

Report Summary

ECONOMIC BENEFITS OF CITY ACTIVATION & RENEWAL

INTEGRATED
DESIGN
COMMISSION SA
IMPROVING
LIFE THROUGH
DESIGN



Government
of South Australia

Adopted Study Method

There are two common interpretations of 'economic evaluation' in public policy. The first concerns the estimation of direct and indirect employment and income effects of some stimulatory initiative on the part of government. This involves the use of an input output model.

SGS Economic and Planning routinely provides this kind of economic evaluation. However, we do not think that it is particularly suited to the Renew project's requirements. These stimulus modelling exercises are always open to the criticism that governments could have achieved similar or better multipliers by pursuing some other program. Moreover, there is the criticism that such simulations do not account for crowding out effects, that is, the economic activity displaced by stimulating a particular sector.

The second type of economic evaluation is a social cost benefit analysis. This seeks to measure the net gain in community welfare from a particular program or initiative. Treasuries around Australia generally require a rigorous social cost benefit analysis to accompany new program or project proposals.

Such an analysis distinguishes between 'net welfare' and 'transfer' effects. That is, it looks to measure improvements to community wellbeing as a whole, and sets aside those aspects of a program which merely shift economic activity from one location to another.

Consequently, SGS's recommendation was that a social cost benefit analysis approach be applied to assessment of the triple bottom line benefits of future similar projects.

The *Renew Newcastle* project was chosen as a case study example to test the economic valuation model advanced by SGS.

The original report *Economic Evaluation of 'Renew' Projects* was prepared for Renew Australia, by SGS Economics and Planning Pty Ltd in partnership with the Integrated Design Commission. The report was commissioned by the Integrated Design Commission SA.

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Introduction

Cities the world over are growing. While this includes new greenfield development, the most sustainable urban form comes when we better utilise existing buildings and spaces.

Active streets and shop fronts attract more people, are generally safer and are more financially sustainable. However, cities ebb and flow and when places decline, empty shops and vacant streets can be seen as a burden.

Working with economic consultants SGS, and the Renew Australia program, the Integrated Design Commission SA asked: *How can we measure the economic benefits of city activation and renewal?*

The resulting study confirms what experience has already shown; that enabling 'creatives' and entrepreneurs to play a leadership role in our built environment grows the social, environmental and economic base of a place. Economic analysis identifies a return on investment – a benefit cost ratio – of more than 10:1 for programs like 'Renew Newcastle'.

Promoting creativity results in vibrant laneways connects people with places, attractive streets and spaces and stimulates small scale commerce. But to get there we need to address both the institutional and cultural barriers to the creative use and reuse of city spaces, and we need to develop active strategies to create a culture of support for low scale, high impact programs like the 'Renew Adelaide', and the many individual entrepreneurs outside enabling programs like Renew.

Executive Summary

We all love creative, surprising public spaces. However there are significant barriers to the cultural re-vitalisation of urban centres. Identifying and removing these barriers not only brings life back to our streets but also yields financial returns.

The obstacles to achieving activation, include:

- Lack of incentives to encourage building owners to occupy and maintain empty spaces, particularly in areas of low market value;

- Lack of financial support for creative and cultural industry start-ups.

- Limited availability of small to medium-sized affordable building stock.

- Restriction in building code requirements.

- Lack of training, support and research into the specific needs of creative enterprises.

- Lack of good data collection, preventing some of the real 'positives' being reliably quantified.

The *Economic Evaluation of 'Renew' Project*, report demonstrates that these barriers are not insurmountable and the cost-benefit analysis of activation projects provides clear evidence of an economic multiplier effect of a factor greater than ten times any investment in both direct and indirect benefits.

With operating costs comparatively low, the flow on benefits from activation projects include:

- Creation of new jobs.

- Development of skills.

- Volunteer engagement.

- Creation of intellectual capital.

- Mitigation of blight.

- Improved business and community confidence and regional brand value.



Growing a creative class culture: the economics of city activation and renewal

Thinkers like Marcus Westbury, the original author of *Renew Newcastle*, have shown that revitalization of urban spaces does not only come from new mega-projects, but can be low cost if we harness the capacity of a cities' creative class.

In the 1960s, urbanist and advocate Jane Jacobs argued that a city needs a diversity of cultures and professions - that artists, musicians and performers are as vital to an area's vitality as is finance and industry.

The interaction of diverse population (creative types, those with resources, those with needs) in a dense urban environment is a critical engine of innovation and economic success.

This is the first time that the *Renew Newcastle* experience has been evaluated for its economic impact. Until now, people have relied on anecdotal evidence to build the compelling case for investment in urban renewal.

We hope this research can be used by young entrepreneurs and creatives, decision makers, local councils and State Governments around Australia to support low cost culture-led city activation and renewal.

This study has confirmed what experience has already shown; that encouraging creative entrepreneurs to participate in the built environment grows the social, environmental and economic sustainability of a place. Rigorous economic evaluation has identified a return on investment – a benefit cost ratio – of more than 10:1 for projects such as the *Renew Newcastle* program (refer Cost/Benefit Analysis table on page 4).



Be Free



The Renew Concept

Renew Newcastle

Renew Newcastle is a not-for-profit company established to find short and medium term uses for buildings in Newcastle's CBD that are vacant, disused, or awaiting redevelopment. The program aims to find artists, cultural projects and community groups to use and maintain these buildings until they become commercially viable or are redeveloped.

The *Renew* concept leverages otherwise vacant real estate assets and the public infrastructure investment attached to these assets (roads, footpaths, transport services etc).

Renew Newcastle was the pilot project under this concept. This model was designed to be adapted in other locations across Australia.

To date, the *Renew* model has made negligible demands on the public purse. The original business model relied on private financing, which in any case was modest. Premises are licensed on a rolling 30 day licence to enable property owners to swiftly resume control in the event of a 'better offer'. So while there is little commercial opportunity cost associated with a renewal project like *Renew*, its benefits can be measured.

The economic evaluation is a social cost benefit analysis which seeks to measure the net gain in community welfare from a particular program or initiative. Such an analysis

distinguishes between 'net welfare' and 'transfer' effects. That is, it looks to measure improvements to community wellbeing as a whole, and sets aside those aspects of a program which merely shift economic activity from one location to another.

Meanwhile Project (UK)

The *Meanwhile* project is a UK based organisation that promotes the temporary use of vacant buildings or land for socially beneficial purposes until such a time when they can be brought back into commercial use. It makes practical use of the 'pauses' in property processes, viewing empty buildings as a social and economic objective unrealised.

Meanwhile presents the case for temporary uses of vacant buildings and land as beneficial to property owners, property leases (often community groups, artists, exhibitionists, charities or social enterprises), and the wider public.

Arts Habitat Association of Edmonton (Canada)

Similar to the *Renew Newcastle* project, the *Arts Habitat Association (AHA) of Edmonton* sees the arts and artist communities as central to urban revitalisation. *AHA Edmonton* believes that through the nurturing of the arts, the 'brand value' of the city can be enhanced. Unlike the *Renew Newcastle* project though, the

AHA Edmonton project seeks longer-term and relatively more capital-intensive projects.

AHA Edmonton, established in 1995 are a non-profit company engaged in finding, developing and managing safe, affordable and appropriate living and working spaces for artists in Edmonton, Canada. *AHA Edmonton* views the arts as central in the revitalisation and development of communities, and are an active member in city revitalisation projects.

In contrast to *Renew Newcastle*, the *AHA* initiatives aim to find long-term space for participants, which often also comprise a residential component. In doing so the *AHA* initiatives are relatively capital intensive compared to the low capital nature of *Renew Newcastle* projects.

LION ARTS CENTRE



Cost and Benefits of culture-led renewal

Benefits of renewal projects

1. Creation of jobs for people who may otherwise have only had sporadic engagement with the labour market.
2. Skills development, including business management and enhanced leadership in the local community.
3. Creation of intellectual capital, some of which will be of commercial value.
4. Additional volunteer engagement benefit to the volunteers.
5. Improvement in amenity and avoidance or mitigation of blight and the attendant propensity for crime and anti-social behaviour.
6. Improved business and community confidence in the local area.
7. Improved regional 'brand value' with consequential benefits in tourism and inward investment.
8. Cost savings due to reduced maintenance/ insurance costs of unused spaces.
9. Society wide benefits through volunteer engagement.

Operating costs

The delivery costs associated with renewal projects include:

- Advertising and marketing.
- Printing and postage.
- Travel and other miscellaneous expenses.
- Contractor expenses.
- Insurance expenses.
- Repairs and maintenance.
- Staff salaries.
- Other administrative costs.

Creation of new jobs

In providing commercial space free of charge or at a nominal rate, renewal projects encourage and support artists, cultural projects and community groups to undertake commercial ventures and community projects. Without these initiatives, these outcomes may not have occurred, as the associated start-up costs and risks may be considered excessive. In this sense, renewal projects act as catalyst for independent economic activity by enabling people to engage in more commercial economic activity which they might not otherwise be doing.

Renewal projects are likely to have direct effects of increasing employment in the area. Individuals participating in the project would previously be considered underemployed or unemployed and

therefore renewal projects often involve the creation of new jobs.

Additionally, where projects succeed there are long-term employment benefits. The researched showed that Renew Newcastle increased the income of around 29 individuals.

Skills development

For artists, cultural entrepreneurs and community groups, the opportunity to run a small business provides experience in a wide range of business management and leadership skills.

These could include, but are not limited to:

- Creative and technical skills.
- General business management skills.
- Sales and accountancy skills.
- Human resource management and coordination.

This 'on the job' training presents savings to the participants when compared with formalised skill training sessions. And since the 'training' occurs in shop fronts at street level, more active street scapes result in leading to more active, safe and lively parts of the city.

Volunteer Engagement

City activation projects, such as *Renew Newcastle* offer volunteer opportunities. These opportunities enhance the overall social capital of the location or suburb and can be seen to provide stimulation, enjoyment and fulfilment for individual volunteers.

In addition, volunteer engagement generates resource savings for projects and society as volunteering enhances the productive capacity of the location or project without financial costs. For instance, volunteers engaged with *Renew Newcastle* repair and improve the condition of public and private spaces in the precinct, including undertaking repairs, cleaning graffiti, cleaning the dusty facades etc. These are costs that Government (i.e. society) would have otherwise incurred.

The benefits of volunteering are mutually advantageous. Volunteers gain from contributing to the community and the project gains from the resource savings.

Renew Newcastle staff revealed that 14,257 volunteer hours were devoted to projects within the initiative.

The Australian Bureau of statistics reports that volunteering in Arts and cultural enterprise is consistently below that of other sectors like Sport, Religious or Education organizations. So initiatives like *Renew Adelaide* also engage an audience that research tells us is yet to be harvested to their potential.

Creation of Intellectual Capital

In his book, *The Rise of the Creative Class*, Richard Florida maintains that communities which draw on the talents of people who think creatively will thrive.

Providing space for artists, cultural projects and community groups to engage in commercial activities presents an opportunity for the creation of intellectual capital, which also has a commercial value.

The creation of intellectual capital might manifest itself in the greater choice and quality of local products available to city visitors and residents.

The greater choice of art and cultural experiences or products in itself represents higher value for society. However, traditional economic models find it difficult to measure the benefit.

Monetizing and valuing the intellectual capital of ideas is difficult for conventional economic models. As it requires estimating the value of intellectual property created by the author, which is not be easy to establish from existing data sources.

So the, creation of intellectual capital, whilst being acknowledged as a benefit, is not yet able to be quantified. Meaning the cost benefit in this study may well underestimate the value that culture-led renewal contributes.

Mitigation of blight

Locations with limited street activity are more susceptible to anti-social behaviour and vandalism.

Activation and renewal projects which aim to assist artists, creative

individuals and small businesses to occupy previously empty shops and offices have acted as a catalyst for renewed commercial investment in previously rundown areas of their respective cities. The presence of more people (workers, residents and tourists) as a result of this increased activity contributes to safety through passive surveillance and grows the long-term value of the area.

The refurbishment of run-down facilities and active maintenance of previously unused spaces and buildings, as well as active involvement in cleaning facades, replacing broken windows, repainting etc. can, in some cases, help to discourage vandalism and graffiti.

Improved business and community confidence

Steady occupancy of otherwise unused spaces and locations builds confidence within the business and residential community and enhances its social and economic vitality.

Activation projects bring increased activity and a renewed interest that stimulates a broader change in business and community confidence.

Often community projects are co-located and share facilities, costs and resources. As a collective, co-located projects are better able to attract customers. Indeed, customers also benefit from the co-location of projects as it allows them to access more projects via a single trip and exposes them to a number of additional projects that may be of interest and, more importantly, of value to them.



Most importantly, co-locating like minded entrepreneurs, volunteers and visitors creates a critical mass in the creative look and feel of that part of the city where the whole is always greater than the sum of its parts.

More broadly the renewal projects are often born in hard times, implemented in areas experiencing economic and social decline. By offering alternate employment and social opportunities, these renewal projects resulting in more resilient communities in times of economic distress, ready to grow when circumstances improve.

Improved regional brand value

The vitality index developed by 'Creative Cities International' is a cultural impact study that models the human experience of the city.

'It's bit surprising that where there are interesting things to do in a city e.g; rivers, parks, lively neighbourhoods, arts activities and events; people want access to them.' City activation and renewal is always about providing better access to more interesting and surprising events and spaces in a city.

By fostering and encouraging artists, cultural and enterprise community groups, renewal projects have the potential to reposition themselves as both arts and cultural communities, and destinations.

The *Renew Newcastle* project is a case in point. The city has gained national and international recognition in the mainstream media due to the project. The relatively cheap cost of living in Newcastle has attracted a large artist population. *Renew Newcastle*

has been recognised as facilitating the influx of artists into independent artist-run spaces and dozens of disused city-centre buildings occupied by photographers, fashion designers, digital artists and more.

Newcastle has also gained an international reputation as a tourist destination and ranked in the top ten cities to visit in 2011 from the *Lonely Planet's Best in Travel 2011*. This alone could generate significant tourist value to not only Newcastle but Australia.

However, again, data collection is tracking in this respect so financial value to this reputation is difficult.

Avoided maintenance and insurance costs

Generally unused buildings require annual maintenance of 1% of their capital value reflecting the cost of securing the building and making it safe. Additionally, the cost to insure unused buildings tends to be high relative to that of buildings in use.

By finding uses for unused spaces, renewal projects alleviate insurance and annual maintenance costs for property owners. The costs involved to maintain a building are borne by the project using the property.

The bottom line: Cost benefit of culture-led renewal

Renew Newcastle yields a Benefit Cost Ratio (BCR) of 10.8 and a net benefit of \$1.14 million, from an initial spend of around \$117,000.

Any project with a BCR of greater than one and with a positive net present value is considered to be providing a positive net social and economic value to society. And remember, this excludes the value of the 'creative capital' resulting

from the enterprises involved and some broad assumptions for the value of the 'regional brand'. So the *Renew Newcastle* project proves to be highly beneficial. And similar programs can expect the same.

The Cost/Benefit Analysis table below shows the economic benefits of a ‘Renew Newcastle’ project. If Adelaide spends \$100,000 to support projects that activate and renew existing streets and spaces we should expect a similar return.

BENEFITS	ESTIMATE
TOTAL COSTS	\$117,000
BENEFITS	
Creation of Jobs and Skills Development	\$636,000
Volunteer Engagement	\$176,000
Mitigation of Blight	\$41,000
Improved Business and Community Confidence	\$210,200
Improved Regional Brand Value	\$202,000
TOTAL BENEFIT	\$1,265,200
PERFORMANCE MEASURES	
Net Benefit	\$1,148,200
Benefit Cost Ratio	10:8

Barriers to Renewal

Why are dedicated ‘programs’ needed to create value in under-utilised parts of a city? Aren’t there market mechanisms at play to do this? Low cost ‘entry level’ accommodation is often leading in new developments seeking established brands with capital behind them.

This section identifies some of the barriers to the success of creative and cultural re-vitalisation of urban centres, identified by *Renew Australia*.

1. Negative gearing and insurance liability can produce effective incentives for building owners to leave buildings empty and deteriorating; particularly in areas with low market demand or where the market value is low.
2. Training, support and information pertaining to creative and cultural enterprises is limited so it can be difficult for young entrepreneurs to ‘enter the market’ as business owners or tenants.
3. Lack of financial support for creative and cultural industry start-ups and avenues for funding for not-for-profit or low profit cultural spaces.
4. The limited range of small and medium sized, affordable building stock inhibits business proliferation.
5. The economic experience of small and medium creative and cultural enterprise and their needs in terms of space has received little study aimed at producing suitable policy and regulatory frameworks.
6. Limited engagement of cultural and creative enterprise, in the past, with arts, planning and economic development agencies has failed to consider alternative business models in commercial development.
7. Application of Building Code and corresponding provisions for disability access, fire safety, planning and environmental law through State Acts and Regulations, enforced via local council, produces insurmountable barriers to small creative and cultural industries seeking Class 9B Place of Public Assembly Building Use.

Recommendations for Growth

For cities serious about renewal, the following recommendations are intended to remove barriers and promote low cost, high impact cultural enterprise:

1. Create or increase incentives to promote active utilisation of desired building space perhaps via rates rebates, tax deductions and other aspects of the tax and planning systems, particularly for large scale developments.
2. Introduce curriculum changes at the university level, or instituting short courses at TAFE level, to provide the opportunity for people to learn skills on negotiating building leases, planning tax, insurance and related frameworks. Additionally, local or State Governments could consider the development of broker through better case entities capable of assisting with renew projects management to remove red tape.
3. Institute matching or start-up grants for creative and cultural enterprises, specifically as relates to rent and leasing expenses and in areas where long-term urban degeneration has decreased prospective audiences or markets.
4. Consider regulatory options to protect existing small-scale spaces, older and lower rent buildings and advocate strategies that encourage developers to retain smaller buildings and spaces in future developments.
5. Cost effective ways of dividing up or sharing large tenancies during periods of transition could be investigated and piloted.
6. Undertake research into economic sustainability and the effect of urban planning on creative and cultural spaces. These issues and practical needs could be elevated onto the arts and cultural policy agenda. Further, action based engagement strategies could be devised to better connect experiences of these industries to prospective policy and government best-practice procedures.
7. Identify suitable provisions and alternative applications of the Building Code and related laws which balance risk and access provisions with the social and economic benefit of small, not-for-profit and low profit creative and cultural enterprises.
8. Finally, be clear about what the indicators of success should be and ensure that accurate data can be sourced to confirm the impact of renewal programs on a local place. Indicators need to be more than just economic and include non financial benefits to the social and environmental life and wellbeing of a place.

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