

**Inner Melbourne Action Plan**

**Inevitably housing? The future of Inner Melbourne's stocks of industrial land**

**Presentation by SGS Economics**

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**Background**

1. Marcus Spiller, Principal SGS Economics has approached IMAP with a research proposal for consideration, to investigate Urban Manufacturing in Inner Melbourne, based on case studies in the US.
2. He is approaching the University of Melbourne for research funds but requires other financial support to match any funding received, on a dollar for dollar basis.
3. He will address the IMAP Implementation Committee at their meeting on 30 May to see if there is IMAP Council support for his proposal.
4. Please find attached a brief on this proposal.
5. As the Inner Melbourne Action Plan is currently under review, this presentation provides an opportunity to consider new projects that could be undertaken under the revised plan.

# Inevitably housing? The future of Inner Melbourne's stocks of industrial land.

## Overview

This note outlines a potential research project investigating the role that industrial zoned land in inner Melbourne<sup>1</sup> currently, and prospectively, plays in business and employment generation for the region.

The project is expected to provide an evidence base to support Council decision making on the rezoning (or not) of industrial land in the inner city.

The project has been sparked by recent US experience with the resurgence of 'urban manufacturing'.

## Proposed research project

This research project has a three-fold purpose:

1. To gain an in-depth understanding of how industrial zoned land in inner Melbourne is being used at present, and how industrial businesses in these areas interact with the broader region;
2. To test the hypothesis that a revival in manufacturing is latent or underway in the region, albeit in different forms from 'traditional' industrial production; and
3. To extract the implications of the foregoing for the operation of planning controls in inner city industrial zones.

## Background

This research project is, in part, prompted by the recent writings of Saskia Sassen and others regarding the rise of 'urban manufacturing' in advanced economies<sup>2</sup>. It also reflects, recent research undertaken by SGS staff in the US, where the resurgence in manufacturing in cities like New York, Chicago and San Francisco is beginning to attract significant attention from the policy community.

Current policy making for inner Melbourne explicitly or implicitly embraces the notion that knowledge intensive service industries are, and will remain, the backbone of strong metropolitan economies. This is evident, for example, in the State Government's vision for a 'mega CBD' for Melbourne<sup>3</sup>.

Under this model of economic development, the inner city is seen as the crucible of enterprise focussed particularly on brokerage, design, research and other intellectual 'problem solving' businesses. These profit from agglomeration, which offers synergies with other firms and access to a deep pool of advanced skills. As a result, these so called knowledge based businesses are able to support a legion of high paid professional workers.

Arguably, there is unlimited potential for the expansion of these advanced business services. Although they enjoy strong local links and markets, they also tend to have significant inter-regional export capacity and the scope for growing clients in this area is global.

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<sup>1</sup> Broadly covered by the IMAP Councils

<sup>2</sup> See, for example, Sassen, S. (2006) *Urban Manufacturing; Economy, Space and Politics in Today's Cities* [http://www.dssw.de/fileadmin/repository\\_redakteure/downloads/DSSW-Materialien/2006/2006-urban-manufacturing-sassen.pdf](http://www.dssw.de/fileadmin/repository_redakteure/downloads/DSSW-Materialien/2006/2006-urban-manufacturing-sassen.pdf)

<sup>3</sup> See Government of Victoria (2014) Plan Melbourne

Nevertheless, this now widely accepted approach to strengthening the productivity and competitiveness of cities poses some policy dilemmas.

As demonstrated in Sassen's earlier work, the knowledge economy can underpin a burgeoning personal and household services sector including retail, hospitality, leisure and health. However, these tend to feature casualised employment structures, and many of the jobs generated offer poor wages and conditions and effectively no prospects of advancement. This gives rise to a hollowed out labour market with large proportions of the workforce engaged in either very high or very low incomes.

Moreover, the 'knowledge sector' model of regional economic development implies a broader question regarding social sustainability. Is the scenario where the lion's share of workers are tied by golden chains to their sophisticated desk-based jobs, attended to by an army of in-person service workers, a shared community vision?

Finally the 'knowledge sector' model can breed a kind of myopia in policy making. Governments may be driven to focus on attraction and retention of high knowledge firms, neglecting the contribution that other sectors can make to social cohesion and economic robustness.

Against this background, the hypothesised resurgence of manufacturing in cities known for their advanced business services is, or should be, of great interest in the urban planning debate.

Popular conceptualisations of 'manufacturing' still frame it in terms of traditional activities, infrastructures and products - large factories, smoke stacks, production lines, heavy machinery and a sizable unionised workforces. Particularly in the context of recent announcements regarding the demise of making in Australia such stereo typical images of manufacturing may well be reinforced but with the added elements of decay and abandonment. Indeed, the ordinary citizen could be forgiven for believing that it is inevitable that the nation will no longer be building anything

However, 'urban manufacturing' as discussed by Sassen and profiled in the recent US literature is an entirely different form of production compared to the (near) defunct 19<sup>th</sup> century and Fordist models of industry and trade of which the smokestack factory was emblematic. Contemporary 'urban manufacturers' derive competitive advantage from their specific location within cities which allow them to capitalise on sophisticated design and market insights, and adjust quickly to shifts in demand<sup>4</sup>. Taking advantage of these competitive edges, urban manufactures tend to; be small (generally employing fewer than 20 people); provide a highly specialised or niche product; have fast turnarounds; and be horizontally integrated in networks of numerous clients, suppliers, distributors, and subcontractors<sup>5</sup>. This embeds manufacturers in place, as does the nature of the work, which due to its often customised nature, requires frequent face-to-face contact.

Small urban manufacturers typically operate in networks with other manufacturers, with each contributing specialised skills and components as needed to produce a final product in an efficient flow. The flexibility of these networks and temporary partnerships/collaborations creates a competitive advantage for small firms as they are not required to carry the large fixed overhead costs for all the equipment, space or labour required to produce an entire product. This networking is reflected in the preference of these enterprises for multi-tenant workspaces.

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<sup>4</sup> Friedman and Byron, 2012, *High-Tech, High-Touch, Manufacturing's Triple Bottom Line*, Pratt Center for Community Development, accessed from: <http://prattcenter.net/research/high-tech-high-touch>

<sup>5</sup> Pratt Center, 2013, *New York City is at the Forefront of a National Urban Manufacturing Renaissance*, accessed from: <http://prattcenter.net/issues-expertise/urban-manufacturing>

In many respects, the resurgent urban manufacturing observed in the US operates similarly to advanced business services in terms of the competitive advantage gained from agglomeration economies. These firms prosper on knowledge spillovers and a diverse and extensive pool of skills. Notwithstanding, they occupy a lower station on the value added continuum and may be at significant risk of displacement from the locations that can nurture them, simply because they can be outbid in the market for commercial space and face considerable residential rezoning pressure.

Although the research literature is still developing, observed growth in urban manufacturing in the US is variously attributed to:

- Changing global cost structures – rising costs of energy, transport and overseas labour and the risks in these supply chains are making outsourcing less competitive in some circumstances;
- Fears over protection of intellectual rights;
- Local linkage to knowledge industries (for example, in the high end garment trade); and
- Changing consumer preferences, with growing interest in fair trade, sustainability, local origination and customisation. This has been led by high income knowledge sector clients, but may now be spreading to more mainstream markets.

Planning policy makers are beginning to examine trends in urban manufacturing more carefully, anticipating the potential for several benefits including:

- **Job creation;** research from Chicago shows that for each manufacturing job that is added to the urban region, 2.2 additional jobs are generated in the metropolis;
- **Business incubation;** local manufacturing capacity enables entrepreneurial concepts to be designed, tested, financed, manufactured, marketed and onto retail shelves within a short period of time and distance;
- **Business growth;** small companies are good on their own, but also get bought out or turn into bigger companies. In this context a healthy urban manufacturing sector provides a platform for start-ups and good ideas to develop, potentially becoming household brands;
- **Restitution of a mid-tier labour market;** according the New York State Department of Labor the average annual wage for a manufacturing employee is over \$53,000, compared to \$36,000 for a retail worker and \$24,500 for those in food service;
- **Skills balance and inclusion;** manufacturing production requires a range of skills, many of which cannot be fully developed through formal education channels, but rather require hands on experience and practice. This is particularly relevant to communities where formal education may be lacking or substandard, and as Sennett (2008) notes, while education attainment may vary largely between individuals; we share in roughly equal measure the raw abilities that allow us to become good crafts people. In this way urban manufacturing becomes a force for social inclusion; and
- **Trade development;** while the United States lost nearly a third of its manufacturing jobs over the past decade, the sector still accounts for a majority of US exports.

### Urban manufacturing in Melbourne

In the light of this emergent literature, it is timely to investigate whether Melbourne may be experiencing its own process of renewal in urban manufacturing. There is sufficient anecdotal evidence to warrant such an hypothesis, given the rich mix of niche and design based manufacturing activity which has re-colonised 19<sup>th</sup> century factory areas in industrial zones with good access to the CBD (for example, Abbotsford).

But there is, as yet, little definitive evidence of the scale and nature of this activity, nor an understanding of possible future trends. It is likely that a good deal of policy making in relation to these industrial zones is based on educated guess-work or narrowly focussed local studies which do not take into account structural changes in the manufacturing economy.

This research project is intended to fill this crucial evidence gap.

### Research phases

The research is expected to comprise 3 major phases, in line with the 3 objectives noted above:

- Phase 1; a **comprehensive land use survey and business inventory** of industrial zoned land in inner Melbourne (excluding those lands which are irrevocably committed to transition to residential or other uses).
- Phase 2; an **in-depth analysis of a statistically valid sample of businesses** in these areas to gain an understanding of business structures and processes, including the depth and quality of local linkages.
- Phase 3; a **synthesis of findings** with particular regard to the specific implications for planning controls in the subject areas (appropriate zones, land use requirements and development standards).