A
BETTER
APPROACH TO
AFFORDABLE WORKSPACE

THE OPPORTUNITY TO ACT

prd x REDO

AFFORDABLE WORKSPACE:
INTRODUCTION

Affordable Workspace isn't working. There is significant 'locked up' social, economic and commercial value within under-used assets across the UK.

In this 'Workspace Manifesto', we share our thoughts and ideas for how affordable workspace policy and practice could be re-worked to deliver important benefits for places, people and economies, and look at how the delivery of affordable workspace can form a crucial pathway to recovery in the wake of COVID-19.

Through this work, we outline our approach to public value asset strategies, which place local authorities in the driving seat and give greater importance to local amenity and inclusive economic outcomes.

We want to help to get more and better affordable workspace mobilised across the UK.

Why isn't it working?

- Much like for housing, affordable is a loaded but ill-defined term
- Planning policy and S106 are blunt instruments used variably
- Market failures in the link between spaces and end-users
- Need for more and varied intermediaries
- Challenge in reconciling 'Best Value' and 'Public Value'

Why does it matter?

- Spaces for enterprise & amenity will be needed more than ever post COVID to deliver a fair and inclusive recovery
- A new focus on local and a diversity of uses is essential to the renaissance of neighbourhoods, high streets and town centres
- Re-use of the buildings that are already in the right places is a greener, better way to go

The affordable workspace model as we know it isn't really working...

Drawing on the expertise of a multidisciplinary team from close collaborators PRD and REDO, we have set out a call to action for a better approach to affordable workspace that builds upon four key opportunities to act:

OPPORTUNITIES TO ACT...

1

Fix broken affordable workspace policies and bridge "The Affordability Gap"

2

Make a better case to act that is based on new principles and is supported across partners and sectors

3

Empower local authorities to take back control of their cities

4

Explore and nurture new delivery models to tackle market failures

Further to these opportunities to act, Martin Saps (a Research Consultant) has also examined the crucial role of affordable workspace in the creation of vibrant, inclusive and resilient places, referencing great projects and places that are pushing the boundaries and are a source of wider inspiration.

WHO WE ARE

PRD are specialists in the commercial, economic and social aspects of development, delivery, inclusive growth and regeneration.

We navigate the space where the public sector, private sector and communities combine, helping our clients and partners to create and deliver great places and projects.

We firmly believe that the key to success is effective collaboration, which is underpinned by the intelligent application of delivery experience and evidence, a clear plan of action and a robust case for change.

We translate evidence and experience into insight; insight into intelligent and deliverable plans of action; and plans of action into outcomes.

We aim to empower our clients to shape and realise their ambitions and to unlock enduring commercial, economic and social value through our approach.

REDO was set up by the founders of 3Space to advise on how real estate can be used as a tool for delivering social impact.

At 3Space the team have operated 45 buildings across the UK over the last 10 years with a focus in recent years on affordable workspace, the most notable example of which is International House in Brixton.

REDO are an outlet through which they are able to apply their experience and help others shape their strategy and approach to real estate either through the use of existing assets or through the planning process.

They advise Local Authorities, Developers, Housing Associations and Corporations on how to redo their approach to real estate to meet these needs - of local people, successful cities and modern businesses.

OPPORTUNITY TO ACT - 1: FIX BROKEN AFFORDABLE WORKSPACE POLICIES AND BRIDGE "THE AFFORDABILITY GAP"

Harry Owen-Jones,
COO 3Space & Director REDO

Policy can be one of the key levers for Local Authorities to deliver more diverse, sustainable and creative places.

At International House in Brixton, 3Space manages the largest example of Affordable Workspace in the UK, with a focus on safeguarding Brixton's cultural and social ecosystem whilst diversifying the local economy from an over-reliance on food and retail towards the creative and digital industries.

3Space provided a new home for London's largest photographic resource centre, when rent levels at their old home became untenable, and a space for Assemble to build a new fashion and textiles studio.

Non-profits and youth innovation projects have a floor each, housing 87 charities, youth led start-ups, community groups and green initiatives. And all this space is provided rent free as part of our BuyGiveWork model whereby space is given away to sustain social, cultural and experimental activity that can't afford a market rent.

Paying tenants make up the other half of the building; they create jobs, take on apprentices and make a positive impact through our community give back scheme.

Lambeth benefits not only from the social and economic outputs but also from £1.1m in rent over a 5 year period. In addition to all of this, International House is the first 'Living Wage Building' in the UK, with all of our tenants required to pay staff and contractors the living wage.

Other Local Authorities are keen to replicate what Lambeth has achieved, but there's a finite number of available suitable buildings that are under Council ownership that can be repurposed for affordable workspace. To try and replicate what has been achieved at International House, Councils are having to turn to buildings that are not under their direct control, but which they can influence through affordable workspace policy. But this is where things have started to go wrong.

THE CURRENT IMPLEMENTATION OF AFFORDABLE WORKSPACE POLICY

Affordable workspace policy has been introduced to try and address the market failure that has seen social, cultural and other economic uses displaced from London's commercial centres as new development comes forward.

The policy is implemented through planning obligations that allocate a percentage of new commercial developments over a set size for affordable workspace. The policy is laid out in the Intend to Publish version of the London Plan and Local Authorities have been busy drafting their own versions aligned to local context.

It looks good on first reading, but when it comes to the practical application it doesn't function as intended.

Developers are usually interested in keeping the amount of affordable workspace low, and the defined affordable rent level high. To justify this position, they cite scheme viability, the same arguments often put forward for affordable housing targets.

Affordable workspace operators can't afford to take on space in new buildings, even with reduced rents. The rent reduction is not enough to offset the increased costs associated with occupying a new building, especially business rates, service charge and upfront Cat B fit out costs.

What's left is a sizeable 'Affordability Gap' between the rent a developer needs to maintain overall viability and what an affordable workspace operator can afford.

The favoured compromise by some Local Authorities is to class flexible space providers like WeWork as a suitable beneficiary of affordable workspace, as they can meet the developers rental expectation and, at a stretch, the policy goal by providing flexible terms and space to support start-ups and early stage businesses.

But this isn't the market failure that affordable workspace policy was developed to correct, and charging £500 per desk per month is never affordable, regardless of the term duration.

AFFORDABILITY GAP

DEVELOPER'S RENTAL EXPECTATION

For the affordable quantum of space in a new development, developers would look to achieve 80% of market rent, in line with much Affordable Workspace Policy

Affordable definition can be interpreted as 'flexible' which allows flex space providers to step in. Supports some economic objectives but doesn't correct the market failure the policy was introduced to correct

Developers may also look to make a payment in-lieu or introduce a package of benefits to reduce the sq ft of affordable space on-site

SOCIAL VALUE OPERATOR'S CAPACITY TO PAY RENT

Dependent on end use, operator could typically afford 20% of market rent to keep it affordable for the end user

(Significant additional cost barriers also prevent viability in new developments - service charge, business rates, fit out, etc)

MARKET RENT	DEVELOPER RENT EXPECTATION FOR AFFORDABLE COMPONANT	RENT LEVEL A SOCIAL OPERATOR COULD AFFORD	AFFORDABILITY GAP
£60 per sq ft	**£48 per sq ft**	**£12 per sq ft**	**£36 per sq ft** (Excludes additional costs ssociated with operating in a new development - higher business rates, service charge + fit out)

Above:
Diagram showing the Affordability Gap in new developments

HOW TO BRIDGE THE 'AFFORDABILITY GAP'

Without intervention, it will be difficult, if not impossible, to bridge the 'Affordability Gap' to provide genuinely affordable spaces, in perpetuity, for the intended beneficiaries. As a result, rather than making minor adjustments it makes more sense to come at the problem from a different angle.

New build commercial space isn't the right fit for affordable workspace - costs are too high and a 'Corporate HQ' atmosphere and typology isn't right for the grassroots, cultural and experimental uses that affordable workspace policy should be targeting.

Older buildings on the other hand are perfect. They have more resonance with their local communities and lend themselves to a broader range of uses and innovation than a new build. And rather than being tucked away out of sight in a basement there's the chance to put affordable workspace front and centre across a whole building.

As author and urbanist Jane Jacobs said 'Old ideas can sometimes use new buildings. New ideas must use old buildings.' So let developers keep their new buildings for corporates and pay an equivalent amount for the provision of affordable, creative, social and experimental space in its natural home - the building that already exists.

THE OPPORTUNITY TO RESET

Times of upheaval can bring about a positive shift in mindset and policy. Against the background of the Climate Crisis, COVID-19 and the Black Lives Matter movement, there is an opportunity to reset the dial across a number of policy areas and refocus on the response to these generation defining issues.

Local Authorities should designate a targeted number of existing buildings with an 'Affordable Status' and list and protect them in the same way significant historic buildings are safeguarded.

Ownership then becomes the major consideration and Local Authorities will need to play a more proactive role, either by buying assets outright or entering into long leases to gain control of pricing and the building's social and economic outputs.

As well as affording influence over outputs, this approach will also grant Councils the opportunity to practise what they preach and prolong the lifespan of older buildings.

The UK construction industry produces 35 - 40% of the country's total emissions, the Mayor of London has set a target of net zero carbon by 2050 and 26 London Boroughs have passed climate emergency declarations.

By repurposing existing buildings, it is possible to achieve substantial embodied energy savings to help bring this figure down.

The protection and re-use of old building will help to ensure that as we move beyond COVID-19 the recovery is both green and sustainable.

Old ideas can sometimes use new buildings. New ideas must use old buildings

Above,
Before and After.
Fabric Floor, by Assemble at International House

Right,
Architects' Journal, Retro First campaign
- Author, Jane Jacobs

OPPORTUNITY TO ACT - 2: MAKE A BETTER CASE TO ACT THAT IS BASED ON NEW PRINCIPLES AND IS SUPPORTED ACROSS PARTNERS AND SECTORS

Chris Paddock, Director Place and Economy PRD &
Martin Woodhouse, Director of Development and Investment

Every local authority should be able to use their property to drive social value, innovation and participation.

Most of our clients and partners agree, but getting these projects delivered requires councillors, developers, owners and investors to think differently, resetting their preconceptions and ways of working.

Practically this can mean less short term income in favour of longer term public value (and potentially more resilient future income streams). At a time of ongoing austerity making the case for this can be tricky.

There is an opportunity to align property strategies with a case built upon social and public value. The recession will have a substantial and structural impact on the property sector, compounding the pre-Covid trends and impacts already being felt in town centres, high streets and local shopping centres.

The fallout from this, and the emergence of a 'new normal' will take time and presents an opportunity to do something different.

As we move into recession and a period of sustained uncertainty, now is the right time to think about how we change the story; about how we challenge long held practices within the property sector; and more deeply about the social and environmental outcomes we want to encourage through more considered use, reuse and re-purposing of property.

Doing this at scale will require bold action and deeper thinking about ownership and value. How this is articulated will be different for every project in response to local market and wider societal conditions.

From our experience however, we believe that there are seven principles, which are worthy of consideration in developing the case for projects of this type.

1

UNDERSTAND VALUE

Taking risks on a longer-term return. The big challenge for the owner of a building (public or private) is recognising that the whole value delivered by an asset is not necessarily the same as what someone might pay to use it or the users' perceived covenant strength.

In some cases, this means making bold choices to forgo income in order to curate and make great things happen. It will take time for private owners and landlords to react and come to terms with this.

Get this right and there is almost certainly an opportunity to create income, but the pathway to this is relatively complex vs. the traditional landlord and tenant relationship. This is where strong strategy and policy making is required.

This will help us understand risk and plan for outcomes (in lieu of any revenue forgone), whilst also creating a genuine and valued incentive for the landowner to participate.

In the current fractious and unstable market conditions short to medium term market expectations may be unrealisable and so near-term stability leading longer-term value creation has a stronger pull for many.

2

OWNERSHIP

Understanding who owns public assets is fundamental to building the case for reusing and re-purposing. Developing a more progressive relationship between owners and users of publicly owned properties is also vital.

Public buildings are owned by the people - the council is merely the organisational structure which is put in place to manage them. If this is accepted, then the case for enhanced public value from the public estate, and the benefits that can flow from them, is a lot easier to make.

A duty to provide Best Value is perhaps unhelpful in developing the case in this way if the measure of value is overly focused on financial return rather than wider public sector objectives for improving lives and areas.

Despite this, there is a growing cadre of impactful projects in public buildings that show that this challenge is not insurmountable.

We would argue that the 'best value' model is currently flawed in any event presenting an opportunity to act differently.

LOCALISING IMPACT

Retention is as good as growth. Buildings like International House are examples of what can be achieved by building a business ecosystem from the ground up. They develop local collaborations and keep wealth within a community.

Traditional strategy and case making, however, tends to focus upon encouraging external investment and growth on the basis that this will create residual benefits for the local economy.

Increasingly we are recognising that this 'trickle down' approach has not and will not work and that we need to be more proactive in developing the type of economy we want.

Furthermore, with the increased focus on the localised, neighbourhood economy, the civic assets in and around residential areas present renewed locational benefits that were overlooked pre-COVID.

3

IF NOT NOW, WHEN?

Traditional markets are faltering, strengthening the case for action. The recession is hitting hard, businesses are ceasing to trade, there is an increase in tenant lease defaults and an absence of occupier demand is pushing rent down (by as much as 60% in some locations).

This has clear impact on landlords, particularly where their asset portfolios are highly debt leveraged and they are forced to breach their loan agreements.

The traditional model of covenant strength underpinning assets has been substantially weakened: owners and lenders will be forced to look for other forms of security and will favour vibrant and diverse occupier markets that create less future void events and more resilient income streams.

Asset portfolios will need to re-structure and re-finance and there will therefore be inevitable changes in ownership.

By traditional measure of success this is seismic and the adverse impacts that many will suffer as a consequence must not be overlooked.

This will also instigate a significant change to the property ownership status quo and the public and civil society sectors will have more scope to intervene and take control.

Reducing values will allow for some tactical acquisition and a greater curatorial role for public partners in key locations and neighbourhoods where access to assets and improved amenity will have a significant positive impact.

4

5

LEARNING

Recognising that the reuse and community stewardship approach is as old as it is new.

Whether it is actual or psychological, community stewardship is at the heart of the response of most of our clients.

Whether it is through Community Wealth Building or participatory social action, there is a momentum towards locally derived activity.

Cynics will point out that this is not new: in the mid-2000s as New Deal for Communities projects came to an end, a significant part of legacy planning was to hand assets to communities.

In many cases this failed, in part due to government funding cuts, but also because of a lack of investment in developing the capacity to operate these buildings by the communities the assets served.

Previous failures should not be a reason for not acting; instead we need to learn, ensuring that provision is made for capacity building and where possible, appropriate levels of risk are held by the public sector, rather than been fully passed on to community groups and operators.

6

CHALLENGE

Challenge accepted ways of making a case. To make the case for reuse, local ownership and public value, we do have to challenge the accepted tools for case making and accessing impact.

The Green Book and government guidance on business case development focuses on hard measures of economic success, in particular uplift in land values and productivity.

These of course, do not reflect the experience of interesting places and building; the relationships which are formed there; or indeed the wider 'wellbeing' benefits to mental and physical health and society more broadly by the employment and activities these buildings can accommodate.

It is important to find ways to reflect and value these, accepting that at times it will not be possible to measure all of the potential benefits.

Government guidance is moving in the direction, but it will need practitioners to adapt to ensure public value is given the prominence it needs.

7

CLIMATE EMERGENCY

Reuse is one of the most effective ways of tackling climate emergency. Earlier, we made the case for reuse.

Put simply, if councils are serious about declaring a climate emergency, they should not be demolishing buildings that can still be productively used with a little investment, love and innovation.

Previously this has not been considered a priority when developing an assessment of options, now it seems fundamental.

OPPORTUNITY TO ACT - 3: EMPOWER LOCAL AUTHORITIES TO TAKE BACK GREATER CONTROL IN CITIES AND TOWN CENTRES

Andrew Cribb, CEO 3Space & Director REDO

Here, we turn to look at the new Planning changes, the impact they will have on the delivery of affordable workspace and the direct interventions that must now be considered.

> Housing, Housing, Housing... are we forgetting something?

The recent government changes to Permitted Development rights, Use Class and proposed overall system changes all appear to forget that in modern diverse communities people need places to work, experiment, teach, make and do things: the need for more housing must be balanced with opportunity for equitable economic development.

On 21st July the government expanded the current Permitted Development rights. Aside from the poor quality housing outcomes, these additional changes mean there is now a further incentive to demolish any office or light industrial building built before 1990.

Alarmingly, this is the stock of property that provides the most genuinely affordable space, not to mention the environmental damage of going against the #retrofirst agenda by actively incentivising demolition over reuse.

These Planning changes have also seen the introduction of a new 'E Use Class' (Commercial, Business and Services). This means that local authorities will no longer be able to safeguard their office or employment uses in the same way; in many cases it will be the affordable office stock that is lost.

Then there is the white paper on changes to the Planning system. Anybody who has worked in a country with a zone-based system will tell you that it doesn't 'cut red tape', bring speed to the process, or deliver better outcomes. It certainly doesn't give more powers to local authorities or local people.

This will be a housing-at-any-cost system; the words 'employment' and 'commercial space' are mentioned in the white paper twice each, compared with 'housing' at 95. There is also limited recognition of the importance of mixed-use cities as the engines for growth in the post COVID-19 recovery.

In cities like London, where land is scarce, this approach will ultimately mean existing employment uses, including light industry and low cost or low threshold workspaces, are sacrificed. These spaces are the natural home of economic recovery, used by start-ups, local charities, artists and makers; without these spaces, recovery is compromised.

These planning changes reduce the tools available to local authorities to deliver their economic policies, but for local authorities to remain able to support their communities, access to these tools is crucial. ➔

THE IMPORTANCE OF OWNERSHIP

Ownership grants greater control of the building outputs, be they purely financial or blended to include a social return as with our approach at **International House**.

For local governments, having the flexibility to tailor an all-round approach to the new economic and social landscape will be key to successful public value asset strategies.

There is a precedent for this, albeit for a different reason. Local authorities already purchase commercial properties. Most have been forced to do this to ensure income in the face of funding cuts, but this is a high risk strategy and many of these investments are in buildings outside of their own Borough.

In June Spelthorne Council, who has over £1 billion invested in commercial property, was forced to give its major tenant **WeWork a £4.5 million reduction** on its rent for a building in Hammersmith - outside of its Borough.

It would seem more sensible to limit this investment to the local authorities' own town centres, using the funding to make catalytic investments that provide a steady reliable income stream.

Sutton Council's purchase of the **former BHS** in Sutton Town Centre to deliver the **Sutton Works** project and Brent Council's purchase of the **Picture Palace in Harlesden** have allowed these councils to curate and control the outcomes they want.

When existing buildings are purchased by a local authority they can be designated as part of local government's economic and planning policy and leases for affordable space allocations in new developments can be leveraged to cover the 'affordability gap'.

Other, more strategic uses, like **International House** in Brixton or **Plumstead Powerstation** by Greenwich Council, are also possible. As covered later, there is also an opportunity for properties to be independently managed by a Soc-PMC with community partners, providing long-term solutions and financial returns, as well as building capacity of local people and agencies.

FUNDING OPTIONS

The Public Works Loan Board offers an attractive loan facility to local authorities: this is how they have accumulated commercial portfolios to-date. A steady return to this type of approach could open the door to further private sector investment.

For example, a Sustainability Linked Loan (SLL) where the interest rate is tied to social impact-based KPIs. This is the model used for the **£75m credit facility that BNP Paribas provided to Peabody Trust**. As a result, Peabody is set to benefit from a lower interest margin on the loan if it delivers an agreed number of accredited childcare qualifications under their Childcare Training Programme.

In our example, it could be tied to job creation, training, business support or a number of other social and economic metrics. Aside from Public Works Board and SLL borrowing, there may well also be interest from institutional investors looking for consistent yields backed by a strong covenant.

In addition, once a local authority has a portfolio of properties and a strategic location-based approach to affordability then it becomes easier to attract additional grant funding, like GLA Good Growth funding as with Sutton Works, or development contributions to fund building improvements and business support programmes.

> In cities like London this approach will ultimately mean existing employment uses are sacrificed

THE RETURN ON INVESTMENT

The return to local authorities can be broken into three main outcomes including social, investment and capital asset growth:

- **Social.** Through control of assets local authorities can influence greater economic and social outputs such as providing opportunities for BAME and underrepresented groups. They can also have a greater influence over the supply chain, Living Wage and other community wealth building initiatives.

- **Private sector investment in the Borough.** Greater control over properties in cities and town centres can provide the local authority with greater influence over what happens around it. For example, a building providing a reduced rent to a particular sector of start-ups attracts others in this industry and acts as a market-maker, or a place where local creatives can afford to work attracts larger companies looking to innovate. This brings increased investment to the Borough, followed by jobs for local people and a higher tax base. A great example of this is the High Line in New York which has generated $1 billion in additional tax revenue.

- **Capital growth.** In the long term, uplift can be measured via the increase in the asset value. Using an example from the past to inform the future, take the Greater London Council's (GLC) use of the London Residuary Board to dispose of its built assets. When the GLC was wound up in 1985 they sold 18 industrial properties in prime London locations to a company called London Industrial PLC - this is now known as Workspace Group, listed on stock exchange with a property portfolio valued at £2.6 billion.

THE RESET OPPORTUNITY

What if the GLC had held onto the assets for affordable workspace and built on this initial portfolio?

We'd be well on the way to there being 100 International Houses and these buildings could have shaped the social, cultural and economic response to the COVID-19 pandemic.

We believe that a by-product of the current and future planning system will be a continued loss of genuinely affordable commercial and community space, which is the backbone of a sustainable city.

But with access to several funding options for investment in buildings local authorities are well placed to lead and build up a portfolio of steady income and well-run assets which can shape communities, not just in recovery but for decades to come.

OPPORTUNITY TO ACT - 4: EXPLORE AND NURTURE NEW DELIVERY MODELS TO TACKLE MARKET FAILURES

Daniel Partridge,
Director Ventures & Strategy, PRD

We know that the current affordable workspace policy isn't working to its full potential, so here, we look at the interventions that Councils can make to ensure that the 'right spaces are available on the right terms'.

Re-building the economy in the aftermath of COVID-19 will require new and bold approaches at both the national and local levels.

In order to deliver a recovery that is both fair and inclusive, we must put the creation of affordable spaces across our town and cities at the centre of this approach.

These spaces have the potential to provide much needed opportunity for businesses to re-boot, for entrepreneurialism to flourish and for communities to design and develop new services and develop new service models that better meet their needs.

These are outcomes that matter to Councils as they have far-reaching impacts on the wider health, prosperity and well-being of our communities.

But the case to act pre-dates COVID-19:

- The sustained decline of the traditional retail-led models for our high streets and town centres is well documented and it is widely accepted that greater diversity must be supported within the mix of economic, civic and social uses in order to make successful places that are destinations of choice;

- Cities and neighbourhoods across the country have benefitted from the activity and vibrancy that start-ups, arts and social enterprise tenants have brought into areas that were once dilapidated and un-loved. However, these are often the first to be pushed out by increasing rents, as developers, investors and the markets they target become attracted by the very vibrancy that these tenants have helped to build;

- The affordable-end of the market is generally not well-supported by the current policy and market-drivers.

- Responding to the immediate and near-term traumas within communities, neighbourhoods and property markets is essential, but we must aim for '**more than meanwhile**'; by fostering a long-lasting transformation in how we define and develop successful communities and town centres.

MAKING CHANGE: FORWARD MOTION

Councils can and should play an important 'market-making role' to address these issues.

This means using their own assets where possible and securing third party assets in key locations to create the right conditions (i.e. affordable and flexible terms offered to end-users) that enable local businesses, entrepreneurs and community organisations to occupy them.

There are a number of ways that this could happen, but here are some examples:

- Assets within a Council's own portfolio may be let on affordable terms to an operator or end-user and an 'undervalue' is permissible. Wider performance measures can be designed into this arrangement to quantify the social and economic impact and rationale for the lease price.

- For assets in third party ownership, a Council can take on the role of head lessee with a strong covenant, in order to deliver the same arrangement via a sub-lease, thereby creating an important bridge between assets in private ownership and the businesses and community groups that will bring assets and neighbourhoods back to life.

- Councils may choose to strategically acquire and directly invest in properties that are in third-party ownership, in order to secure and develop assets that work harder at the heart of their communities. New policy could direct Section 106 contributions to affordable workspace in lieu of tethering affordable workspace to new development.

Re-building the economy in the aftermath of COVID-19 will require new and bold approaches

EXPLORING SOCIALLY-ORIENTED PROPERTY MANAGEMENT COMPANIES

Alongside this approach, which can be adopted by a Council on a piecemeal basis, there is also an opportunity to establish a **Socially-Oriented Property Management Company** (Soc-PMC).

This would enable a Council to take a portfolio approach to managing local assets against a suite of clearly defined, social and commercial aims, objectives and deliverables that address affordability and target local sectors and groups.

With this approach, a Council would agree a basket of leases with the Soc-PMC, alongside a Service Level Agreement, which would guarantee a required level of income to the Council and define the expectations regarding the social and economic impacts to be achieved and reported, through tenant management and by end user tenants.

The objects of the Soc-PMC, together with the evidenced social impacts would also make the venture attractive to charitable funding and impact investors.

Having multiple assets under one ownership structure would allow the operation to benefit from economies of scale.

The portfolio could be a mix of purely social and more commercial activity similar to 3Space's BuyGiveWork model: by taking on multiple sites, or sites with mixed tenants (e.g. for-profits and not-for-profits) a cross-subsidy model is enabled, whereby surpluses from commercially-oriented assets and activities could be reinvested to subsidise not for-profit activities, to support other affordable workspace within the borough or to secure and mobilise further buildings.

The socially-oriented objectives of the Soc-PMC may also enable it to sources of grant funding and, depending on its corporate structure, attract a level of business rates relief.

Opportunities for stakeholder and community representation within the stewardship and governance arrangements for the Soc-PMC could also be developed, with the venture sitting alongside other models such as Community Land Trusts and Community Led Building that seek to deliver inclusive economic benefits and improved, long-term community stewardship within our cities, towns and neighbourhoods.

Affordable workspace has a critical role to play in re-building an inclusive economy and the time has now come for Councils, with their unique position to act, to be ambitious and bold in delivering it.

> Affordable workspace has a critical role to play in re-building an inclusive economy

LEARNING FROM SUCCESS: LESSONS FROM THREE CITIES

Martin Sapps
Research Assistant, LSE

If we've learned anything from the tech boom and the 21st century in general, it's that grassroots businesses bring new innovative ideas to the marketplace and offer tremendous growth potential.

A report by the UN Commission on Trade and Development estimates that between 2002 and 2015, the global market for creative goods alone doubled from £160 billion to £392 billion.

When we look at how and why certain cities and neighbourhoods flourish as hubs of enterprise and creativity, it's often because they offer low barriers to entry.

Creative people with a vision are free to try out new ideas and develop collaborations without the high cost of failure. Whether it's due to cheap lifestyles, affordable workspaces, or a preponderance of creative incubators, certain areas have succeeded in promoting young creative talent; talent which offers tremendous potential for social, cultural, and economic growth.

If creative grassroots initiatives are not harnessed, however, creative people may find themselves grounded, and cities risk losing their innovative edge.

The cities of Lisbon, Berlin and Miami provide a window into how different cities have succeeded in attracting and maintaining creative talent; the case studies also show how development can pass over certain communities, excluding them from the scenes which they helped create.

LEARNING FROM LISBON

In 2012, Portugal was suffering from one of the worst economic crises in modern history, with young people leaving for cities in northern Europe in search of work.

Just eight years later, the roles have been reversed, with young creatives and entrepreneurs from those very northern European cities heading to the Portuguese coast in search of not only a cheaper lifestyle and a warmer climate, but also for the experimental entrepreneurial atmosphere that makes the Portuguese capital one of the best places in Europe for creative enterprises today.

As a result there has been a 50% decrease in unemployment between 2015 and 2019, and the highest economic growth in two decades. The city boasts 22,000 "creative companies and is now an international tourist hub, with rentals increasing 3,000% in the past decade.

How is Lisbon doing it?

The socialist, yet pro-business government, which came to power in 2015, put in place "The Portuguese Model". It stimulates tourism and innovation industries and used the profit from these to increase social services.

They combined foreign-friendly taxes and residence permit systems with a high level of support and funding for the arts. It's signature project Startup Lisboa has led projects to rehabilitate old buildings, revamp obsolete infrastructure, and revamp derelict areas into creative districts.

It provides entrepreneurs with affordable workspaces, as well as a support structure; it mentors new businesses, fostering strategic partnerships and creating an innovative community of knowledge-sharing.

What can we learn from Lisbon?

The Lisbon model shows the benefits of coordination and how governments can spur innovation by attracting and incubating talent.

By using existing abandoned spaces and converting them into affordable workspaces, cities can lower the barriers of entry to the market.

This allows small entrepreneurs to start small ventures, without high cost of failure. This, in turn attracts even more talent and can create a thriving tourist economy.

LEARNING FROM
BERLIN

Often referred to as Europe's cultural capital, Berlin has become a hotbed for innovation and creativity from all over Europe and the world. In the early 2000's, a burgeoning arts scene began to flourish in the city's Kreuzberg District, where old factories lay abandoned and space was plentiful. The artist community has since spread outwards into neighbouring Friedrichshain and, most recently, Neukolln.

Berlin has become a "true mecca for young and established entrepreneurs and creatives", due to its cheap rents (despite fast rent increases, Berlin remains on average 30% lower than London or New York), creative atmosphere, and support system for local artists. The creative sector now accounts for 10% of Berlin's economy, having created about 67,000 jobs since 2009 (Project Zukroff).

How is Berlin doing it?

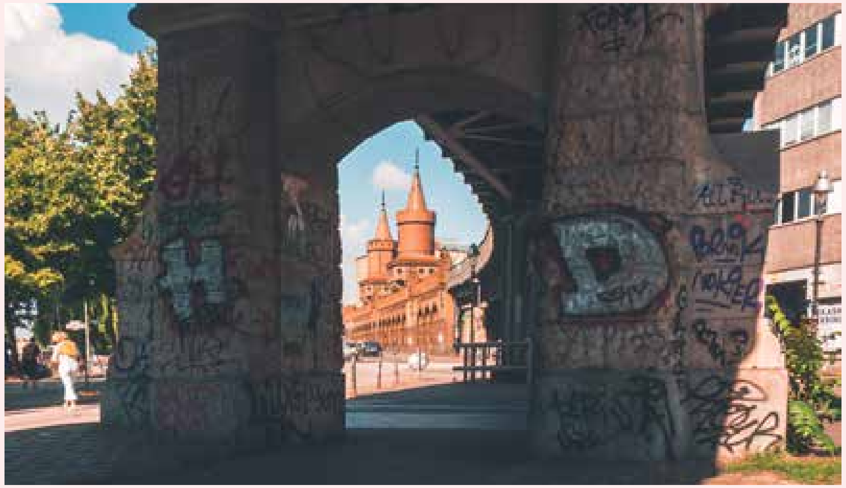
The Berlin city government actively supports life for entrepreneurs and artists and has resources to support new creative businesses.

In the realm of technology, the Berlin government launched the Berlin Startup Unit, which aligned with local partners to serve as an incubator for growing companies. For the arts, there's Creative City Berlin and Kulturprojekte Berlin, which "support the culture and creative economy of Berlin". These organisations are aimed at working with local "artists, cultural workers, and the creative industries" to help them secure funding opportunities and jobs. What's more, the City of Berlin has an entire office dedicated to securing affordable workspaces for creative businesses.

Neukolln as a neighbourhood also has its own initiatives to preserve its reputation as a "modern, innovative, and competitive location for successful companies, industry, trade/ crafts and services." The Neukolln economic development office provides support for start-ups and small businesses, helping them with funding, networking, and business development.

What can we learn from Berlin?

Berlin offers a lesson in how global capitals can remain affordable and desirable places to live for creative people with low economic capital. Creative businesses in Berlin benefit from immense resources and benefits which promote creative economic growth; companies are matched to spaces and a citywide effort ensures that clusters of activity are able to develop and thrive. Local evidence and data is used much more effectively than other cities to enable this to happen.



LEARNING FROM MIAMI

If Lisbon and Berlin offer lessons in how to harness the creative economy and entrepreneurship, the gentrification of Miami's Wynwood arts district shows how creative areas, if not properly managed, can often become victims of their own success.

What has happened in Miami?

Beginning in the late 1990's, artists began moving into Wynwood, repurposing its derelict warehouses into studio spaces. As the city of Miami and the State of Florida began to invest in the arts, many local galleries and artists were awarded grants. Developers were also a key driver of growth, ultimately turning Wynwood into an attractive cultural destination for locals and tourists looking to immerse themselves in the arts.

Wynwood has also become a cultural quarter, featuring over 75 art galleries, and countless cafes, and restaurants. In tandem with investment in Wynwood is the annual Art Basel, which takes place in nearby South Beach and attracts visitors and buyers from all over the world. Through large-scale investment, Miami has made itself a premier centre of art in the world.

But what about the local scene? Wynwood has become so desirable that it's property values have skyrocketed. The infrastructure and galleries of the area may remain intact, but the people that made it desirable in the first place are finding few cheap spaces to live and work, and the local community is finding it hard to survive.

What can we learn from Miami?

The gentrification of Wynwood shows how, without proper support, creative communities can find themselves swept aside by larger market forces. The City of Miami has devoted countless resources towards attracting artists, but few towards retaining them.

As Miami solidifies itself as a premier arts destination, the trajectory of the city's local arts community is increasingly grim. What's left is a high-end art world which imports talent rather than fostering and broadcasting grassroots local artists. Miami highlights the importance of bottom-up development; harnessing the local creative economy to promote economic and social value.

WHAT CAN WE LEARN?

The top four examples show how cities have harnessed the local entrepreneurial and creative economies.

Lisbon provides a case in how a coordinated campaign of start-up incubators and affordable workspace policies have attracted creative people to the once-economically depressed Portuguese capital.

Berlin meanwhile, offers a view into how, through government-sponsored programmes, cities can preserve their status as hubs for grassroots growth.

Miami, on the other hand, provides a salutary example of what can happen if the public sector does not intervene or the community is not empowered to do more.

Whilst every city has a different context, these three case studies provide some important principles from which partners can build:

1

Provide space and spaces in a coordinated and curated way

2

Recognise the value of grassroots and community action, supporting them to stay and scale

3

Recognise that you need local government involvement to succeed. They can help to mitigate risk and enable scaling

4

Create a critical mass of activity or at least the perception of agglomeration – people like busy, changing places

WHAT NEXT

We support new clients and partners to shape and bring to life exciting projects that matter to their communities

Affordable, flexible and accessible workspaces are central to thriving places and economies. The spaces needed to provide these exist, the previous systems are failing, and there is momentum towards local action.

Through this document, we have proposed structures that can deliver these spaces and the impact of these models is being proven; we have made the case for why we should reuse existing buildings, have outlined the potential of new socially-oriented operator models and have looked at wide-reaching reasons why the public sector must take a leading role in affordable workspace.

The ideas and opportunities proposed take us beyond the envelope of 'meanwhile-use' activity by creating and delivering projects which can be the fulcrum for new approaches around economy and places. The challenge now is for politicians and building owners to be bold and unleash the full potential that existing buildings have to support fairer, deeper, local recovery.

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