Small Business Study, and some of the actions arising from that study.

2 Summary

- 2.1 A consultancy study on small business property needs has identified certain trends and pressures affecting the supply of small business spaces in inner-city Edinburgh, and forecast the number of replacement units likely to be required. A short follow-up design study is underway which will produce innovative, land-efficient ways of providing replacement units. Development areas in which these solutions will be sought will be identified in future reports.

3 Main report

Background

- 3.1 A report on Small Artisan Businesses was considered by Committee on 8 August 2002, and an update report was considered by Committee on 2 October 2003. The update report identified the need for a consultancy study on the topic to inform the Edinburgh City Local Plan. The need for the study is also referred to in the Edinburgh City Local Plan Project Brief approved by Committee on 7 August 2003.

Description of study

- 3.2 In April 2005, the Council commissioned property consultants Ryden, in association with economic consultants EKOS, to examine small business property needs in Edinburgh, and to provide advice to inform future planning policy and decisions. The study brief asked the consultants to focus on the needs of artisans, and the issue of displacement by higher value land uses. The consultants

submitted their final report in July 2005. This is available as a Background Paper in the Group Rooms.

3.3 A summary of the study findings is attached as Appendix 1. More detailed explanations of the key findings can be found in the main report as follows:

- review of relevant existing research and policy – Sections 3 and 4;
- trends in the small business sector – Section 5;
- trends in the small industrial units property market – Section 6;
- comparison with Glasgow and Leeds – Section 7;
- forecasts of future demand for small industrial units – Section 8;
- conclusions and planning policy and market support options – Section 9.

3.4 Definitions of the target business and property sectors are given in Sections 2, 5 and 6, and Appendix 1. The definition of small businesses takes in sole traders and the self-employed. It should be noted that the analysis of the property market focused on those property types likely to be subject to displacement – urban industrial estates, and stand-alone small industrial buildings – excluding, for example, ground-floor tenemental offices.

3.5 A key finding of the study is that Edinburgh's small industrial estates are under less threat of displacement by higher value land uses, but that stand-alone small industrial buildings are being redeveloped.

Post-study considerations

3.6 A presentation of the study's findings to representatives of the property, business, and enterprise communities was held in October 2005. Key points arising from discussion at that event include:

- a) confirmation of the general validity of the study's findings;
- b) confirmation of the need to focus on the replacement of obsolete and ageing small industrial stock;
- c) different views on the question of whether there is a social and economic need for small industrial units within the inner-city;
- d) more interest among the participants in the role of small industrial estates, than in that of stand-alone units;
- e) identification of customer and operational car parking provision as important to the suitability of small business premises, and its lack as a constraint on the use of shop units for some business uses;
- f) identification of high land prices, low rents, and reduction in public sector grants as the main reasons for decline in supply of new small industrial units over the last 25 years.

3.7 Regarding point (c), the case for allowing small businesses to move to peripheral locations centred on the assertion that industrial occupiers prefer to be outside the city feeding in with access to other areas, rather than based in the city. Arguments for maintaining a supply of small industrial units within the inner-city included the following:

- the businesses occupying these premises are serving the residents and businesses within the city, and that is why they choose to locate within the city;
- there are natural barriers (the Forth, the Green Belt and the Pentlands), beyond which it is difficult for certain types of businesses to serve the city;
- there is a need to continue to locate small industrial employment space where it is readily accessible to residential areas with a skills base in relevant trades, for example the north-east of the city.

These arguments correspond to aspects of national policy on planning for economic development set out in *Scottish Planning Policy 2: Economic Development (2002)*.

3.8 Another consideration which has emerged since the study reported is pressure for residential redevelopment of some privately-owned small industrial estates. These proposals are set out in formal responses to the Edinburgh City Local Plan (ECLP) Consultation Paper. Although the study found the threat to such estates from redevelopment to be limited, there is now evidence that this is no longer the case for privately-owned estates.

3.9 Other ECLP Consultation Paper responses offer a range of views on the future of inner-city industrial land, but they indicate general agreement that accommodation should be provided for all sectors of the business community, including small businesses. The responses to the ECLP Consultation Paper will be set out in full in a separate report to the Committee.

Actions

3.10 The study has confirmed that there is likely to be long-term demand for premises for small industrial and related activities in inner-city locations, and that stand-alone industrial units are being displaced by higher value development. The study identifies *replacement* of the current stock of premises as the main challenge, and makes forecasts for the number of small industrial units required per annum to replace ageing stock and meet new market requirements.

3.11 The study offers several options for planning policy and market support (Appendix 1, paragraphs 9.2 and 9.3). These are set out in Appendix 2.

3.12 The recent evidence that the pressure on small estates is more immediate than indicated in the study, combined with the fact that much of the current stock will likely require replacement during the Edinburgh City Local Plan's period, places greater emphasis on the need to find ways of delivering the replacement of obsolete and ageing industrial stock. As indicated in Appendix 2, Policy Option 2 - requiring land to be allocated for particular types of small industrial and business units in development areas - is considered to be a potentially viable way of achieving this. The success of this approach is likely to be reliant on the following factors:

- a) the development of a range of innovative, land-efficient ways of accommodating small industrial uses, some of which should allow these activities to take place in close proximity to other more sensitive uses;
- b) the inclusion of these innovative design solutions, and more conventional approaches, in development briefs and masterplans for mixed-use redevelopment of inner-city areas, including those in multiple ownership;
- c) the involvement of small industrial and business premises providers, including the Council's Economic Development function, in steps (a) and (b);
- d) the use of a range of means to fund, build, and manage new units, potentially making use of Policy Options 4 and 5, as well as other methods.

3.13 Step (a) is being progressed by commissioning consultants to carry out a separate design study, which will result in a set of generic building design solutions, each intended to accommodate a different part of the spectrum of small business types. This design process is being informed by consideration of existing forms such as courtyard layouts and two-storey industrial developments; case studies drawn from the Council's current stock; and advice from Council design, transport and environmental health officers, a specialist developer, and Ryden's lead consultant on the Small Business Study. The client group for this study comprises Planning and Economic Development officers and the City Design Initiative.

3.14 It is intended that this design study will produce designs for the next generation of small industrial and business premises, which can be applied to different sites in the city, and which reflect and respond to the particular pressures and opportunities currently present in Edinburgh. The study is due to report in early 2006.

3.15 Identification of development areas where these, and more conventional, solutions are to be required will be the subject of future reports on development briefs for specific areas and the Edinburgh City Local Plan.

3.16 Policy Option 3, to resist further loss of stand-alone employment uses from urban areas, would not make a major contribution to maintaining the city's range of employment spaces, but would have potential to generate significant staff workload in the form of appeals and local plan inquiry time. If such a policy were

to be pursued, the risk of creating long-term vacant properties would need to be addressed. This option is therefore not recommended at this stage. Instead, the actions identified above are recommended.

A MIXED USE COMMUNITY

3.17 The October 2003 update report identified three aspects to the issue of small businesses, as follows:

- a) how to retain existing small businesses in residential and mixed use areas;
- b) how to create suitable new premises in the right areas;
- c) the conflicting pressures facing the Council in dealing with its own portfolio of small business premises.

3.18 This report has addressed these three aspects with a focus on urban industrial units, which are considered to be the property types most likely to be subject to displacement. Ground-floor tenemental shop units are also a significant source of accommodation for small businesses, particularly in predominately residential areas. Provision of new such units in new development will continue to be sought where desirable for urban design reasons. The suitability of such units for commercial uses other than business allows them to remain viable properties over the long-term, and it is not considered appropriate to seek to restrict them solely to business use. Their conversion to residential use, however, is currently restricted to certain degree by the character, amenity and size criteria contained in the *Shops - Conversion to Residential Use* DQ Guideline (1998). It is considered that there is justification, in terms of providing a range of small business premises, for maintaining this approach, and potentially extending it in future revisions of that DQ Guideline.

4 Financial implications

4.1 None.

5 Conclusions

5.1 The Small Business Study has examined trends in the Lothians' small business sector and in Edinburgh's small industrial premises property market. The main challenge is securing the replacement of the current stock of small industrial premises. Achieving this in a context of high land values, and strong pressure for mixed-use redevelopment of brownfield sites, would be aided by creating more land-efficient forms of small industrial units. A design study with this aim is underway, and areas where its outputs can be applied will be identified in future reports.

6 Recommendations

6.1 It is recommended that the Planning Committee:

- a) notes the findings of the report of the Small Business Study; and that it will inform the policies in the Edinburgh City Local Plan;
- b) approves the choice of Policy Option 2 as the primary course of action arising from this study; and
- c) supports the principle of researching innovative, land efficient ways of replacing Edinburgh's small industrial stock, including the experience in other areas.

Alan Henderson

PP **Andrew M Holmes**
Director of City Development

Appendices	<p>Appendix 1: Edinburgh City Local Plan – Small Business Study - Executive Summary (Ryden/EKOS, July 2005)</p> <p>Appendix 2: Options for Planning Policy and Market Support</p>
Contact/tel	<p>Ben Wilson - Planning (0131) 469 3411 Chris Tonks - Team Leader, Property Development (0131) 529 7610</p>
Wards affected	All
Background Papers	<p>Small Artisan Premises: Update (Report to Planning Committee 2 October 2003)</p> <p>Small Artisan Businesses (Report to Planning Committee 8 August 2002)</p> <p>Edinburgh City Local Plan Project Brief (Report to Planning Committee 7 August 2003)</p> <p>Edinburgh City Local Plan - Small Business Study, Ryden/EKOS (July 2005)</p>

EXECUTIVE SUMMARY

Introduction

City of Edinburgh Council appointed property consultants Ryden, in association with economic consultants EKOS, to conduct a study into the market for small business space in Edinburgh. The objective of the study is to *examine small business property needs in Edinburgh and provide advice to the Council to inform future planning policy and decisions.*

Specifically, the study is concerned with small business *artisans*. For the purposes of this research, artisan businesses include a range of skilled activities such as plumbing, joinery and electrical services as well as a variety of crafts.

Research Findings

Existing Local Plans and development briefs/ frameworks in Edinburgh provide some *policy support* for small business, provided it is compatible with residential use. In the regeneration areas at North Edinburgh, Wester Hailes, Fountainbridge and Leith, support is offered for small business although no specific definitions or quotas are mentioned.

A range of Scottish Local Plans also provide general policy support for small businesses. This is most apparent in rural areas, where residential development can crowd out employment use. In England & Wales, recent research highlights the needs of small businesses and points towards specific policy initiatives.

Loss of employment land from Edinburgh is most evident at the larger scale – utilities land at Granton, dockland at Leith, breweries in the western city centre and print companies from inner urban locations. Industry is not the only land use being lost to residential – showrooms and filling stations, educational and healthcare buildings, and in some cases recreation land, are also being developed for housing.

Around two-thirds of *occupiers* of Edinburgh's small industrial premises are

established users such as manufacturing and construction, while the remainder span a number of service and specialist sectors.

Of forty-six identified industrial estates providing small business property, four provide specific instances where *redevelopment* may occur. The threat to these small industrial estates is limited, as these are protected by public sector ownership, investment values and planning policy. Stand-alone buildings are however being redeveloped. Furthermore, supply of units for sale or let has fallen by two-thirds since the mid-1990s and new development is constrained by competing land uses.

Edinburgh's deteriorating supply of small units is in striking contrast to availability of similar premises in two comparator cities, *Glasgow and Leeds*. Edinburgh lacks both inexpensive development opportunities, and the market operators who specialise in developing these.

Small business numbers in relevant industry sectors have reduced by 7% in Edinburgh since 2000. Forecasts suggest *future demand* for 50-60 units per annum. New-build requirements will be for 15-20 units per annum, equivalent to around 3000 sq.m. or 1 hectare of development land per annum, rising to 1.5 ha. if stand-alone units continue to be lost to redevelopment. Around one-fifth of the market might be accommodated in property other than single-storey light industrial, such as Class 4 offices.

Policy Options

Adopting new policies has implications beyond the small business property market. It is therefore not appropriate to make definitive recommendations here, but rather to offer a menu of options to City of Edinburgh Council:-

1. Include in the forthcoming Edinburgh City *Local Plan* a general policy supporting retention and new development of small business premises.
2. Introduce into *development areas* specific requirements for defined areas of land to be allocated for particular market segments.

3. Resist further loss of *stand-alone employment uses* from Edinburgh's urban areas.
4. Introduce an *affordable business space policy*, mirroring affordable housing policy (although this may be an over-response to a modest market challenge).
5. Assert the link between housing and local employment by requiring light industrial/ small business space through case-by-case *planning agreements*.
6. Assert that future *loss of industrial land* from Edinburgh should decline.

Planning policies are only one element of meeting market needs. Actually *developing* premises presents a further challenge. Options to support the market are:

Market Options

1. Identify surplus *public sector assets* for development or conversion.
2. Investigate the emerging over-provision of *ground floor premises* along main roads in Edinburgh.
3. Research the needs of the *automotive sector*, which appears to be particularly displaced from small business and other locations.

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Option	Comments
<p><u>Policy Option 1</u>: include in the ECLP a general policy supporting retention and new development premises for small business.</p>	<p>This is similar to existing local plan policy, which supports small-scale business development in general urban areas, and seeks retention of general business in designated areas. This option alone is unlikely to ensure new development, and could prevent regeneration in designated industrial areas.</p>
<p><u>Policy Option 2</u>: introduce into development areas specific requirements for defined areas of land to be allocated for particular market segments, such as light industry.</p>	<p>An example of this approach is in the Leith Docks Development Framework. This approach would be more difficult in industrial areas with fragmented ownership, but preparation of development briefs could help address this. These might be reliant on sufficient higher value uses being included, to provide necessary cross funding. Achieving such a mix would be aided by more land-efficient forms of small industrial units, and ways of designing out conflict between uses.</p>
<p><u>Policy Option 3</u>: resist further loss of stand-alone employment uses from urban areas.</p>	<p>This would affect 23% (about 168 units) of the total small industrial stock. This accommodates a disproportionate share of motor trades and small consultancies than the total stock of 732 units. A greater proportion of these are owner-occupied (28%) than that of the overall small industrial stock (11%).</p> <p>Although stand-alone and small groups of units can contribute to the mixed-use character of an urban neighbourhood, they are of less significance to the city's range of employment spaces, and hence the urban economy, than the small industrial estates.</p>
<p><u>Policy Option 4</u>: introduce an affordable business space policy, mirroring the affordable housing policy (though this may be an over-response to a modest market challenge).</p>	<p>This would in effect be similar to Policy Option 2, but applied city-wide. A large number of sites may not be large enough or otherwise appropriate to accommodate light industrial units. With appropriate site criteria, such a policy could support implementation of Policy Options 2 and 5.</p>
<p><u>Policy Option 5</u>: assert the link between housing and local employment by requiring light industrial/small business</p>	<p>This approach could be a way of implementing Policy Option 2, and would be subject to the challenge of identifying sites suitable for new light industrial units. Finding such sites would be aided by more land-efficient forms of small</p>

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space through case-by-case planning agreements.	industrial space, and ways of designing out conflict between uses.
<p><u>Policy Option 6</u>: assert that future loss of industrial land from Edinburgh should decline.</p>	<p>This option is based on research in London, and the idea that those major industrial uses vulnerable to structural decline have now largely gone, and remaining employment land is occupied by business types more directly related to the effective functioning of the city economy. It is unlikely that this approach would be successful in terms of securing new industrial development, especially on sites where a housing developer already has an interest in the land.</p>
<p>The Council's Property Development Team within Economic Development, who are responsible for managing the largest market share of small industrial units in Edinburgh, have provided the following comments on the three Market Options set out in the study.</p>	
<p><u>Market Option 1</u>: identify surplus public sector assets for development or conversion.</p>	<ul style="list-style-type: none"> • Existing pressure to generate capital receipts from the disposal of surplus Council property assets is such that new opportunities for development or conversion to business use will be limited. • It may be possible, however, to reapply funds released from the disposal of some of the Council existing industrial stock, for example industrial estates in areas where the original economic development case for market intervention/area regeneration is no longer relevant. • Such an approach, supported on planning and economic development grounds, could enable the Council to develop new business premises using some of the innovative designs which it is hoped will emerge from the Smith Scott Mullan study referred to. • The Prudential Framework is another potential source of funding where capital is borrowed on the basis that rental income from the business space covers the cost of Council borrowing. • There may also be also potential for developers to allocate part of their site for business space development, on the basis that the Council develops and manages that space. This is seen as a useful means of overcoming the reluctance of some residential developers to consider mixed use

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	<p>development (other than perhaps ground-floor office uses below flats).</p> <ul style="list-style-type: none">• The overall viability of a brownfield development site may indeed improve as a result of a developer transferring, at nominal value, part of their site to the Council for relatively high density business space development, if it in turn results in a higher density of residential development being acceptable on the remaining balance of the site.
<p><u>Market Option 2</u>: investigate the emerging over-provision of ground floor premises along main roads in Edinburgh.</p>	<p>It is unlikely that a case for market intervention by the Council on economic development grounds could be justified.</p>
<p><u>Market Option 3</u>: research the needs of the automotive sector, which appears to be particularly displaced from small business and other locations.</p>	<p>Business space provision specifically for the automotive sector is not seen as an economic development priority for the Council.</p>