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thinking
Real Estate

ISSUE TEN

Contents

Welcome to the tenth issue of Thinking Real Estate, where we share thoughts and ideas on topics across the real estate industry. In this issue we explore the following themes:

- Climate change: Lead or follow, the role for real estate investors – It is clear that real estate investor priorities towards sustainable development and buildings are changing. But are real estate investors being driven towards investing in green buildings or do they have a leadership role to play in accelerating the sustainability agenda?

- The case for industrial and logistics as part of urban mixed-use development – Industrial and logistics are traditionally seen as dirty and noisy businesses. However, there is also a growing recognition that industrial uses are an essential part of a functioning town or city. When it comes to placemaking could they be a valuable part in urban mixed-use developments?

- Social value: Drivers for change – ESG is now common parlance but sustainability dominates the thinking. While still early days, social value has become a more familiar part of the narrative around real estate investment and development. But how much further does the dial need to move before it becomes accepted as standard?

- Is there a role for the built environment to play in helping to improve air quality? – A recent report by Centre for Cities set out some stark figures about the impact of air pollution. But while lower pollution levels have obvious health benefits, can the built environment play its part in helping to improve air quality?

- The arts and culture in town centre regeneration – Culture and art as part of regeneration is not a new idea. The dominance of retail in recent decades has perhaps side-lined them a little but with retail suffering, could arts and culture be the tool to attract footfall back to the high street?

We hope you're enjoying Thinking Real Estate. If you would like to continue the conversation about any of these topics please get in touch with us directly at thinkingrealestate@trowers.com and continue the debate with us on twitter @Trowers.

MARCH 2020

Climate change: Lead or follow, the role for real estate investors

Are real estate investors being driven towards investing in green buildings or do they have a leadership role to play in accelerating the sustainability agenda?

"I was walking down the street with my young daughter and her friend and her friend started talking about how shocking it was to see the cherry blossom blooming in February. She's 7-years old," says Edmund Costello, Partner at Trinova Real Estate.

His is not an unusual story. The attitude of younger generations, the new and future employees of businesses occupying commercial space, is a driver for changing investor behaviour.

"Occupiers are looking to occupy buildings that represent their business and the way they see what is important in the world," says Costello. "It also helps them to attract talent, the type of space they occupy has a direct impact on the people they secure."

Trinova's investment strategy means buildings are now assessed on their existing environmental performance and what can be done to improve it. And it isn't unique.

This approach could prove a canny move as regulations around sustainability are likely to change. It is not beyond the realms of possibility that the current minimum EPC E rating for buildings could be raised to D or even C in the future, rendering a whole swathe of stock unlettable. Given that new-build only makes up a very small proportion of total stock, it presents a huge challenge.

"Investors have to be thinking ahead to whether there is going to be legislation or a change in regulations. Their tenants could turn around and say: 'When it comes to rent review, if you haven't met the standards, I'll expect that to be reflected in the rent you propose'," says William Clements, Partner at Towers & Hamlins.

What impact this is having on valuations is unclear. Some valuers are pricing in a 'green premium' or the cost of bringing buildings up to standards but not all.

Pressure to act is also coming from other sources. There is FCA consultation underway about climate-related disclosures and various steps have already been taken. But the biggest one that is going to affect institutions and real estate is the 2021 financial institution stress tests when all banks and insurers will be required to include climate-related risk.

"The stress tests could, ultimately, result in lenders having to set aside more tier-one regulatory capital to protect their exposure to assets that have a higher climate risk associated with them." says Katharine Lewis, Partner at Trowers & Hamlins.

"This will push up the cost of capital for investors who are looking to borrow money which is potentially going to make a big difference to the industry," she says.

A lot of institutional investors have signed up to a set of principles for responsible investing set out by the UN. These include incorporating environmental, social and corporate governance (ESG) issues into investment analysis, decision making and seeking appropriate disclosure by the entities into which they invest. Signatories must publicly report on their progress toward implementing the principles.

It's a good step but for green developer Jonathan Smales, Founder of Human+Nature tougher regulations and a change in Government policies are essential for accelerating action and supporting those who already want to make a difference. However, he also believes that investors have the power to leverage change by their investment choices and the demands they make.

"They can say we want to see your clear plans to be carbon neutral at worst, carbon positive at best as a corporate entity in the next five years. Or we want to see you publish an annual sustainability audit of your portfolio," he says.

Some investors, such as Legal & General, have had a green agenda for many years and sustainability is part of the assessment process on investment decisions. As such it means that the cost associated with building to BREEAM excellence and making existing buildings sustainable is already priced into the equation.

Pete Gladwell, Head of Public Sector Partnerships at Legal & General says, "I think what has probably changed has been the urgency with which it's being approached and specifically how we can move the dial more quickly. As an industry, we know more than we did five years ago."

He believes advances in architecture, technology and the use of materials make it a genuinely exciting time adding, "What was considered acceptable before is no longer considered acceptable and that presents an opportunity to invest in lifting the bar."

Legal & General is an example of where investors can lead the way. They develop to high ESG standards but also hold the developers they invest in to the same standard. Gladwell admits that having such a weight of capital and being a long-term investor looking for return over 10-20 years is a huge advantage because of the upfront costs associated with building sustainably or improving existing buildings performance.

It is clear that real estate investor priorities towards sustainable development and buildings are changing and for some, it is about choosing to lead and using their influence but even if it isn't, it makes good long-term business sense.

Demand for greener homes

While occupier demand is helping to drive the shift towards sustainable commercial buildings, with residential the younger generation has less urgency to influence that shift. They are mostly priced out of the market which means they can't express a preference for the type of home and environment they'd like to live in.

"There is such a disjunction between young people's aspirations as customers for housing and what the industry offers," says Jonathan Smales, Founder of Human+Nature.

That offer, he says, is still dominated by volume housebuilders building relatively energy-efficient boxes typically in car-dependent, unsustainable locations.

"Change can't come from the customer side but it can be led by the investor side, by good people," he says.

Human+Nature has several projects underway which focus not just on energy-efficient homes but creating a community and environment that supports sustainable living. It is designed so that everything is within easy walking distance but importantly that the walk is a pleasant experience.

He says the economics for developing such a scheme are sound. If designed well you can use density to create appropriate scale, the challenge is convincing risk-averse investors to back such a scheme.

"It's finding investors that will do everything a little bit differently in terms of urban design, mix of housing etc. when it's been so easy to make so much money in the market. Why take risks? But I'm sure they will come."

Positive legacies may drive change

Amazon's CEO Jeff Bezos recently announced that he was going to set up a fund with $10 billion of his own money to support "scientists, activists, NGOs, any effort that offers a real possibility to help preserve and protect the natural world."

There are a lot of high net worth individuals and family money invested in real estate, could they lead way?

Such announcements as Bezos' are good press and make people sit up and take notice but privately there might also be the strong compulsion to leave a positive legacy.

"I think there is some appeal for high net worth private investors to invest responsibly in environmentally ground-breaking projects because of a sense that they have a responsibility to give something back," says William Clements, Partner at Trowers & Hamlins.

But as with a cash-rich individual like Bezos, it is easier to take risks, to put money in untested new models of development or put in more money upfront without worrying about the return.

"They are not going to lose any sleep if they lose money but they will be very happy if in years to come they are looked upon as being the people that paved the way and took the initial pain of weaker returns," says Clements.

Views from our Interlaw Partners

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International viewpoint: Australia

Hasti Kalarostaghi, Hunt & Hunt

Are you seeing a change in investor priorities with regards to climate change and how is this impacting on their investment decisions?

Whilst climate change is becoming part of the discourse, we aren't seeing any real change in investor behaviour or their priorities. Investment decisions are still driven by the rate of return and the availability of finance.

What would it take to make environmental impact a consideration?

Based on discussions with clients there would have to be a financial incentive (lower rates or other forms of allowances) that makes investing in environmentally sustainable property more attractive for investors.

There is currently a case in the Federal Court of Australia that may instigate a change in attitude and policy. In Australia, we have a compulsory contribution to a superannuation fund (retirement fund). This case relates to a member of a superannuation fund that has filed a suit against the superannuation fund alleging that the fund violated the Corporations Act 2001 by failing to provide information related to climate change business risks and any plans to address those risks. The case was filed in the Federal Court of Australia in July 2018 and is scheduled to be heard in July 2020. The outcome of this case can be a catalyst for change in the way that investors including super funds invest members' funds.

Are there any particular types of investors that might lead the way?

Not really, it appears the younger investors such as the super fund member mentioned above might be a catalyst for change.

Do you foresee any further changes which might influence investor priorities in the future?

In Australia, three schemes are used to identify high performing built environments. NABERS (National Australian Built Environment Rating System) measures things like energy efficiency and all new buildings have to meet the minimum rating. Green Star and GRESB are voluntary schemes incorporating social value. These three schemes are intended to be utilised by investors to access green finance, however, there is not enough information available yet to assess how many investors have taken advantage of this.

International viewpoint: Brazil

Tiago Fantini Magalhães, Manucci Advogados

Are you seeing a change in investor priorities with regards to climate change and how is this impacting on their investment decisions?

Investors in Brazil are increasingly interested in funds that have only sustainable companies in their portfolio. In October last year, a brokerage located in the south of Brazil launched the first investment fund in sustainable companies. On the day of launch, there were already 8,000 people interested. The fund uses indexes such as Corporate Sustainability, Corporate Governance (IGC), Carbon Efficient (ICO2) and Social and Governance (ESG), from Reuters, and actions with high environmental scores for a selection of companies.

What would it take to make environmental impact a consideration?

The Canadian magazine "Corporate Knights" compiles and analyses the sustainability of global companies. In 2019, there were more than 7,500 companies with annual revenues exceeding US $1 billion. Four Brazilian companies were listed. From 2015 to 2019, the list of Brazilian companies has hardly changed and probably reflects a lack of attention to issues related to natural capital. But it is not just a Brazilian situation. The Brazilian government has retreated in its role, demonstrated by announcing its withdrawal from hosting the 2019 CoP. The Brazilian authorities view on climate issues was not welcomed by the world authorities.

What do you think could drive the change in priorities?

Coordinating human intelligence, efforts and nature so that business activities remain profitable, but also sustainable remains a challenge.

Are any particular types of investors leading the way?

There is no clear leadership but there are specific funds for green investments and this has been mobilising entrepreneurs and investors in Brazil.

Do you foresee further changes which might influence investor priorities in the future?

The Brazilian legislator needs to be more forceful in the environmental aspect. There are initiatives, but they are not systematic and organised. It is important to encourage best practices and, on the other hand, to punish those who destroy the environment. The laws and public agencies are attentive, but there is a lack of a systemic structure that can put Brazil on a more adherent level.

THE CASE FOR INDUSTRIAL AND LOGISTICS AS PART OF URBAN MIXED-USE DEVELOPMENT

Industrial and logistics, dirty, noisy businesses, in ugly buildings: why would you want that as part of your urban development mix? What value could it add?

The poor cousin to other uses, industrial and logistics space is often isolated into specific locations but when it comes to social value and placemaking it could have an important role to play in towns and cities.

Technological advances mean it is less about smoke and chimneys than it once was, potentially making it a less intrusive neighbour. There is also a growing recognition that industrial uses are an essential part of a functioning town or city. Add to that the pressure on local authorities to maximise the use of urban land and provide sustainable communities, bringing employment closer to residential areas could provide a solution.

There is also a positive case to be argued for light industrial and logistics' contribution to social value.

ESG topics are rising up the agenda for both businesses and local authorities and providing space for light industrial and logistics helps maintain, and create, a broader range of jobs, ensuring that developments benefit the wider community.

More localised distribution and jobs can help reduce commercial vehicle journeys and commuting which is better for the environment.

The industrial sector is not facing the same drop in demand and oversupply as retail, the opposite in fact, but local authorities could be an important driver for facilitating light industrial and logistics as part of urban mixed-use schemes.

Currently, other higher value uses have eaten into the supply of urban land for light industrial and last-mile logistics. The Greater London Authority's draft London Plan is an example of how to redress this. It does not put a red line around existing industrial land but rather seeks to encourage more intense industrial use and mixing in other uses where it is appropriate.

In doing so, it is possible that industrial spaces can fulfil multiple requirements placed on the use of land.

> **"Manufacturers and other industrial users are also not immune to the growing pressure from the workforce to provide that elusive work/life balance,"**

says Fiona Thomson, Partner at Trowers & Hamlins. “Proximity to family and leisure facilities and an appealing working environment is important if they are to hold on to a talented work force.”

This does require greater consideration of placemaking in mixed-use schemes. “Local authorities are becoming more commercial in terms of delivery, they are willing to put up the land and act as co-investor in retail regeneration schemes, much of which is about adding in a broader mix of uses,” says Rebecca Wardle, Partner at Trowers & Hamlins. “Over time that mix will, I suspect, include an element of light industrial.”

On paper, light industrial and logistics tick a lot of ESG boxes, the problem is that there are few schemes which demonstrate how they can successfully integrate with residential in a way that doesn’t detract from overall value and which helps create a sense of place.

It’s not a sector designers traditionally focus on when considering placemaking. But discussion within the industry about the ‘beds and sheds’ conundrum is starting to translate into development which could help demonstrate the value in real terms.

At Hackney Wick in East London, industrial land earmarked for regeneration fell within the Olympic Park legacy zone. The London Legacy Development Corporation wanted to transform the site while remaining true to its traditional uses. In the distant past, the area would have been a mix of residential and different employment uses. In more recent decades uses have become more compartmentalised.

The final scheme designed by dRMM architects has 175 homes over light industrial, retail and workspace, not only creating something that is more authentic to the area’s historic past but also generating a broader mix of jobs and space for existing businesses who might otherwise have had to move out of the area.

Design plays a key part, at Hackney Wick, light industrial (creative workshop space) is fully integrated, it is part of the ground-level activity in the main thoroughfare.

While industrial values don’t match historic retail values, it can help with creating a diverse portfolio.

Wardle says, “From a financial perspective you are not putting your eggs in one basket which means you diversify the risk. And if you have a scheme which is flexible enough in its design you can move with changing market demands.”

The rationale behind adding light industrial and logistics into urban mixed-use schemes is compelling but there are still challenges to overcome before it becomes more acceptable.

Social value needs a set of standards, a benchmark against which is can be measured, similar to BREEAM ratings for sustainability. The property industry thrives on precedence, evidence and accepted measures and while social value is a much more important part of the dialogue there is, as yet, no means for demonstrating the benefits to investors and developers.

Investors are assessed according to their ESG credentials but on a per-project basis, there is no one way of capturing things like biodiversity credentials, well-being benefits, jobs and skills creation.

“Measuring the social value of industrial uses remains a problem as it does with all use classes but solving that problem could help the case for adding it into the development mix,” says Yvette Bryan, Partner at Trowers & Hamlins.

“It is very hard to quantify, at the moment, how one mix of schemes is better than another in social value terms, or whether it will deliver an extra X pounds of value to society. However, there does seem to be a lot of interest amongst investors and developers, as it is another way of measuring themselves and their performance against their peers.”

SOCIAL VALUE: DRIVERS FOR CHANGE

While still early days, social value has become a more familiar part of the narrative around real estate investment and development. But how much further does the dial need to move before it becomes accepted as standard?

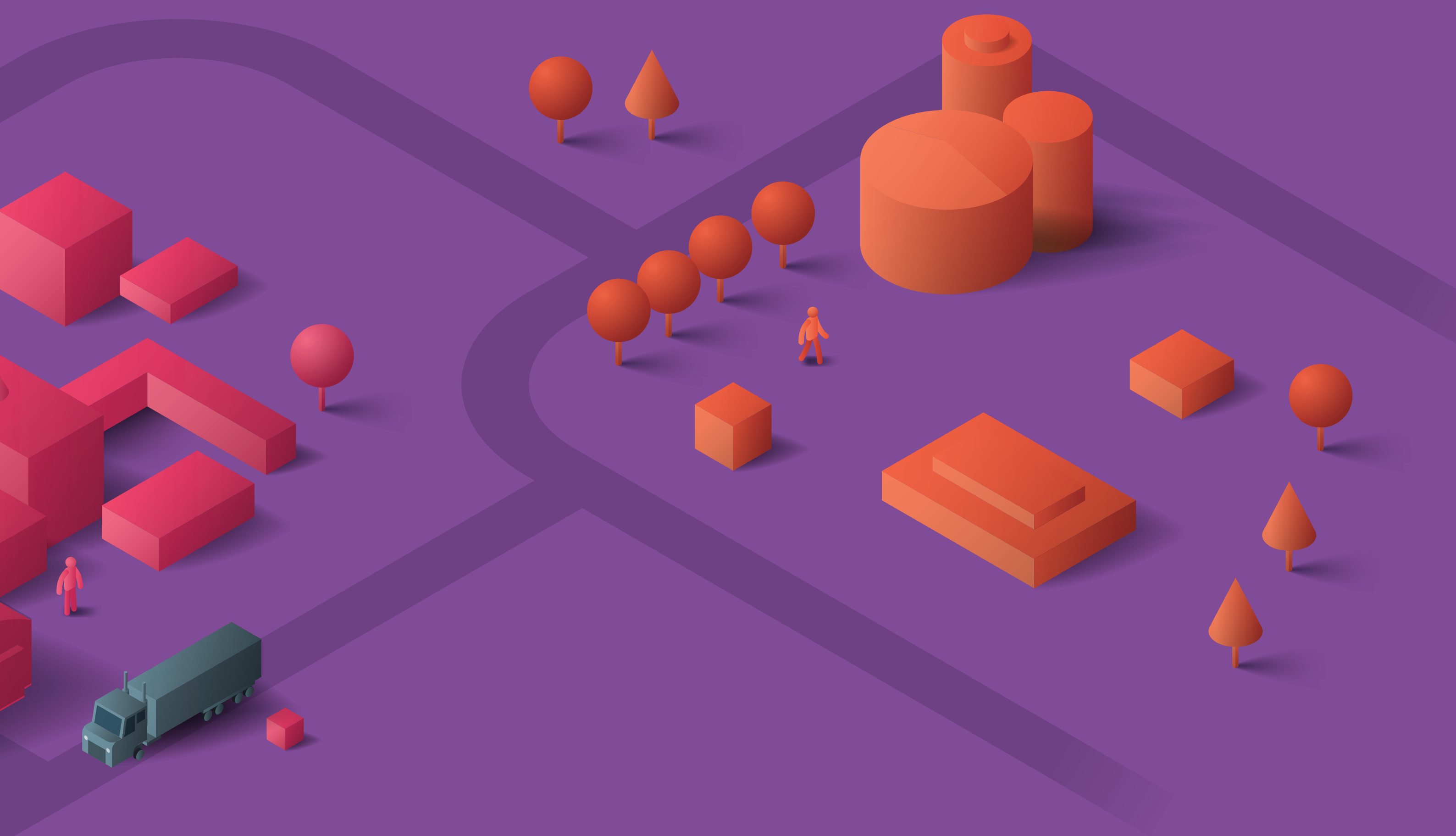
ESG is now common parlance but sustainability dominates the thinking and with good reason. The impact of climate change is tangible and reducing the impact of buildings is measurable while social value is a more abstract concept at present.

While social value is intrinsically linked to sustainability – less pollution and healthier environments for example – for broader social impact to be viewed in the same light, its direct value to the property industry needs to be demonstrated. Property is a business after all.

That doesn't mean that social value isn't measurable, quite the opposite, the race is on to create a suitable model that could become the equivalent of BREEAM. Having a planning system which actively encourages, and gives legal obligations, towards social value would also be a huge help.

At present, the public sector, when procuring developers and contractors are constrained by a valuation system as outlined in the Green Book which dictates 'best consideration' for any project. But without being able to measure social value it makes it difficult to demonstrate as part of the 'best consideration' equation.

"In reality, it is also about how the public sector defines the outcomes, what it needs from any project. But while there are aspirations and ways you could do it the public sector is not necessarily geared up to get this right consistently," says Sara Bailey, Partner and Head of Real Estate at Towers & Hamlins.



The Government has promised a review of the Green Book which could be an opportunity to embed social impact within planning, making it part of the legal framework.

In the meantime, the public sector is using what tools it has to drive change towards inclusive growth. The West Midlands Combined Authority, for example, has created a clear design code, Chief Executive Deborah Cadman explains, “If local people and businesses can’t touch, taste and feel the benefit of the growth that we deliver, then that puts a big question mark over the legitimacy of that growth,” she says.

It requires bravery and being prepared to let potential partners walk away, she says, but the industry has been receptive, “What we found is that developers want to sit around the table and have that conversation, very few have walked.”

Social value principles are also filtering into real estate investment decision-making at a high level.

“You have a lot of institutions beginning to say that they’re only going to work with fund managers and investors who have, environmental, social and governance policies that have signed up to various accreditations,” says Edmund Costello, Partner at Trinova Real Estate.

But he says not having a global standard to work towards remains the biggest barrier at present. Which is part of the reason developers like Jonathan Smales founder of Human+Nature can sometimes find it hard convincing investors that inclusive and sustainable development is economically viable.

Their 5,000 home development in Norfolk is not only carbon positive but also designed for people who live on average incomes. “Building a scheme that is radically affordable has implications, from infrastructure to the buildings themselves to the way people move around. It’s an incredible test for a developer to say that what you have to do is smaller homes, more affordable homes and greener homes.”

Investors such as Legal & General are making social value a bigger part of what they do. It sees the longer-term business benefits of ‘inclusive capitalism’, investing in a way that benefits a wider group of people and can help address inequalities.

Initiatives include LGIM Real Assets making a commitment that 20% of its commercial property holdings will have a ‘social value score’.

This involves assessing the wider social impact of its buildings with the aim of having both an economic value and a social value ascribed to each. It puts the holistic value of the built environment firmly in the spotlight, provides transparency and enables investors to make informed decisions about where their money is going.

Similarly, Legal & General Homes has also made social value part of all the communities it is involved with. At its Crowthorne development in Berkshire, it has worked with Social Value Portal to develop the UK’s first Community Social Value Charter. This sets out what Legal & General are going to create and enables the community to hold them to account.

“I think it would great if more people were embedding consideration of social value into each of their investment processes, although I’m not saying we are the only ones focused on it – because we are not,” says Pete Gladwell, Head of Public Sector Partnerships at Legal & General.

“Our aim at the moment is to increase both the depth and breadth of analysis around the impact our investments have, and hope that others come with us as it needs to be a broad church.”

Is there a role for the built environment to play in helping to improve air quality?

A recent report by Centre for Cities set out some stark figures about the impact of air pollution.

In London, there were estimated to be 3,799 deaths in 2017 caused by PM 2.5 – the fine particles of pollution in the air. In Birmingham, that figure was 1,182.

But while lower pollution levels have obvious health benefits, is there a role for the built environment to play in improving air quality?

Transport is one of the biggest contributors to pollution and local authorities hold a lot of the power to change how people and goods get around. In London, the introduction of ULEZ (ultra-low emissions zone) has resulted in 13,500 fewer polluting cars in central London each day and a 36% reduction in roadside nitrogen dioxide (NO2). In a similar move, Bristol City Council has announced that it will instigate a ban from 2021 on privately owned diesel cars entering certain parts of the city during the day.

Private car ownership has arguably reached its peak and some local authorities are looking to trial car-free development. That can be seen as a stick in changing behaviour but there is also a potential carrot for developers.

Many housing schemes are still designed with two-car families but some developers are taking a different approach and allocating space with an eye on future uses and value.

“Some schemes are being designed with car parking that doesn’t sit with the property,” says Georgina Savill-James, Partner at Towers & Hamlins.

“You have the right to use the space but it stays under the developer’s ownership so that 10 years down the line it can potentially be used for something else. We need more flexibility like this.”

The industry obviously has an important role to play in developing buildings that are more energy-efficient, reducing the use of polluting fossil fuels for heating and cooling. Upfront costs are often higher but savings can be made in the longer term. Some local authorities, such as Exeter City Council are leading the way, adopting Passivhaus standards (see case study).

“I think placemaking has a role and responsibility in the built environment,” says Neil Biswas, Partner at Trowers & Hamlins.

“On larger projects, you can take a holistic approach, ensuring it’s not designed around the car at all, but encourages walking, cycling and use of public transport.”

There is a legislative stick for developers. Last year the UK Government introduced a requirement for net biodiversity gain on all new developments. This requires developers to ensure wildlife habitats are left in a better state than they were pre-development.

The Berkeley Group has already started implementing net biodiversity gain on its developments and is starting to reap the rewards. Working with wildlife charities on schemes such as Kidbrooke Village, it has opted for planting and landscapes that are less manicured but more wildlife-friendly.

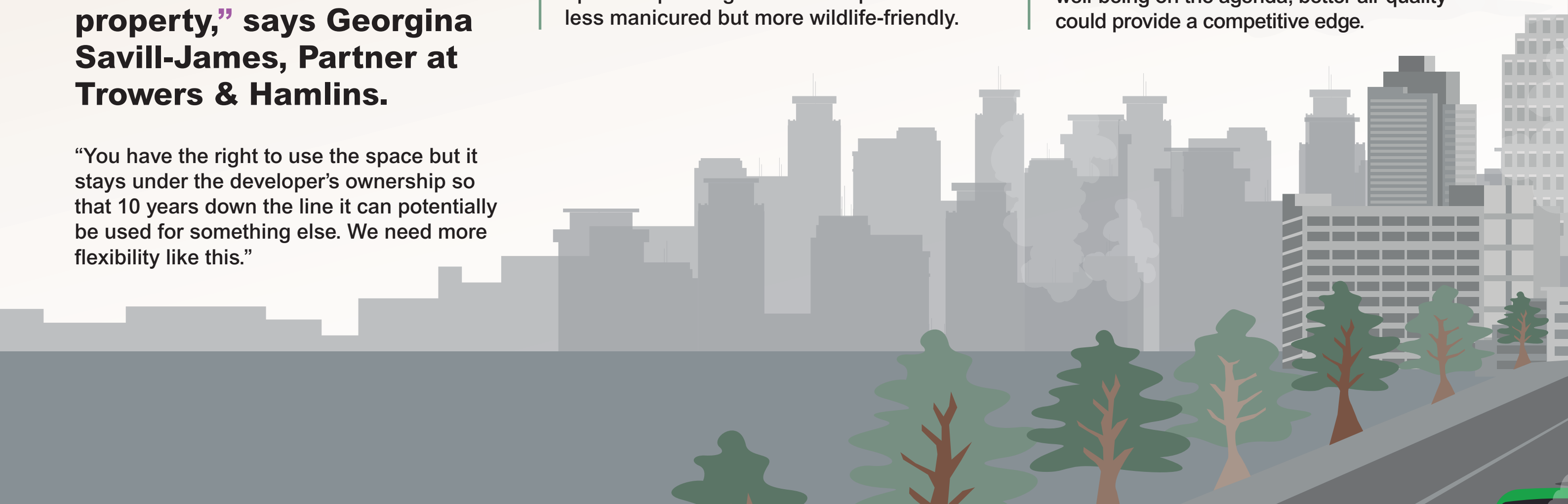
It will take a few years to mature but as well as attracting wildlife and keeping air cleaner, it’s also encouraging more residents outside. Writing on The Berkeley Group blog Group Chief Executive Rob Perrins said, “Berkeley’s experience with net biodiversity gain has been hugely positive on many levels. The true environmental and social value will become clear once more of our nature-rich landscapes mature.”

But, the broader social value of things like cleaner air is still unknown. There is growing evidence that sustainable buildings are becoming more attractive to certain investors but the impact of improved air quality is still a grey area.

If the overall social value could be determined, this would help incentivise the industry into helping to improve air quality as part of any scheme. Research by Harvard University already shows that the quality of air in the workplace directly impacts productivity.

For businesses, the biggest cost is staff and keeping people happy and healthy means providing a good work environment,” says Biswas. “If you can improve productivity by a small per cent, through improvements in air quality that’s a massive potential impact on businesses.”

Ultimately ensuring good air quality both inside and outside a building has to be an incentive to developers. The Centre for Cities report draws direct comparisons between towns and cities and their pollution levels and with health and well-being on the agenda, better air quality could provide a competitive edge.



Case study: Exeter

Exeter has set itself a target of being carbon-neutral by 2030 and improving air quality will be both a part and a consequence of meeting that target.

Transport plans include introducing ULEVs (Ultra Low Emissions Vehicle) to the council's fleets, taxi's, car-sharing and electric bicycles for short city journeys. Exeter is looking to trial car-free development in the city centre while increasing the number of electric charging points.

Exeter City Living, the council's private development company is tasked with leading the way in developing low carbon housing developments across the city – disrupting the volume house building model and giving home purchasers and renters greater choice over the type of home they can live in. All of Exeter City Living homes are Certified Passivhaus homes that are Building Biology Compliant (and therefore very healthy) and climate resilient to at least 2080. The developments also look at ways how landscaping and green space around the city can improve air quality and biodiversity.

"Placemaking is really important. Our new developments adopt permaculture landscaping principles and this also forms part of our climate mitigation strategy," says Emma Osmundsen, Managing Director at Exeter City Living Group.

"The right landscaping design can have a direct impact mitigating climate change and hotter summer temperatures by helping to reduce internal temperatures, for example by the creation of an orchard effect of enclosed tree canopies in courtyard areas. Not only does this help provide improved comfort for home occupiers in hot summers but it helps filter air pollutants and reduce energy usage from avoiding the need for air-conditioning."

The council has already delivered over 100 affordable homes which meet Passivhaus standards and Exeter City Living is looking to deliver over 600 open market homes with the same sustainability criteria.

Ensuring new development plays its part in improving air quality is only a small part of the challenge. "We have just started applying some of these principles to some of our existing council housing stock, where we have been trialling some deep-retrofit solutions," says Osmundsen.

The arts and culture in town centre regeneration

Michael Bloomberg once wrote, “Culture attracts capital more than capital attracts culture because the arts are a magnet for dreamers and innovators from every walk of life.”

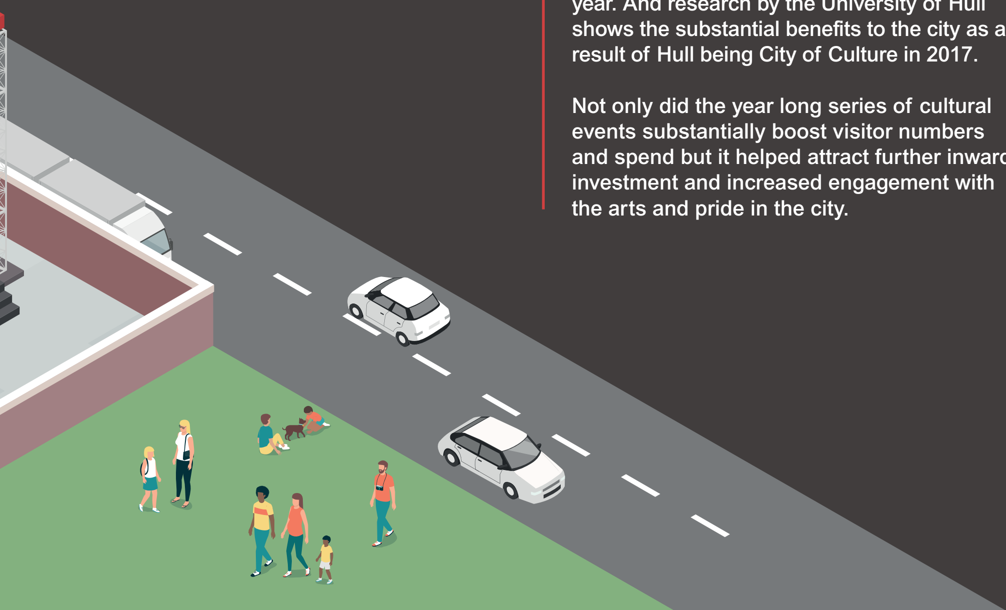
Towns and cities across the UK are hoping he is right as local authorities and developers look at different uses to help generate footfall and revitalise their centres.

Culture and art as part of regeneration is not a new idea. The dominance of retail in recent decades has perhaps side-lined them a little but with high street retail suffering, the search is on for a broader mix of uses.

“Arts and culture are increasingly being discussed as a way to bring people into town centres to increase the footfall throughout the day. You didn’t hear that discussion a couple of years ago,” says Suzanne Benson, Partner at Towers & Hamlins.

And there are wider social benefits too as Chris Rundle, Partner at Towers & Hamlins explains,

“Having more localised activity can help reduce car journeys but it also gives a reason for people to go out and be social which is good for health and wellbeing.”



Adding a theatre, gallery or music venue to your town centre can be a draw, diversifying the offer, helping to create brand and identity but it isn’t an easy fix and neither is it easy to pull off. Cultural uses aren’t always commercial ventures. How do you keep them inclusive and make them pay if you are a private developer or, for the public sector, pay for them if they need subsidising?

Those that are thinking about boosting their arts and cultural offer would do well to look at the failures of the past as well as the successes.

The Public in West Bromwich is a case in point. Designed as a multipurpose venue and art gallery it opened two years behind schedule and over budget but the running costs proved too much and in 2013 it closed and is now a college.

In Birmingham, the council chose to build a new library in the heart of the city centre as part of its regeneration strategy, designing it to be a distinctive architectural feature. It houses important collections, has community space and events and attracts nearly two million visitors a year. But its running costs are a financial challenge, particularly as local authority budgets have been slashed.

That doesn’t mean art and culture projects can’t be successful. The New Gallery in Walsall is celebrating its 20th anniversary this year. And research by the University of Hull shows the substantial benefits to the city as a result of Hull being City of Culture in 2017.

Not only did the year long series of cultural events substantially boost visitor numbers and spend but it helped attract further inward investment and increased engagement with the arts and pride in the city.

Both Manchester and London are embedding culture and arts into their ongoing economic strategies not only to boost footfall but diversify activity.

“Part of the push on the arts and culture is to make Manchester more appealing for families and older people,” says Benson.

It is something the property industry gets in Manchester and has done for many years. Developer Bruntwood has long had a connection with the arts not only sponsoring the Manchester International Festival but since 2005 the Bruntwood Prize – the country’s foremost playwriting award.

Allied London has teamed up with Manchester City Council and is developing the £110 million multi-disciplinary arts venue The Factory as part of its regeneration of the former Granada TV Studios. It will be a permanent home for MIF as well as hosting events and activities all year round. The council expects it to add 1,500 full-time jobs and up to £1.1 billion to Manchester’s economy over a decade.

The Heart of London Business Alliance which includes property businesses among its members is launching a culture and arts strategy to build on the areas existing destinations such as the Royal Academy of Arts. It wants to create more varied activity to appeal to a wider range of people.

For example, it has just launched a trail of interactive bronze statues around Leicester Square. Themed around the location’s movie connections it includes star names from Laurel & Hardy to Batman, Mr Bean and Paddington.

Plymouth City Council has also been looking at different drivers for economic development including culture and arts. It has good pockets but wants to broaden the offer and make it more inclusive. As well as enhancing and extending what is already in the city, the council is building The Box a £46 million cultural destination including a museum, gallery, cafe and bar. It is set to open to coincide with the anniversary of the Mayflower and will form the cultural heart of the city.

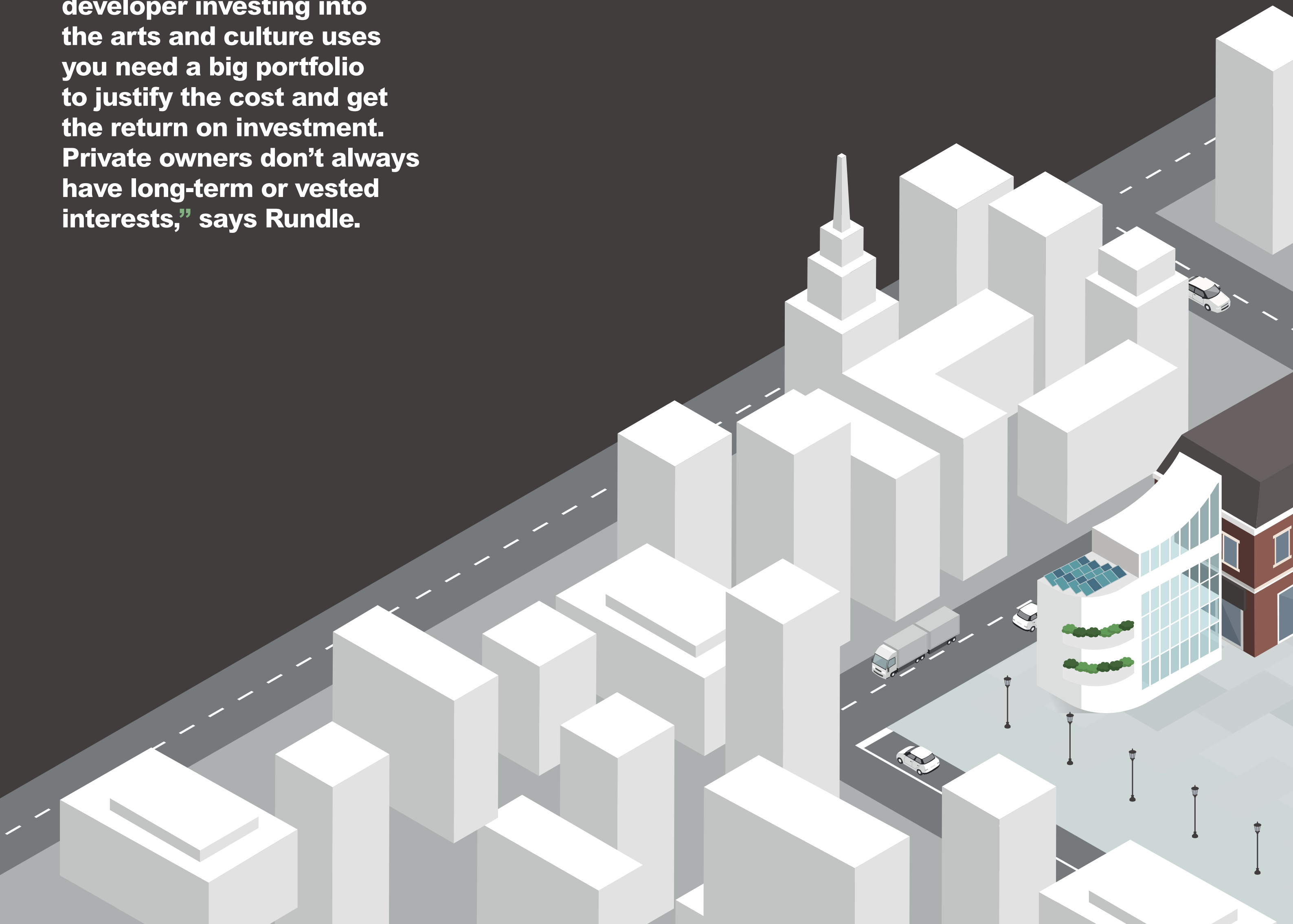
With more retail space available there is an opportunity to leverage public sector assets for lower income uses and larger developers and landlords are in a similar position.

"If you are a private developer investing into the arts and culture uses you need a big portfolio to justify the cost and get the return on investment. Private owners don't always have long-term or vested interests," says Rundle.

Urban Splash is an example of how well it can work for the private sector as part of a larger commercial scheme. At its Royal William Yard regeneration project in Plymouth, galleries and creative workshops are part of a commercial and residential mix, together with a programme of events and sporting activities.

As a result, it has become a popular destination and was ranked as one of the UK's 'greatest experiences' by the Lonely Planet last year. And, this year it won the Business Insider's placemaking award.

When it is carefully thought through, art and culture can be an important part of a vibrant regeneration strategy helping to create a distinctive and attractive town or city centre. The hard part is ensuring the benefits aren't outweighed by the development and running costs.



Case study: Art vs library

In 2016, the city council in Helsinki, Finland voted against a proposal to have a Guggenheim Museum in the city.

The reason? The cost to taxpayers and the risk of not getting the anticipated visitor expenditure.

In 2018 the city inaugurated The Helsinki Central Library Oodi. Libraries are part of Finnish culture, every municipality has to have one but this isn't the first in Helsinki.

Oodi, however, is far more than a library. It is described on the website as a 'living room for residents' offering a wide variety of services and activities and actively encouraging people to meet, work, study or hang out in the space – or play and create.

A third of the space is for books the rest is for meeting or activities including areas where you can develop new skills such as 3D printing or using a sewing machine. You can borrow a musical instrument and there is space to make music. There are also places to eat and have a drink.

It is publicly funded but costs are kept down by the use of technology such as robots for stacking shelves. The decision to reject the Guggenheim but fund a library is an interesting one. It suggests that the council saw better value (monetary and social) for the people of Helsinki in giving them Oodi, a space that encourages interaction, activity and learning.

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