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| **Stage 2 Report - Creative Hub and Sector Support Study** |
| Report to Bath & North East Somerset Council |

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Mickledore was commissioned by Bath & North East Somerset (B&NES) in November 2011 to undertake a Creative Hub and Sector Support Study to aid the council in identifying the best available options for the support of, and potential investment in, the growth of the creative & digital industries. This Stage 2 report builds on the analysis undertaken in the first phase where the value of workspace as a support intervention to the sector was confirmed.

The structure of this report is as follows:

* A review of the demand-side factors which would underpin the development of a workspace solution. This brings together an assessment of the future outlook for the sector in terms of employment growth and property needs, along with the finer dynamics of workspace demand captured through the consultation programme
* A review of the supply-side factors which, along with the demand-side drivers, will inform the criteria for selecting sites that can be subject to more detailed financial appraisal to determine overall feasibility

**An Introductory Note on Demand**

While every effort has been made to follow a methodological approach, it should be stressed that measurement of potential demand can never be exact and elements of risk are involved in making any decision around the development of workspace. With this in mind, the following analysis seeks not to precisely quantify demand but rather illustrate the level of these risks involved and the probabilities for take-up of space in light of the current and future supply of suitable workspace in the city. Despite these limitations, the weight of evidence available allows an informed conclusion to be drawn with regards to the type of workspace demanded along with an indication of the amount of space that may be reasonably made available to the sector in the medium to long-term. Finally, it is these findings which will be considered in conjunction with a review of supply-side issues in the next section to inform the selection criteria for the shortlist of the sites.

**Approach**

A methodical approach is followed to articulate demand which consists of three logical steps:

1. A review of the B&NES Core Strategy and Smart Growth Study (which provided some of the evidence for the Core Strategy) to present the overall growth trajectories within the local economy and the implications for workspace demand in the city
2. Positioning Bath’s C&D sector in the overall growth forecast, in conjunction with an analysis of timeseries data and property enquiries, to identify likely future employment growth and demand for workspace within the industry
3. Qualifying likely future demand through presenting the key messages from the consultation programme to understand the key requirements from the sector

This approach utilises evidence from a variety of primary and secondary sources:

* Analysis of the forecasting model presented in the B&NES Smart Growth Study and Core Strategy based on work originally prepared by GWE Business West
* A review of the Creative Bath’s Property Survey which took place in 2010
* Discussions with local businesses through a series of channels including:
  + A dedicated focus group intended to capture views and opinions from a panel of companies with a large representation from design and media
  + Attendance at a BathSPARK social to talk informally with businesses predominantly from the digital sector
  + A number of face-to-face meetings with individual companies which have been particularly active regarding workspace provision in Bath e.g. Radio who rent out space to the creative industries within their own premises - The Dispensary
* Conversations with key stakeholders in regard to demand for workspace, these included sector bodies such as Creative Bath and BathSPARK, as well as with Bath Spa University and The University of Bath
* Speaking with well placed developers and operators in the market, including Verve Properties and Forward Space
* Consultation with local property agents to understand wider market activity

**Step 1: Future Growth Trajectories for B&NES**

The B&NES Core Strategy and Smart Growth Study (which provided some of the evidence for the Core Strategy) provides the most authoritative and detailed forecast available for the economy of B&NES. The adopted forecasts were based on sophisticated forecasts to 2026 using three scenarios reflecting different levels of public intervention. This in turn allowed the prediction of economic performance relative to national and regional performance. Where this report refers to different forecast scenarios, the work refers to the Smart Growth study.

The study used the scenario framework to emphasise the value of intervention, so as to avoid a ‘business as usual’ economic performance which would bring limited employment growth for the city. However, it is difficult at this stage to definitively identify which scenario is the most accurate given the uncertainty both economically and in terms of future policy. With this, it is of most value to consider all three scenarios as possible indicators of demand driven by economic growth.

One consistent feature across all three scenarios is the predicted growth in the ‘Business Services’ and ‘Other Services‘ sectors which is seen to drive significant demand for office space. In this sense, the study recognises the important growth potential of creative and digital industries since these form an important element of the Business & Other Services sectors in B&NES.

However, in terms of the likely growth trends, the Smart Growth study provides forecasts for the three scenarios as follows:

* **Business As Usual Scenario:** An increase of 5,900 jobs in Business Services, 900 jobs in Other Services contributing to a requirement of an additional 78,000 sq m of office space
* **Medium Intervention Scenario:** An increase of 6,100 jobs in Business Services, 1,300 jobs in Other Services contributing to a requirement of an additional 88,000 sq m of office space
* **High Intervention**: An increase of 10,100 jobs in Business Services, 1,200 in Other Services contributing to a requirement of an additional 148,000 sq m of office space

Given that across all three scenarios there is a pronounced need for additional office space, the B&NES Core Strategy emphasises that meeting net additional demand for floorspace should be regarded as a precondition for realising growth in high-value, knowledge intensive sectors. The crucial aspect for the purposes of understanding demand for a potential Creative & Digital Hub are the growth forecasts for the creative and digital industries and these are explored below.

**Step 2: Economic Activity within the Creative & Digital Sectors in B&NES**

*Manipulation B&NES Smart Growth Strategy Forecasts*

As already stated, creative and digital activities will form part of the ‘Business Services’ and ‘Other Services’ classifications used in the B&NES Smart Growth Study and subsequently adopted in the Core Strategy. In order to calculate likely future growth of the C&D industry using these sectors as a proxy, the first exercise is to estimate current creative and digital sector employment as a proportion of the Business and Other Services sectors cited in the B&NES Core Strategy. Through obtaining data from the Business Register and Employment Survey, it can be shown that 4,500 people were employed in the Creative and Digital Industries in B&NES, using the DCMS definition. As a proportion of “Business and Other Services” (which employed 14,800), creative and digital contributes approximately 30% of total employment for this sector.

Taking this assumption that creative and digital activities will contribute around a third of jobs to Business and Other Services, we can use the B&NES Smart Growth Strategy forecasts to give an indication of likely future growth to 2026. Namely:

* **Business as Usual Scenario**: An additional 2,040 jobs in the C&D sector which would equate to approximately 20,000 sq m of office space
* **Medium intervention:** An additional 2,220 jobs in the C&D sector which would equate to approximately 22,000 sq m of office space
* **High Intervention**: An additional 3,390 jobs in the C&D sector which would equate to approximately 33,000 sq m of office space

Of course, it should be stressed that there are always limitations to extrapolating current figures to generate future forecast job growth. Furthermore, it is acknowledged that not all space demanded by the creative and digital industries would be considered standard office space with the possibility that workshop / studio space would also be required. Yet it does suggest that growth in employment in the creative and tech industries is likely to be highly significant over the next 15 years. This in itself is a useful indicator for understanding future demand for workspace in B&NES.

*Observing Historic Employment Trends in the Sector*

Such a prediction can be supported by the historic trends in the sector which were articulated in the Stage 1 report. Notably, a number of sub-sectors had experienced sizeable job growth in the last few years, the key areas being:

* ‘Software, Digital Entertainment and Electronic Publishing’ has grown by 14% since 2008 with an additional 200 jobs
* Employment in ‘Design’ has increased from providing 200 jobs in 2008 to over 350 in 2010
* Other industries which have seen small but healthy levels of growth are ‘Video, Film and Photography’ and ‘Arts & Antiques’

*Estimating Business Formation Rates in the Sector*

An analysis of business formation rates appears to support the forecasts proposed in the B&NES Smart Growth Study Forecasts. An estimate of the level of new enterprises in the creative and digital sector can be developed using VAT registration data for Bath. Specifically, the last three years of available data suggests an average of 550 business registered a year. Given that creative and tech businesses currently account for 11.8% of the total business base in B&NES, it can be approximated that 65 creative and digital businesses a year will be formed if historic trends continue. It has already been demonstrated that the majority of firms in the sector employs 1 – 5 members of staff. As such, an average of three employees is taken (to account for the minority of larger firms) which gives a total additional jobs figure of 200 per year. Over a 13-year period (to the 2026 forecast used in the B&NES Smart Growth Study), it can be estimated that an additional 2,500 jobs will be generated as a result of business formation in the sector. This is broadly in line with the scenarios forecasts outlined in the B&NES Smart Growth Study and so adds further weight to the credibility of the prediction.

*Capturing Property Enquiries Through Discussions With Agents*

After speaking to a number of agents it was clear that there were mixed messages emerging from the market regarding enquiries and take-up from the creative and digital sector. Some agents pointed to a number of enquiries for small workspaces of between 1,000 and 5,000 sq ft. However, in most cases the agents highlighted the issues of covenant strength due to the large number of fledgling businesses. Furthermore it was suggested that demand was very sensitive to price and the quality of the space with many companies experiencing difficulties finding the right balance in this regard.

While there was little clarity emerging from the agents, both historic performance and manipulation of the B&NES Smart Growth Study forecasts suggests there will be sizeable demand from the Creative & Digital sector for workspace as a result of employment growth in the industries in the next 15 years. However, what such an analysis fails to consider is the dynamics of this demand. In particular, through observing the data alone, there is little understanding of what the nature of workspace that is likely to be required, along with the precise facilities, terms and costs that would need to be offered to ensure take-up. As a result the next section seeks to provide a synthesis of the key messages from the consultation programme as well as past surveys to understand the finer dynamics concerning demand.

**Step 3: Workspace perceptions within the Creative and Digital community**

In order to set the context for the messages captured through the consultation programme, it is worth outlining the results of a Creative Bath survey regarding business perceptions of workspace which was sent out in 2010. In all, there were 159 respondents which, if taking the total number of businesses in B&NES according to ABI data, would constitute just over 15% of the total business population for the sector. However in any case the results should be regarded as more indicative than representative of the industry. The key findings from the survey were:

* In regard to size of workspace, the largest proportion of respondents (33%) were looking for 100 – 150 sq ft. This was generally for home-workers looking for a ‘serviced office space’ type model.
* Almost two-thirds of businesses stated that they would be looking for some form of office space. However, only a third of businesses required solely office space with all other respondents looking for a combination of office space with studio / workshop or gallery space.
* The majority of survey participants (88%) were looking for city centre or city fringe location for their workspace.
* In regard to key criteria for the workspace, the overwhelming issue was cost with 88 businesses confirming this as the most significant factor. Location was the next key issue for businesses, followed by transport, proximity to other facilities, parking and being part of a creative cluster – all of which were considered of similar importance according to the respondents.

Of course wrapped up within these responses will also be the issues of taste and environment which whilst not explicit do arise when less attractive buildings are considered for workspace. Despite such caveats, many of these messages were also evident when speaking to businesses and other relevant stakeholders first-hand and this starts to paint a clearer picture of the nature of demand beyond what was ascertained through desk research.

A summary is presented below which brings together the three key observations which emerged from the wide and varied feedback captured through the consultation exercise:

**Observation 1: There are high levels of self-employment, freelancing and new entrepreneurial ventures across the creative and digital sectors which is fuelling the demand for flexible workspace such as co-working and other ‘drop-in’ facilities.**

A recurring message when consulting with both businesses and other partners was the relatively high level of freelancers working in the creative and digital sectors in Bath. This is supported by the analysis of BRES data, as outlined in Stage 1, in which it was estimated that 25% of employees (c.1,100 employees) in the sector were self-employed in some capacity. Such a trend is in some part a reflection of labour markets and the prevailing economic conditions more generally. However, there are a number of factors unique to Bath which are further supporting a growing pool of contractors:

* As stated in Stage 1, employment and sector data does not appear to reflect the high level of freelancing activity in the publishing sector in Bath which was made evident in consultation. In particular, speaking to a representative of a large media / publishing company located in Bath, it was highlighted that it has a pool of over 3,000 freelancers nationally, with 200 of these contracting staff often working within this company’s own premises (and so can be considered predominantly Bath-based). However, it was stated that such an outcome was out of convenience rather than wholly desirable due to the fact many freelancers could not always work from home because of IT access and there were no other readily available and suitable workspaces. The consequence was that through hosting freelancing staff the business was placing significant pressures on their own resources. With this, the company welcomed the idea of a hub which had the potential to act as a suitable location for contractors through the provision of hot-desking as well as ensuring that the IT infrastructure would allow them secure access to the company’s IT systems.
* Bath Spa University emphasised that many of their courses in the creative and digital sector were producing graduates who were working freelance straight after graduation. This was partly the result of an entrepreneurial culture that was being developed at the university but also due to external factors in which freelancing was often the only viable form of employment for graduates wishing to remain in Bath.
* The data for tech industries suggests relatively lower instances of self-employment compared to the overall creative and digital sector average, yet consultation with many businesses from the tech industry at the BathSPARK event emphasised the possible inaccuracies of this data. In particular, many of the attendees were freelancers working in areas such as web development, data warehousing and Search Engine Optimisation and confirmed that their home was their main place of work but would be likely to take-up the opportunity to co-work on an occasional basis in order to meet like-minded people, and conduct meetings and other client engagements.
* In addition to the freelancing activity taking place in the tech sector, a number of stakeholders who have a close involvement in BathSPARK as well as other digital-based initiatives such as The Big M, Bath Digital and BubbleBath have stressed the unique characteristics of high-tech small firms which have implications for the demand for space. In particular, it was highlighted that the plethora of tech start-ups in Bath highlights the need for flexible space which has more in common with incubation centres witnessed on the BubbleBath tour of Silicon Valley. In this instance, while the availability of co-working / shared space is paramount, there is also an emphasis on very powerful broadband connectivity and a clear identity for the workspace that focuses on tech start-ups aiming for very rapid growth.

**Observation 2: There are a number of successful instances of co-location of creative and digital businesses in Bath. However, there is recognition among many more established firms that there is a lack of suitable workspace to facilitate such clustering on a greater scale, this in turn is constraining opportunities for growth**

The consultant team had the opportunity to witness several positive examples of co-location in Bath which affirmed the benefits of a hub environment for the sector. In particular, contacts from The Dispensary and Bath Brewery emphasised the positive impacts of co-working with similarly minded businesses. In both instances the operation was largely attributed to an arrangement where an anchor company instigated the workspace and then brought in occupants with whom they could interact with, both directly through procurement of services but also less tangibly through networking, idea sharing and relationship building.

Furthermore it was reported that Bath Artists Studios are full and have a waiting list due to its popularity. While it is acknowledged that the studios typically accommodate creative workers that are less likely to take-up space in a proposed hub, it still underlines another instance of co-location in the sector at large in which the lack of space is potentially constraining growth in the arts and crafts sector which is a valuable component of the cultural fabric of the city.

However, it was acknowledged that while there was sufficient demand for the model to be ‘scaled-up’ to accommodate a greater number and a more diverse array of creative and digital businesses in the city, there was a definite lack of suitable but low-cost buildings that were centrally located.

Such an observation was echoed by the feedback captured from a number of more established micro and small businesses in the sector. Businesses working in a co-located environment as well as in standalone and serviced offices stated their difficulty in finding appropriate space. Appropriate was describes as reasonable cost; flexible terms; central; good broadband connectivity; and could allow for further growth. It was under these conditions that they would consider a hub environment, ensuring that it could offer a degree of privacy / self-containment which was sought after, especially by more established businesses in industries such as architecture, design.

**Observation 3: Improving the profile for the sector is paramount to its continued performance. This is central to the successful delivery of a hub which needs visibility to enhance perceptions of creative and digital activity in Bath**

An almost constant message which emerged from across the sectors which make up the creative and digital industry was the need to improve the profile of Bath as a creative and tech city. The idea of profile seemed to have connotations for local networking as well as perceptions externally. This has implications for recruitment, sales and the attraction of more business activity.

In terms of boosting the level of networking activity between local businesses, the work of BathSPARK, Creative Bath as well as other events was viewed favourably. However there were a number of consultees who believed that co-working and co-location was ultimately the most important mechanism to fully realise the benefits of interaction between businesses.

There was also an emphasis among consultees of the need to generate external profile. Many of the tech businesses consulted at the BathSPARK event spoke of the issue of demonstrating the strengths of Bath’s industry in order to attract talent from London. One business confirmed that it was struggling to recruit coders / developers to its Bath operation due to a perception that the workforce needed to remain in London despite the fact that there were a wealth of opportunities for technically-minded individuals in Bath because of the high concentration of tech firms. This was echoed when speaking to businesses in design and publishing who believed that Bath was not fully conveying its position as a leading creative city which was potentially limiting its ability to retain and attract further creative businesses. However, many Creative Bath and BathSPARK members saw the development of a physical space providing a focal point for the industry which would raise its profile both regionally and nationally.

**Summary**

Demand driven by economic growth, using even the most conservative forecast suggests the creative and digital sector is likely to require an additional 20,000 sq m of employment space over the next 15 years. Of course, a sizeable proportion of this global figure is likely to be linked to larger and more established firms in the sector which may not be demanding the type of facilities associated with a hub environment. Nevertheless, the evidence suggests large parts of the industry would see a hub as the optimum workspace option. Particularly the high incidence of self-employment demonstrated in the BRES data, along with the finding that 200 local sub-contractors are employed on site by one media agency, emphasises the need for a sizable co-working space. This, alongside the significant level of start-up and micro business activity particularly in the tech sector, all points to the fact that an estimate of 1,000 sq m of space (roughly 100 workers) could be confidently justified and is likely to represent demand for a single year. Consequently, while the Guildhall is a welcome intermediate solution which can more robustly test the demand for greater space, the evidence outlined in this section indicates that a medium-term solution of around 1000 sq m is more representative of the trajectory of the sector. This will also actively support the long-term ambition to develop a hub of a scale which would align with the 15-year B&NES Smart Growth Study forecast.

This finding has provided weight to a strategy that tests initial interest and potential operating models with the opening of the short term solution (in the Guildhall); considers the provision of a medium term offer to provide some accommodation to test demand of approximately 1,000m2; and then puts in place a plan to deliver the longer term and larger scale space to support the sector.

**Overview**

The previous section outlined the demand-side factors that are likely to underpin any future hub development. However before setting out the final criteria for shortlisting sites, it is also crucial to understand the factors governing the supply of workspace in Bath. Accordingly, this section provides an overview of the conditions which currently determine commercial property provision in the City and along with the demand-side factors, sets out the criteria which will be utilised to move forward to the financial appraisal stage of the project.

**Agents’ Perceptions of Supply**

The first source of evidence regarding the provision of office space in Bath is a round-up of the key messages which came out of conversations with a number of local agents. The main points can be summarised as followed:

* Most of the office availability in Bath is converted Georgian town houses. The relative abundance of such property is encouraging landlords to be more flexible about lease terms but it was acknowledged that most creative and digital companies are more interested in open plan space which is at a higher cost in the city centre.
* There is a large proportion of space still vacant as part of large developments including Pinesgate, Cambridge House, Plymouth House and Manvers Street. However there has not been much interest due to the nature of the space, which is relatively low-grade and places restrictions on layout.
* Rents are currently lower than they have been but still not far under £200 per sq m. There is very basic space available at closer to £100 per sq m but generally reflects the quality of the space and the location.

**Site Deliverability**

From the discussion with agents and as a result of the work undertaken by Mickledore on another B&NES project – ‘Planning, Delivering and Financing the Future’, the issues regarding deliverability for commercial property in Bath are well understood by the consultant team. The existence of particular constraints for development is also evidenced in a recent BNP Paribas report[[1]](#footnote-1) which highlights the problem in reconciling a number of features within the local property market. Development costs are high because of the planning demands and ground conditions associated with a historic city; sites are at a premium because of the topography of the city; yields are high reflecting the low appetite for risk and difficulty in securing funding for the property development sector and demand for space is sensitive to rental levels.

In brief this renders most forms of speculative development as particularly unattractive to developers due to the level of risk involved. Accordingly, the ability to secure a significant pre-let which brings a favourable scale and covenant is central to most future development in B&NES. However, this presents considerable obstacles for delivering creative and digital space, largely because:

* Most businesses in the sector cannot offer the size of take-up and covenant terms to mitigate risk sufficiently for the developer
* Many of the potential occupiers from the sector will not be in the position to take-up space at the market rates estimated for B&NES of approximately £190 per sq m
* The very nature of the hub will require a lower density scheme to accommodate shared space which will present the developer with less recoupable square footage and in turn drive up rents

This appreciation of deliverability is crucial when setting the criteria for shortlisting as the main aim of the exercise is to take forward sites which are ultimately viable for the development of a hub. The full list of criteria and the rationale for their selection is set out in full below.

**The Criteria**

Four essential criteria have been compiled. The criteria are:

1. **Walking distance from City Centre**: One of the most resounding views that came out of the consultation programme was the desire for the hub to be central. Many consultees stressed that for the hub to attract sufficient demand and to bring the added value associated with such a workspace, it required a prime location within the cultural fabric of the city.
2. **Non-retail location:** This was another common demand which emerged from the consultation and which also reflected the importance of a hub environment operating in the commercial district of Bath.
3. **Scale:** The analysis of the demand-side factors in the previous section gives a strong account of the level of likely demand for such a hub, as evidenced by future employment forecasts, historic trends and the messages emerging from consultation. This suggests that a site which can offer sufficient scale is important to meet demand and also complement the final criteria of deliverability.
4. **Deliverability:** As outlined above, there are a series of factors in the commercial property market which hinder the ability for a site to come forward as a hub for the creative and digital industries. As such, this criterion is really a catch-all to highlight those sites which have the opportunity to operate within the cost, terms, ownership structure and risk profile that would allow a scheme to be delivered.

Possibly the most illuminating finding from this work is the consensus which emerges around the difficulties of the sector in finding suitable workspace in Bath. This was cited by businesses of varying sub-sectors and growth phases which while having implications for the precise property requirements, ultimately affirms the value attributed to a potential hub, as by its very nature, should be able to accommodate a diversity of businesses in terms of size and growth. It is through such an environment that the added value of co-working and interaction is likely to come into full force.

Associated with the level of need for workspace in the requirement for flexibility, this is particularly pronounced due to the level of freelancing in the city which emphasises the need for flexible desk space but also the ability of a hub to accommodate firms with high growth potential, particularly emerging from the tech sector. Best practice examples highlight the benefits to a workspace as a whole if businesses can grow within the hub and subsequently generate value chains with other resident businesses. Such an outcome will also undoubtedly help raise the profile of the sector which is seen as crucial for many businesses. A strong profile for the creative and digital industries in Bath will likely boost recruitment, sales and investment.

The potential for a dedicated workspace for the creative and digital sector should be set within the overall ambition to improve and increase the overall stock of employment accommodation in the city. In addition, there is the requirement to consider accommodation requirements of the art and craft elements of the creative and digital sector. Bath Artist’s Studios is at full capacity and there is no further identified space.

Next Steps will be consider possible sites in detail.

1. BNP Paribas Community Infrastructure Levy Viability Study, 2011 [↑](#footnote-ref-1)