

Servicing the services and smart sheds

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1.0 Introduction

Over the past three decades and more, the UK economy has switched from an essentially manufacturing model to a service model. To illustrate this, in London alone, between 1971 and the credit crunch, manufacturing declined by 800,000 jobs while jobs in financial and business services grew by 820,000. The growing importance of service activity has been sharply expressed in London's property market, with a renaissance in office building design, catering for a cadre of, often global, financial, business and creative services companies. Central London generally, and particularly its mega schemes, including Broadgate, Canary Wharf, More London and Paddington Basin, exemplify the shift in economic models.

The dichotomous fortunes of the services and manufacturing sectors illustrate a very significant economic shift; but they also hide what, for London's spatial planning and property markets, is a very important issue. This is the growth of economic activity, mostly around the fringes of central London and in outer London that supports the expansion and smooth running of the central area.

2.0 Servicing the services

The central area of London is an extraordinarily vibrant business area. The financial and business services sectors are fundamental to the capital's role as a global city, but London also has great strengths in the creative and media industries, medicine, education, technology and many other sectors. In addition, there is the backdrop of cultural and entertainment industries, including museums, galleries, theatres; and then there is the tourist industry, creating many thousands of jobs in shops, restaurants and hotels.

This great weight of activity itself draws upon a vast range of support activities. Just consider the diversity of services and products consumed by the average office building: catering; cleaning; furniture; maintenance and fit out; office equipment and supplies; print and copy; security; waste disposal, and many others. Multiplied across the city economy, the demand for supporting activity becomes evident.

Much of this support activity is located away from the central area, often clustered around the edge of the central area and in outer London. This is a statement of the obvious to a degree, but makes the point that there are spatial differences between these activities and the kind of activities referred to at the outset. Often the activity is "low key", but is vital to the efficient functioning of the city and in supporting its global role. While it has no official status, we refer to this vital part of London's economy as "*servicing the services*".

Given the crucial role of servicing the services, the question here is whether spatial policy and the property supply industry adequately responds to the accommodation needs of those businesses involved. This brief paper outlines the nature of demand; it then outlines the kind of premises required, before outlining some of the spatial planning and property market issues.

3.0 The nature of demand

Servicing the services involves a very diverse range of activities that typically occupy industrial estates, older industrial buildings and more modern "sheds". However, this "industrial" character belies a far richer mix of uses and activities. Our

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research suggests that not only are many of these businesses unlikely to be “industrial” companies, but that they also have enormously varied use profiles. Figure 1 shows the variety of business types interviewed during research undertaken by Ramidus. Even within the relatively modest sample – 17 businesses – the range of activities is notable.

Figure 1 Sample of shed occupiers

Occupier types	
Audio-visual equipment	Maintenance contractor
Cash and carry	Manufacturer of sweets
Design and manufacture of art	Oriental food supplier
E-trading	Recording equipment repair
Event catering	Short-run digital printing
Freight forwarding	Specialist gift wrapping
Graphic design	Wine importer

Figure 2 illustrates two typical shed estates, where the actual occupation belies what accepted wisdom in spatial planning and the property industry might expect. The letting boards show occupiers involved in film production, interior design, computer systems and support and clothing.

Figure 2 Two typical London shed estates



- | | |
|------------------------------|-----------------------|
| AV equipment hire | High tech printing |
| Clothing and fashion | Interior design |
| Computer systems and support | Mail management |
| Electrical services | Mail order |
| Film editing and production | Music instrument hire |
| Food production | Packaging |
| Graphic design | Photography |

Such a wide variety of uses contradicts the premises description of *industrial estate*, and introduces the concept of hybrid office/industrial activities. Indeed, it suggests that the activities and the accommodation are somehow mismatched. This suggestion was borne out during our research.

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Several of the interviewees in our research were occupying space which they found inappropriate, and to which they had made substantial alterations. The construction of mezzanines, sub-division of space and enhanced specification were all typical of such alterations, to accommodate a wide range of activities. Such modifications were essential to accommodate the different activities being undertaken.

The adaptations were also in response to the profile of staff employed. Several of the businesses employed a high proportion of professional, skilled and technical staff. In one case, 60% of the staff had previously worked in offices in Central London. This was an unexpected finding. Figure 3 illustrates the breadth of activities being undertaken in these buildings, and suggests that “industrial” space is not necessarily appropriate for much of the activity.

Figure 3 Activities in mixed use buildings

Production	Support
Assembly	Management and administration
Craftwork	Goods dispatch/receipt
Customisation	Customer support (call centre)
Design	Customer consultation
Engineering	Demonstration
Food preparation	Retail & wholesale sales
Graphic design	Sales & marketing
Maintenance	Technology
Packing	Training
Printing	Software development
Repair	Showroom
Storage & consolidation	Entertainment and hospitality

The space adaptations referred to above and the activities profile shown in Figure 3 also indicate something about the profile of staff employed. Many shed occupiers today employ a high proportion of professional, skilled and technical workers. This was an unexpected finding. It was widely reported among the sample companies that such staff have higher expectations of their workplace than perhaps is the case with the generally perceived staff profile of a traditional industrial estate. Figure 4 shows the spread of skills found in the buildings visited.

Figure 4 Skills employed in mixed use buildings

Executive	Craft	Manual
Administration	Art and design	Deliveries
Customer support	Display/demonstration	Food preparation
Finance & Legal	Electronics	Machine operation
Management	Engineering	Till operation
Sales & marketing	Food design	Security
Software development	Technical support	Storage

For many of the companies that we visited, the traditional shed is an inappropriate operating environment because many of them are involved in “clean” processes; have different servicing demands and employ staff who require a mixture of space

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types. What is clear from all of our research is that the actual use of many sheds is in fact quite different to general property industry perceptions. Many businesses are occupying inappropriate buildings, and this is partly related to a lack of appropriate supply. Our response to this identified need is the *smart shed*.

4.0 Defining a smart shed

It is helpful to have a descriptive term for the type of space that hybrid office and industrial activities occupy, or perhaps, should occupy. As we have seen, there is great diversity in demand, and potential to provide a range of different products.

For illustrative purposes, we highlight one such product: the “*smart shed*”. Using the word “shed” underlines that we are not talking about an office building by another name; using the word “smart” underlines that the accommodation is of a higher quality than traditional sheds and has a greater functionality.

It is important now to turn to a description of what a smart shed should look like. Based on our earlier research, we propose four generic demand functions, each reflecting a slightly different use profile and specification requirements, although the management regime is likely to be common to all – more intensive than normal for sheds, with greater emphasis on customer services.

The four generic types are not exhaustive, but illustrative of a principle, and can overlap within a single occupation. The proportions of each type of space will vary according to the occupier, emphasising the need for building flexibility, and for a sympathetic ownership/management approach.

Figure 5 illustrates the four categories. All four require space that is flexible and easy to adapt. A depth of 13-18m is adequate to cater for most needs, allowing reasonably deep open plan areas, while also giving sufficient depth to allow different configurations of sub-division.

Figure 5 Smart sheds: four generic functions

Production	Client facing	Workshop	Goods handling
Occupier priorities			
Power supply	Quality image	Natural light	Eaves height
Fire protection	Comfort	Comfort	Loading bays
24 hour operation	Accessibility	Security	Column free
Security	Security	Car parking	Secure yard
Retail trade	Car parking	Local amenities	Turning space
Parking & access	Local amenities	Power supply	Parking

Figure 6 summarises the main features of a smart shed. Ideally, a mix of single and double height space would also permit different kinds of uses. Proportions will vary, but for generic guidance, perhaps two-thirds of the space at 4.5m high, and a third at 6-8m for storage, studios, production, and so on. The higher dimensions allow pallets to be racked six high.

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Figure 6 Basic features of a smart shed

Space that combines economy and quality
A basic, low specification that can be upgraded
A fit out that allows adaptation to specific needs
The ability to erect and dismantle partitions to suit changing needs
Better designed environmental control systems
A menu of options available over fit out
A management regime sensitive to business dynamics

Building security, access and parking are, unsurprisingly, all important issues. Attention to detail in these areas would make a very significant impact on a building's attractiveness to potential occupiers.

The overriding concern of the types of companies we are referring to here is to find space that combines economy and quality. While office rents and specification are not needed, a step up from poor quality shed environments is certainly in demand. A basic (low specification) fit out that allows occupiers to adapt to their specific requirements is the basic need.

The ability to erect and dismantle partitions to suit changing needs as product lines and volumes change is an obvious solution. Better designed temperature control systems and protection from the elements would make a major improvement (and reduce the environmental impact) to most buildings. While partitions and temperature control systems are often in conflict, the key is a creative solution to the configuration of single and double height space.

Lighting is generally less of an issue – provided that natural lighting is good. Again, a basic lighting system can be inexpensively supplemented by the occupier to suit specific needs.

The key to a more appropriate fit out solution would appear to be a menu of options available over the shell and core provision, allowing occupiers to meet budgetary constraints, whilst securing a solution that suits need.

Once the basic shell and fit out are determined, there remains the broader management context into which the building fits. This encompasses the physical environment and landlord services.

We believe that a wider range of issues could be considered by providers of smart sheds that are currently generally neglected. These are summarised in Figure 7.

5.0 The spatial question

Servicing the services is, in some respects, quite a nebulous concept. There are no hard and fast definitions of specific activities that are included and, as a consequence there are no neat data sets quantifying the activities and describing their spatial distribution. Hybrid office/industrial activities cannot be tightly defined as those within B1c of the Use Classes Order: our empirical work has shown great diversity of activities.

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In policy terms, there are many Strategic Industrial Locations (SILs) and Locally Significant Industrial Sites (LSISs) scattered throughout London where servicing the services activities locate.

Figure 7 Priority management considerations for providers of smart sheds

Issue	Consideration
Central facilities bureau	A central bureau on an estate where tenants can hire central services such as a fork lift truck with driver, recycling, book a courier, visit a nurse or dentist, perhaps even a dog walking service.
Estate amenities	Create a more attractive setting for sheds through landscaping, a less hostile environment – ‘a high-tech park with a sense of place’.
Security	Create a greater sense of security with lighting, barriers and cameras.
Security force	Where appropriate, consider the possibility of an estate security force that patrols and pays regular visits to participating businesses that share the cost.
Car parking	Provide communal visitor parking bays or areas.
Financial support	Small businesses find the cost of removals punitive. Consider making a financial contribution or off-setting the costs of removal/initial occupation over a longer period. There may also be scope for greater flexibility over dilapidations.
Community co-operation	Encourage occupiers to share facilities amongst themselves – perhaps car sharing schemes to reduce congestion and parking problems, or shared deliveries between sympathetic businesses to reduce the burden of congestion charge.
Occupier forum	Set up an occupier forum where occupiers can share opinions and ideas for improvement.
Partnership	Be a genuine business partner to your tenants. Consider ways to offset their risk and thereby reduce your exposure to covenant. Offer venture capital? There is a much greater reliance on personal relationships with customers and suppliers than is often appreciated.
24 hour working	Many small businesses seek to improve margins by working 24 hour operations – promote this as an asset for units without restrictions. It makes better use of assets while reducing parking and congestion.
Negotiations	Speed up the process of negotiating a letting and communicate effectively with the prospective tenant.
Waste management	This issue is of growing importance given increasing legislation on responsibilities. Improved estate management solutions to waste management will grow as a differentiator for occupiers.

A recent report by URS quantified industrial land stock, total industrial land uses and all non-industrial land uses within allocated SILs and LSISs as well as industrial land uses not located within SILs or LSISs.¹ The study showed that across London in 2010 there were 4,951 ha of built-on ‘core’ industrial land, and 1,938 ha of ‘wider’ definition industrial land. There were a further 767 ha of non-industrial uses within SILs and LSISs. The three boroughs with the largest amount of built-on total industrial land were Ealing (512 ha), Hounslow (465 ha) and Barking & Dagenham

¹ URS & DTZ (2010) *London’s Industrial Land Baseline For LDA and GLA*

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(463 ha) respectively. The West sub-region had the largest amount of built-on total industrial land (2,042 ha), while the North sub-region has the smallest (921 ha).

Such land as that included within the URS study is likely to form the core market for servicing the services; though it must be recognised that such activities are also distributed across the plethora of smaller non-designated sites, and in single properties, including those on high streets and town centres generally.

Such an extensive and varied spatial distribution as that described above does not make for simple spatial policy responses. By their nature, hybrid office/industrial activities might fall without policies aimed either at office or industrial uses. One thing that is clear is that policies which address the question of the loss of industrial land should bear in mind that the conversion of such land to, say, residential uses, will often involve the loss of land that is economically advantageous to hybrid office/industrial activities. Industrial spatial policy could therefore be more explicit about the *kinds of activities*, rather than simply the type of land use, that it is seeking to protect or release.

Similarly, office policies tend to assume a B1a activity, on the basis that anything with a traditionally non-office component will slip into B1c. But in some senses there is a significant grey area. Perhaps one critical area for policy consideration is how hybrid uses might be more simply integrated into high streets (where access is better than industrial estates). This could be particularly important for Outer London where there are particular issues relating to the structural decline of office activities.

Empirical evidence suggests, albeit on a very partial basis, that employment densities in hybrid activities tend to be higher than those in traditional industrial sites, and that the profile of workers is different (more clerical, admin and professional, and less manual). There are implications here for travel to work patterns, particularly use of private cars, and the provision of car parking. A quick tour around a sample of London's industrial estates will soon reveal the typical mismatch between car travel and parking provision. This raises the question of whether spatial policy could be more directional in encouraging hybrid uses into sites better served by public transport.

6.0 The property question

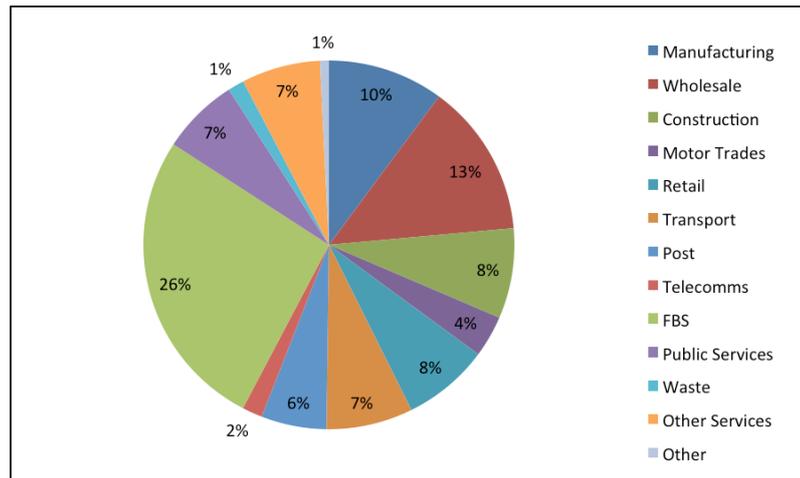
Simple laws of urban economics dictate that Grade A space is not occupied by the sub-economy which we are highlighting here. Instead, these companies seek lower specification, lower cost premises in what is referred to by the property industry as secondary and tertiary locations.

Many occupy office buildings that no longer boast the specification offered by new space, and many also occupy properties that are "industrial" premises, or "sheds". There are countless industrial estates scattered throughout London providing economic space to such occupiers. The fundamental issue, however, is that many companies involved in servicing the services are undertaking "clean" activities (i.e., their activities cannot accurately be described as industrial) in buildings that have been designed and managed for industrial activity. This confluence of clean activities in industrial sheds forms the core of hybrid office/industrial activity.

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The *Industrial Land Demand and Release* study² noted a wide variety of sectors occupying industrial land probably because this provides available accommodation in the right place at the right price (Figure 8). And the property question that emanates from this is whether the property typically available to such companies is suitable for their needs.

Figure 8 Distribution of occupier types on industrial land



During the mid-1980s there was some innovation in providing for hybrid office/industrial occupiers, but it was overtaken by events. The first phase of Stockley Park, near Heathrow, was designed as “mixed use” buildings, which blended office space with production space, in a flexible shell; all provided with an economic rent in a managed environment. However, in 1986, the Use Classes Order was revised and the business park was born: Stockley Park became an office location with premium rents.

Over the past couple of decades there has been little innovation in shed design, beyond the specific case of the logistics market. In terms of traditional sheds, little has changed in terms of the nature of the product. One reason for this lack of innovation is building economics – in that there is perceived to be limited scope to create a higher cost product. Another possible reason is the standard model of the UK institutional lease, which can be slow to respond to shifts in market demand.

At the same time, market supply currently shows a bias in development towards large sheds for single occupiers. However, research undertaken by Ramidus Consulting, and based on interviews with occupiers of sheds in West London, concluded that there are significant gaps between the nature and demands of the businesses and the property that is generally available to them. This presents a very significant opportunity to those developers and investors willing to consider more attractive product offerings.

7.0 Conclusions

To summarise, hybrid office/industrial activity is a very significant but poorly recognised sector of the commercial property market. Often to be found away from

² Roger Tym & Partners (2011) *Industrial Land Demand and Release Benchmarks in London*

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the central area, where prices are lower and property less densely provided, such activities are generally “low key”, but vital to the efficient functioning of the city and in supporting its global role, referred to here as *servicing the services*.

The bulk of companies occupying hybrid office/industrial space are SMEs, often owner managed. These companies are part of a dynamic sector of the economy, and are the focus of government initiatives to pump prime economic growth. More specifically, given the office property market conditions in large parts of Outer London, providing appropriate physical infrastructure for this integral part of the economy could become more important.

Among traditional shed occupiers there is considerable dissatisfaction with their current properties and a sense that something better could be provided. Our fieldwork suggests unequivocally that there exists an unsatisfied demand for a more attractive product offering: the *smart shed*.

There is, therefore, a significant opportunity to look at alternative approaches to shed design and provision, focusing on the following.

- Internal space appropriate to clean processes, white collar work, and customer visits.
- An external environment that is attractive to service-based rather than industrial or production businesses.
- A higher quality management regime than on a traditional shed estate.

We have set out the case for product innovation here, and believe that such an approach would provide an investor with a significant market opportunity. Those businesses engaged in what we refer to here as *servicing the services* represent a major part of London’s economy, a part that is likely to grow as London’s global role continues to evolve.

The spatial planning implications suggest the need for a more creative approach to demand planning. The NPPF recently suggested the need for a sharper focus on the right *kind of property*, as well as the right place and right time. The foregoing should suggest less of a default to B1a in employment land planning and a greater appreciation of the breadth and depth of occupiers of “secondary” property.