

START ME UP

The value of workspaces for small business, entrepreneurs and artists in London

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‘Open workspaces’ allow small and micro-businesses to share space and resources on a flexible basis. They offer spaces that are suitable for the needs of micro- and growing businesses, alongside business support and a collaborative environment for peer-to-peer collaboration. At their best, open workspaces support economic growth and the regeneration of neighbourhoods, help address disadvantage, and offer a lifeline to the city’s creative sector. They are key to maintaining the dynamism and inclusivity of London’s economy and cultural life.

Following the UK’s vote in favour of leaving the European Union, London’s small businesses, entrepreneurs and creative sector face a period of uncertainty. In challenging economic times following the UK’s Brexit vote, it is more important than ever that small businesses can access affordable space on a flexible basis. Even before the referendum vote, however, open workspaces faced the prospect of higher rents, business rate rises and the increasing loss of office space to residential use.

Where London’s property market is not sustaining open workspaces, the mayor and local authorities should act:

- London’s mayor should be granted new powers over ‘permitted development rights’, which put open workspaces at risk of residential development.
- The mayor should launch a new fund for open workspaces in London’s growing town centres, leveraging funding from the private sector and local business community.
- Local authorities should use the planning system as well as their own surplus assets to create open workspaces in areas of employment growth.
- Providers should use the ‘impact matrix’ we develop in this report to gather evidence to support the case for public as well as private investment in open workspaces.

KEY FINDINGS

London’s small and microbusinesses, as well as artists and community organisations, rely on shared and flexible workspaces such as incubators, coworking spaces and studios, referred to in this report as ‘open workspaces’. By flexibly sharing space and resources, users of open workspaces can pay lower commercial rents and reduce the risks of starting a business, as well as work alongside and collaborate with peers.

The main users of these spaces are small and microbusinesses in London’s thriving creative economy, but many workspaces also bring together professionals working in diverse sectors such as biotech, business services and the charity sector. Coworking spaces in particular have grown as technology has made it easier for employees and the self-employed to work from anywhere with a strong internet connection, and London’s entrepreneurial creative and digital sectors have thrived. 17.6 per cent of the London workforce is now self-employed, up from 15.9 per cent in

2008 and compared to 14.7 per cent nationally. Established businesses have also sought to use space efficiently as prices and demand for office space has risen.

Despite this recent growth, open workspaces face a range of threats:

- London’s booming property market is pushing up rents for workspaces and their tenants. Prime rents in the West End have risen by up to 70 per cent since 2009, and 35 per cent in the City of London. Employment space outside London’s most central economic area is being lost through permitted development rights, which allow the conversion of office space to residential use with minimal planning requirements. Since 2013, 1.47 million square metres of office space has been given prior approval for development to residential use.
- Businesses face a revaluation of business rates in 2017. For instance, open workspaces in Shoreditch could see their notional rate

liability double from about £12 to £29 per square foot.

- Decreased local authority funding has led to sharp rent increases for council-owned property.

Availability of affordable and flexible office space is vital for innovation economic growth and jobs, because these spaces support entrepreneurs in the early stages of their businesses. Studios and makerspaces sustain London's cultural life and creative economy, and workspaces with a social purpose support the capital's community organisations, as well as helping disadvantaged people access employment. The Open Workspace Providers Group estimates that London's open workspaces host 31,000 people, generating £1.7 billion in GVA. In some cases, open workspaces have generated an additional £40.80 for every £1 invested – far higher than DCLG's guidance of £5.80 per £1 of regeneration investment.

The challenges facing open workspaces must be addressed; otherwise, London risks losing out on the economic, social and cultural benefits they offer. One in three businesses report that the lack of affordable office space is damaging their business – with microbusinesses facing the greatest challenges.

To protect and expand workspace for small businesses, artists and charities, we make the following recommendations:

THE MAYOR SHOULD:

- Lobby for full flexibility over permitted development rights, including the power to set the exemption for the central activities zone (CAZ), Canary Wharf and Tech City, to set article 4 directions on local areas, and the power, in consultation with the boroughs, to charge the community infrastructure levy (CIL) on developments where they will put pressure on local infrastructure.
- Launch a new fund to support open workspaces that accelerate the growth of clusters in town centres outside the CAZ. This fund should leverage additional investment from local business communities, and encourage growth in opportunity areas (OAs).
- Work with Transport for London (TfL) to ensure that developments on TfL's 5,700 acres of land

include open workspaces, particularly in new town centres near transport hubs.

LOCAL AUTHORITIES SHOULD:

- Work with providers to turn unused spaces into open workspaces.
- Apply for article 4 directions to exempt from permitted development rights key employment growth areas not in the CAZ.
- Use section 106 negotiations to secure spaces in new developments or payments for new workspaces elsewhere.
- The current business rate system penalises small businesses that share space flexibly, as the provider is liable for the business rate on the whole property, and therefore must charge higher rates to cover costs. To encourage growth, local authorities should remove this penalty, by recognising the small business using the space as the ratepayer or using discretionary powers to reduce business rates for open workspaces.

NATIONAL GOVERNMENT SHOULD:

- Devolve to the mayor full flexibility over permitted development rights as outlined above. As a minimum, national government should extend the exemption for the CAZ, Canary Wharf and Tech City past 2019.

DEVELOPERS SHOULD:

- Include open workspaces in mixed-use and commercial developments, working with workspace providers early on in the development process.
- Encourage 'meanwhile' (temporary) open workspaces prior to development, to test the concept and viability of workspace, and to maintain activity in the area during redevelopment.

OPEN WORKSPACE PROVIDERS SHOULD:

- Measure impact using our key metrics, in order to gather the evidence to support the case for public as well as private investment in open workspaces.

For the full report, including all references, data sources and notes on methodology, see: www.ippr.org/publications/start-me-up-the-value-of-open-workspaces

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