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IPPR

START ME UP

WHY LONDON NEEDS OPEN WORKSPACES
FOR CREATIVITY, INNOVATION AND GROWTH



ABOUT IPPR

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The purpose of our work is to conduct and publish the results of research into and promote public education in the economic, social and political sciences, and in science and technology, including the effect of moral, social, political and scientific factors on public policy and on the living standards of all sections of the community.

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ABOUT THIS PROJECT

Through this research IPPR is seeking to understand the economic and social value of open workspaces to London, both locally and more widely. We are developing key measures of value to inform policymaking, and our final report in the summer will recommend ways that government can support valuable open workspaces.

The research has been generously supported by the GLA, and benefitted from the expertise of the Open Workspace Providers Group which represents a wide range of providers across London, from large to independent.

Illustrations by Ivan Gillet.

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WHAT ARE OPEN WORKSPACES?

Open workspaces are places where businesses and professionals share space, facilities or specialist equipment.'

Over the last 10 years, this new kind of workspace has grown in visibility and importance in London and worldwide. They include coworking office spaces, incubators for start-ups and entrepreneurs, artists' studios, and so-called 'makerspaces', providing specialist equipment for makers and designers.

Open workspaces break away from the traditional serviced office model: they are curated and designed to foster collaboration, and many offer business support on-hand. They are accessible to small businesses, artists and sole traders because they provide a combination of flexibility, low upfront costs and affordable rent.

They vary in purpose, business model, and how open they are to different groups. But together, they form a new and growing sector of workspace in London that mirrors shifts in how and where we work.

SELF-EMPLOYMENT HAS GROWN
DRAMATICALLY SINCE THE RECESSION,
AND IS PARTICULARLY CONCENTRATED
IN LONDON

18%
of people in work
in London are
self-employed²

LONDON'S GROWING IT AND
CREATIVE SECTORS ARE THE
MOST FREQUENT USERS OF
OPEN WORKSPACES

**Creative economy
jobs grew by
more than 15%**
between 2011 and 2014³

***The 'millennial'
generation values
flexibility and
collaboration
more highly than
older colleagues'***

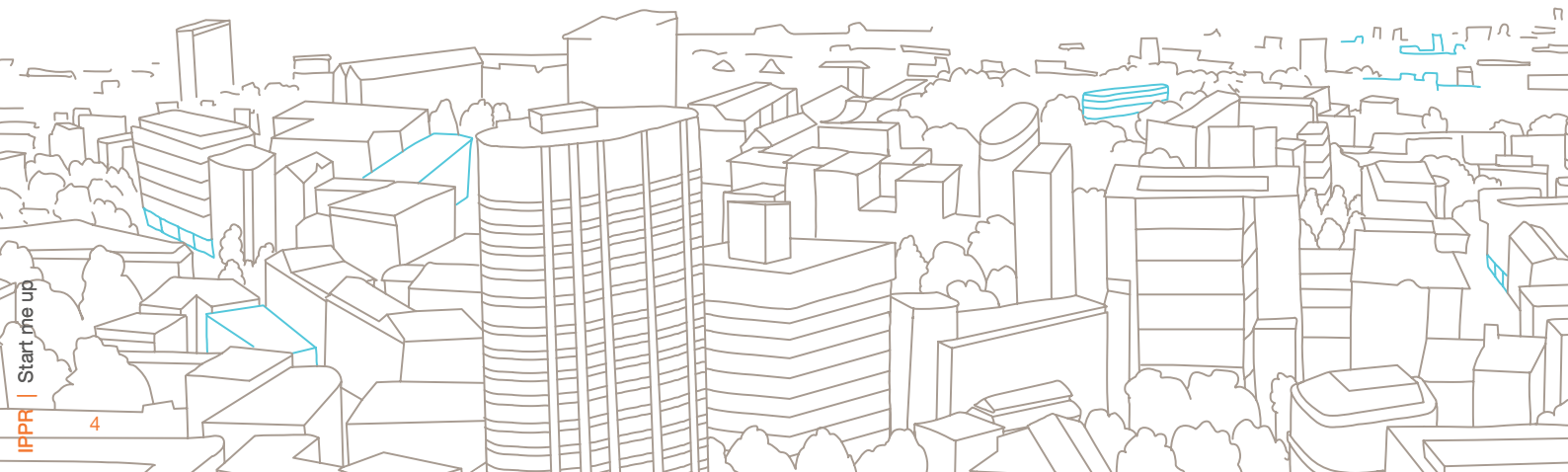
WHERE ARE LONDON'S OPEN WORKSPACES?

A mapping exercise in 2014 found 434 open workspaces in London, across every borough, and that number has since grown.

Around half are studios for artists and designers, a third are coworking office spaces, and the rest are a mix of incubators, accelerators and makerspaces. While many artists' studios are long established, incubators, accelerators and coworking spaces have emerged mostly in the last 10 years, and makerspaces have more than tripled in number since 2008.

Open workspaces are used by a wide range of businesses and sectors, but use is particularly concentrated in the creative and tech sectors.

Almost half of business activities within coworking spaces, incubators and accelerators are in the creative industries, with another third in digital technology and 1 in 10 focusing on social impact.⁵



OPEN WORKSPACES ARE CONCENTRATED
IN THE CENTRAL ACTIVITIES ZONE (CAZ)
AND THE SURROUNDING BOROUGHES,
PARTICULARLY

**Hackney,
Islington,
Camden and
Soho**

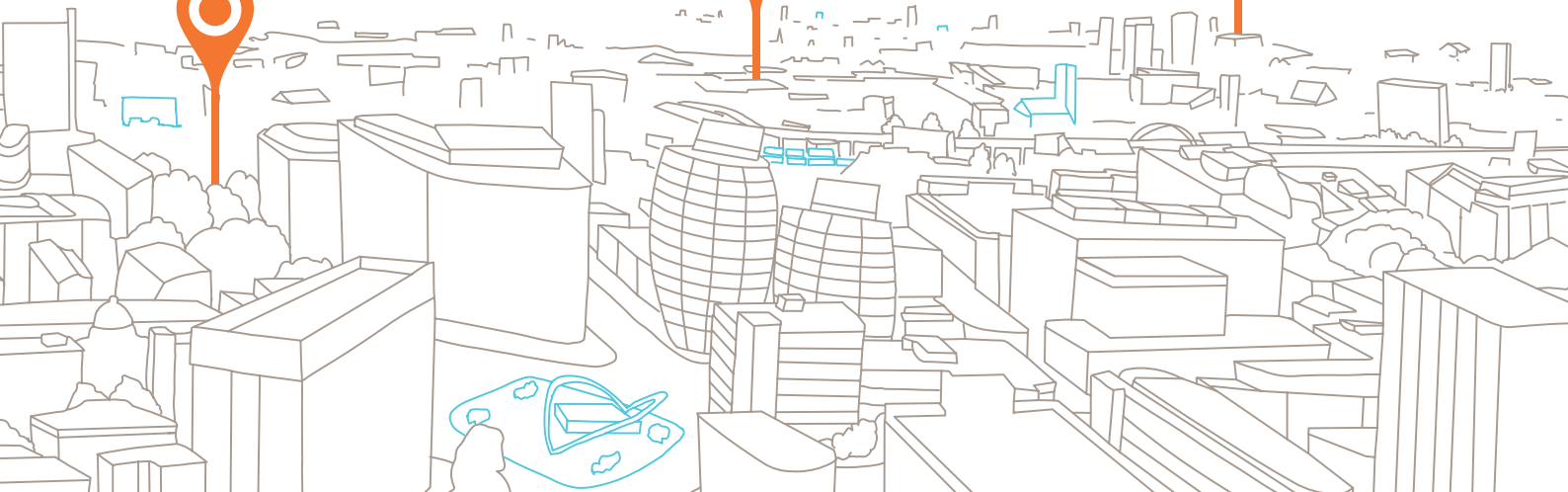
HACKNEY COUNCIL SURVEYED SUPPLY AND
DEMAND FOR AFFORDABLE WORKSPACE IN 2006
AND HAS BUILT A 10% WORKSPACE PROVISION
INTO COMMERCIAL PLANNING RULES

**Hackney now has
almost 100
open workspaces
including new hubs in
Dalston and Hackney Wick**

NEW SPACES CAN ALSO BE FOUND IN

**Outer London boroughs
such as Merton,
Enfield and Brent**

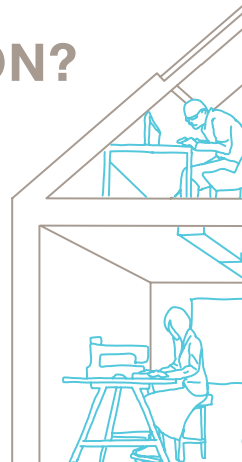
THESE ARE MORE LIKELY THAN INNER BOROUGHES
TO HAVE A SOCIAL FOCUS, AND TO OPERATE
IN PARTNERSHIP WITH LOCAL AUTHORITIES,
CHARITIES OR HOUSING ASSOCIATIONS



HOW DO OPEN WORKSPACES BENEFIT LONDON?

Open workspaces can help small businesses to survive and thrive.

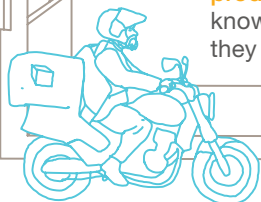
Many young and small businesses lack access to the capital to cover a deposit or market rents, or they might not be able to commit to a year-long lease. Because they let space to many small businesses, **open workspaces can absorb some of the risk of starting businesses**, and offer flexible terms to help entrepreneurs in the early days. This is particularly important for new businesses in the tech sector, which may need to either fold or expand rapidly. Specialist spaces such as makerspaces provide access to equipment for prototyping and manufacturing, like laser cutters and 3D printers, that would normally be too expensive for small businesses.



Open workspaces usually offer additional services to business owners. At the high end of the market, incubators and accelerators offer structured programmes focused on fast growth and expansion. At the cheaper end of the market, some open workspaces work with people struggling to find work or start a business, and offer workshops, classes and guidance to help fledgling small enterprises succeed and business owners to develop confidence.



As curated communities, open workspaces may have clustering effects that **improve users' networks, productivity and wellbeing**. Globally, over half of people working in shared workspaces expect to share knowledge, ideas and new opportunities with other members, and 70% feel quite or very strongly that they are part of a community.⁶



Open workspaces provide benefits beyond their occupants and users.

Open workspaces form part of the ecosystem that makes London a great place to start a business or invest. The sectors that use these spaces are valuable to the city's economy: London's creative sector provides more than 16% of all jobs in the capital and is 25% more productive than average.⁷

By helping people to find work through self-employment or working for a small business, **open workspaces can help to address disadvantage**. If that means people need fewer benefits and services, then this can offer substantial public cost savings too. Many workspaces have explicitly social goals, providing affordable space to charities and social purpose organisations that benefit local communities.

Open workspaces also have the potential to make London a more attractive place to live. They may increase activity on high streets and in residential neighbourhoods, and offer benefits to local supply chains. They can help to ensure the sustainability of London's cultural scene by supporting non-commercial artists, and offer identity and high-quality environments in new and existing developments.

THE PROBLEM: AFFORDABLE SPACES ARE BEING SQUEEZED OUT OF LONDON'S PROPERTY MARKET

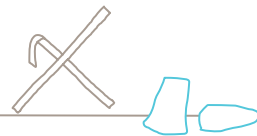
While open workspaces have proliferated across London, office space for small businesses is under extreme pressure.

The price gap between office and residential properties has led to an undersupply of new office space suitable for small businesses. Many open workspaces, established during the recession when demand for property was weaker, are facing rising rents.

Many open workspace providers hold only short leases, of five years or so, or occupy so-called 'meanwhile space', which is only temporarily available – meaning the sustainability of the sector is far from guaranteed. And workspaces with the greatest social and cultural benefits, including workspaces for non-commercial artists, can face the greatest pressure from rising rent and insecure tenancies, if they offer very low rents to users.

The combined cost of living and working in London is higher than in any other city in the world: 70% more than San Francisco, for one. ⁸ If doing business in London becomes too costly then entrepreneurs, creative professionals and small businesses are likely to look to other cities.

Two-thirds of London entrepreneurs consider leaving after a year, and more than three-quarters of those cite high property costs as the reason.⁹

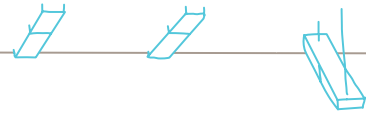




Reforms to permitted development rights are only intensifying this pressure.



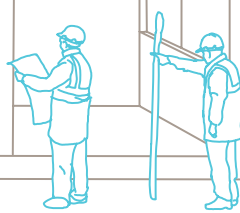
Permitted development rights allow developers to convert offices into homes via an expedited planning process. These rights have been extended and although the central activities zone has been exempt, business space – including open workspace – in boroughs bordering the central zone is likely to be lost to residential conversions.



***Permission for the conversion to residential use of
1.3 million square metres of London office space,
the equivalent of 182 football pitches,
has already been granted.¹⁰***



Lack of affordable housing is a major crisis for London,¹¹ and enabling developers to convert under-used office space may help to meet the demand for 50,000 more houses each year in London. But to be of value to Londoners, housing must be accompanied by opportunities to work and for economic growth.



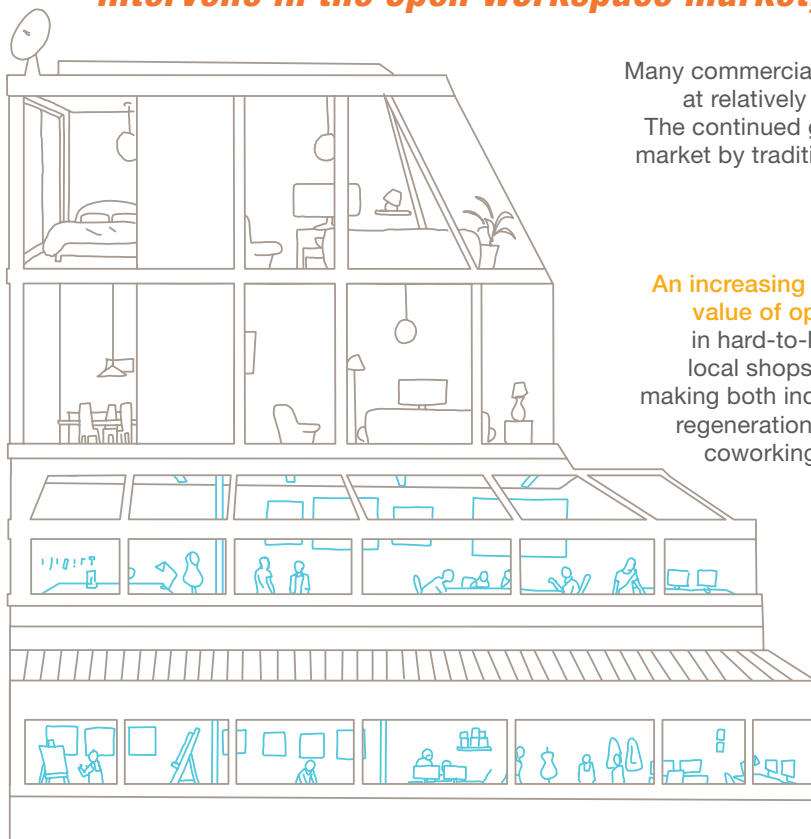
WHEN SHOULD THE GOVERNMENT INTERVENE?

In many cases there is no need for national, regional or local government to intervene in the open workspace market, especially at the higher end.

Many commercial coworking spaces cater for start-ups by offering short leases at relatively high prices, which reflects the value of the space to the users. The continued growth of coworking spaces, and the move into the coworking market by traditional office providers such as Regus, suggests that the market is functioning well in terms of providing this kind of space.

An increasing number of developers and property managers recognise the value of open workspaces. Open workspaces can provide rental income in hard-to-let areas, such as ground-floor spaces, and increase footfall to local shops and amenities. They can also offer substantial asset value, by making both individual developments and local areas more attractive, through regeneration effects and cultural spillovers. Some developers are including coworking spaces as part of 'live-and-work' communities to match their developments to the changing demands of the workforce.

*Open workspaces attract a young, entrepreneurial workforce while limiting developers' exposure to the associated risk.*¹²

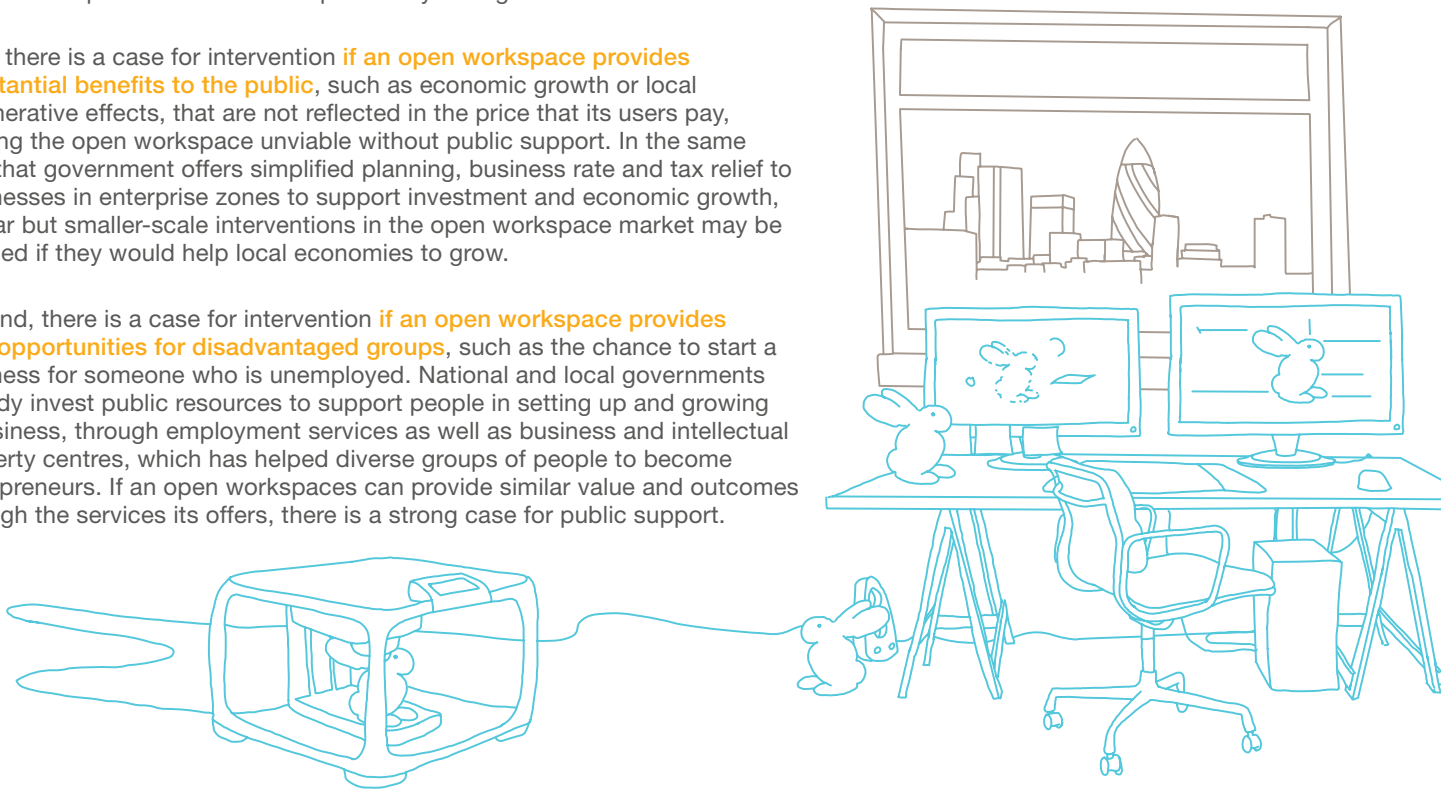


But many housing developers are unlikely to provide open workspaces without planning obligations or public-sector encouragement and promotion.

The case for public intervention is potentially strong in two instances.

First, there is a case for intervention **if an open workspace provides substantial benefits to the public**, such as economic growth or local regenerative effects, that are not reflected in the price that its users pay, making the open workspace unviable without public support. In the same way that government offers simplified planning, business rate and tax relief to businesses in enterprise zones to support investment and economic growth, similar but smaller-scale interventions in the open workspace market may be justified if they would help local economies to grow.

Second, there is a case for intervention **if an open workspace provides new opportunities for disadvantaged groups**, such as the chance to start a business for someone who is unemployed. National and local governments already invest public resources to support people in setting up and growing a business, through employment services as well as business and intellectual property centres, which has helped diverse groups of people to become entrepreneurs. If an open workspaces can provide similar value and outcomes through the services its offers, there is a strong case for public support.



WHAT NEXT?

The GLA and London boroughs should use the tools available to them to protect and promote the open workspaces that offer the best value to London.

Open workspaces can offer significant benefits, by providing infrastructure for new businesses, economic growth, and by making cities a better place to live and work.

These tools may include planning obligations and incentives for developers to offer open workspaces in new builds, the use of regeneration and growth funds to help new workspaces with capital costs, and making better use of publicly owned assets such as TfL's property portfolio to offer sustainable venues for open workspaces.

In deciding when and how to support these spaces, **government should use an assessment of value that reflects the full range of benefits – economic, cultural and social – that open workspaces may offer.**

IPPR's final report in the summer will suggest how the GLA and local authorities can fully assess the benefits of open workspaces, as well as how and when they should intervene.

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