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### **Business Parks - Theoretical Background**

*Economic activities can take place in either a physically scattered manner or in proximity. Companies in physical proximity in a designated area form the business parks. A business park is a site that is designed for economic activities in the field of trade, industry and different commercial activities (IBIS 2002b) Business parks are agglomeration of companies in physical proximity. These features provide certain benefits. Local authorities favor the establishment of business parks to ensure intensive use of land and create strong business environments in their localities. In the private sector, companies receive various benefits from being part of the B. P. First, the agglomeration factor leads to decreased costs for common maintenance services. Secondly, parks with companies in similar sectors benefit from joined marketing activities and increased exposure. Thirdly, B.Ps embodies conditions for synergy between companies. Synergy can be based on activities such as sharing and exchanging of materials and streams, professional knowledge and expertise, etc.*

Business parks in Germany (Gewerbeparks) are buildings constructed by project developers and available for letting which consist of a combination of office, service and warehouse space on a park like site and offering professional management. Depending on the way the space is used, it is possible to distinguish between four different types of business parks:

Type 1: approx. 10% offices and 90% warehouse space

Type 2: approx 40% offices and 60% warehouse space

Type 3 : approx. 45 % offices, 10% services and 45% warehouse space

Type 4: 80% offices and 20% service space

Advantages:

- For occupiers, BPs offers the capacity to grow and expand at the same location. Startup companies can begin operations in small-scale incubator space and eventually move to more prestigious headquarters without ever changing their

address. Established companies can centralize their operations, from high-visibility corporate headquarters to inexpensive back-office space or flex space.

- For developers, BPs offer flexibility as well. Despite BPs being long-term investments with large budgets because of the size and infrastructure requirements, developers have the benefit of deciding whether to sell unimproved land parcels or completed buildings in a BP> Risk is also minimized by the opportunity to phase the development, relying on positive market conditions or formal lease or sale agreements before proceeding with construction. Many developers will not initiate a project until a formal commitment has been received to lease or buy a major portion of the project.

- Communities reap potential benefits from BPs. In an era of increasing competition, to attract new businesses and jobs many governments see BPs as a tool to stimulate economic development. In some case, the argument is strong enough to warrant the public sector's active participation in the formation of BPs and the provision of tax incentives or financing assistance to developers.

A BP is a multibuilding development planned to accommodate a range of uses, from light industry to office space, in an integrated park like setting with supporting uses for the people who work there. They can range from small parks on several acres to facilities of several hundred of acres or more.

Multi tenant business and technology parks contain a variety of uses, ranging from light industrial, R&D, warehouse/distribution, commercial offices and incubators for start-ups and growing companies to data centers, call centers, and back office operations. Many business and technology (tech) parks are also home to other support-related activities and services, such as retail centers, banks, hotels or lodging facilities, health clubs, day care centers, and other types of amenities. These other activities and amenities typically cater to the needs of the tenants located in the park and to businesses, employees and residents in the surrounding area. They also can be a good marketing tool for attracting users to the business and technology park. Although these parks have a number of tenants, one owner or one agency representing the owners has control of the entire park.

Aside from the variety of uses found in the park, contemporary business and technology parks differ in a number of ways from industrial parks. They typically have higher quality environments; more sophisticated land use planning; higher quality architectural design; more building flexibility; and additional design, environmental and land-use controls and restrictions. The developers of business/technology parks usually are responsible for transportation and utility improvements inside the park, and, oftentimes, outside the park, too. Some of these costs may be passed on to the tenants through higher land costs or rental rates. Since low investment costs are critical for companies or businesses located in the park, infrastructure improvement costs need to be kept at reasonable levels.

Business and technology parks:

- Have a variety of uses and activities that are "clean" and have limited negative impact on surrounding uses and their neighbors.

- Provide a conducive, supportive and sometimes innovative environment because of the multitude of tenants and amenities in the park.
  - Provide homes to small and medium sized companies on improved, shovel ready sites
  - Reduce the risks of the location decision for the tenant, enabling companies to operate in an environment that is much more controlled than a freestanding, single use industrial or commercial site.
  - Enable businesses and investors to only purchase the land needed for their operations or facilities.
  - Provide the opportunity for companies to start construction and the start-up of their operations quicker since uncertainty and site costs are reduced. The State of New York has a business environment that is very conducive for supporting new projects.

There are a number of key factors that provide business and technology parks with a competitive location advantage. These include vehicular (automobile and truck), airport, and, if appropriate, public transportation access; good visibility, quality image and attractive, compatible surrounding uses; the availability of a productive, qualified, skilled workforce; labor cost; utility and telecommunications (telecom) infrastructure; quality educational institutions with relevant courses, degrees, programs and training; links to a research university if R&D is a focus of the park; and quality of life.

Firm reasons for locating in business parks

In his paper "Issues and concerns for the public funding of business parks", Roger H. Coupal discusses topics like: reasons for locating in business parks, regional economic role of business parks, factors in successful business parks, business parks as a rural development tool or governments' role in business parks.

Location decisions by firms has been an extensively studied phenomenon. Traditional approaches to firm location decisions focus on factors in the cost of doing business: low wages, quality workers, proximity to necessary resources, available infrastructure, tax advantages, etc.

The existence of a research university plays a major factor in the success of nonmetro research parks, (Lugar and Goldstein, 1994).

Another factor in the location decision are quality of life considerations. A high quality of life gives firm managers a broader and personal reason for staying in a community and helps them retain high quality workers.

Modern day business parks focus on building and enhancing what Venable (1990) calls

park amenities as well as external attractions such as University links. Venable defines park amenities as ranging from well landscaped parks to collective conference centers, eating establishments, tenant guest accommodations, to child care facilities. The existence of amenities is a very important factor in the decision to locate or remain in a community.

#### Regional Economic role of Business Parks

The regional development role of business parks can be characterized in two similar types of regional development theories: A "growth pole" or an "entrepreneurial seedbed", Peddle (1993).

As a growth pole it takes advantage external economies that exist in the region such as transportation, qualified labor pool, or technological spillovers. As the number of firms with similar needs increases, it facilitates the continued development of a qualified labor force, and other external spillovers.

As a seedbed it fosters the growth of entrepreneurs in the region. But as the population of entrepreneurs turns over with some going out of business (as is often the case), the business park houses new start-ups or migrants. Business parks are often located with business incubators, where firms that leave the incubator can easily move into another complex.

#### Factors in a successful Business Parks

Factors that have been identified as contributing to a successful business park can be divided into two types: Locational, and Management.

Locational advantages are characteristics external to the firm that attracts the firm to the area. Locational Characteristics:

1. If it is a research park, then proximity to a research University. Goldstein and Lugar (1994).
2. A sufficient pool of entrepreneurs in existence or to be developed. Peddle (1993)
3. Well supported community infrastructure. Goldstein and Lugar (1994);
4. State or local government incentives. Goldstein and Lugar (1994).

Management characteristics are certain policies that have proven successful in attracting and keeping firms.

#### Managerial Characteristics:

1. Well planned facility, minimizing construction costs and congestion problems, Reisdorph (1991), Peddle (1993).
2. Park amenities, e.g:
  - Conference / meeting centers
  - Eating places
  - recreational facilities
  - day care
3. Good marketing plan
4. Mixed development (diversification) Reisdorph (1991)
5. Good environmental planning, Goldstein and Lugar (1994); Reisdorph (1991).

#### Business Parks as a Rural Development Tool

Business / research parks can be viewed as a potentially good rural development tool, Reisdorph (1991), Goldstein and Lugar (1994). However, the

tool is not without risks. Peddle (1993) cites evidence that 59 percent of industrial park space is vacant, nationally. Venable (1990) argued that the industrial park market was a tenant's market the management has to be aggressive in marketing the park. It also means that design and planning must provide the park with amenities that attract and retain firms. Finally, it also means that the quality of life in the community has to be sustained and developed so management has a broader community asset to market.

#### Governments' Role in Business Parks

Most business parks are privately financed ventures. Even so a significant number of them are publicly owned. The extent of private ownership, however, may belie a larger level of government involvement because there is no knowing how many of these parks may have gotten subsidies and grants to develop the facilities. Furthermore, the reported results were on all business parks, and did not distinguish between office parks, mixed development parks, traditional industrial parks, and research parks. Research parks very often have as a stated goal to provide jobs for nearby research universities (Lugar and Goldstien, 1994), which would suggest government backing, if not government ownership.

#### Rationale for Government Involvement

Government intervention into markets occurs for two reasons: perceived market failures and barriers to entry, and society's redistribution of wealth objectives. Since the latter is clearly not an issue in business park development, the former is what concerns the policy objectives. Government's development or support of business parks can be considered a capital subsidy that helps newly established firms direct more of their assets into product development and market penetration, rather than being used for land acquisition and buildings.

Capital subsidies have been characterized in the literature as a "lubrication argument" or "catalytic argument", (Shaffer, 1989.) A "Lubrication argument" contends that to speed eventual free market adjustments by reducing historical and institutional barriers, by reducing risk to the entrepreneur, by compensating for the lack of agglomeration economies (transportation facilities, skilled labor pool, etc.), and by neutralizing resource misallocation caused by immobile labor, minimum wage, or other factors. The Catalytic argument contends that incentives stimulate the development of specific skills in the labor force or stimulate investment in critical businesses or services that are precursors to other development efforts.

What is implicit in both these arguments though is that a market failure exists. If so it may make sense for public intervention. If the reason for a lack of facilities is simply because the return to developers does not justify an investment, the market is responding well, and public intervention will create market distortions rather than compensate for them. The local effects of such publicly created distortions could be an inflated land market that makes it difficult for non-park businesses and new residents to purchase land. It could also encourage these

other firms that do not receive the subsidy to lobby harder for other subsidies or tax break for themselves. Another potential impact of public provision is a bidding war among the region's technology parks. This zero sum game can end up hurting all communities by reducing their taxable base all around (Harrison and Kantor, 1978).

### **Conclusion**

Business parks can be viable community development alternative. Proximity to a research university, well planned park amenities, and sustained community and park amenities, all figure in to the viability of an already over built market. The economics of using public funding to initiate a park are uncertain. While it may provide communities the tools to target the kind of firms they want, there are also potential negative effects.

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