

Funding the reactivation of Vacant Buildings

THEMATIC PAPER #2



2ND CHANCE

WAKING UP THE SLEEPING GIANTS



City of Naples

Urban Planning Department

Carmine Piscopo

Councilor and responsible for the coordination of the project within the City Council of Naples

Daniela Buonanno, Renata Ciannella

Project staff for the Urban planning Department

Lead Partner Team

URBACT Projects and Networks on Integrated Urban Development Policies - Central Direction
Urban Planning and Management - UNESCO Site

Nicola Masella

Project coordinator

Roberta Nicchia

URBACT Local Group coordinator

Anna Arena

Finance officer

Maria Luna Nobile

Communication officer

Contacts:

Phone +39 081 7958932 - 34 - 17

E-mail urbactnapoli@comune.napoli.it

Lead Expert

Nils Sheffler

Project Lead Expert

Contacts:

Phone +49-30-4738 6041

E-mail scheffler@urbanexpert.net

www.urbact.eu

www.urbact.eu/2nd-Chance

Cover picture: @city of Dubrovnik

Naples, April 2018

Financial Tools And Schemes for the Reactivation of Vacant Buildings

Guideline Document for local authorities and stakeholders

The aim of the document is to provide useful tools for alternative funding sources for the reactivation of vacant buildings in the framework of the 2ND CHANCE URBACT network. Tips and examples on how to finance the reactivation of the sleeping giants are presented in this document, focusing on innovative financing tools currently discussed at local, national and global level. This document includes the results of the 2nd Chance Trilateral Meeting held in Dubrovnik with an Introduction of the URBACT Expert Jim Sims.

Contribution of:

Jim Sims
URBACT Expert

Nils Scheffler
Lead Expert 2nd Chance

Naples, April 2018

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INTRODUCTION BY JIM SIMS

FINANCIAL TOOLS AND SCHEMES FOR THE RE-USE AND REHABILITATION OF VACANT BUILDINGS AND SITES

Jim Sims, URBACT Expert Lead Expert of Gen-Y City

When it comes to urban regeneration, bringing vacant buildings and sites back into use can be a complex issue.

In addition to needing to overcome site-specific challenges (like, for example, land remediation, structural issues, or the cost of servicing the site with infrastructure) other barriers can include access to ownership information; the motivations and priorities of the owners; planning constraints; the availability of suitable skills; access to finance; and management expertise, to name but a few.

But is everything capable of being solved by money? Well, not quite, but it can certainly help to unblock some of the constraints set out above. That said, money also comes in many different forms and not all money is good money! In some cases, all the money in the world might not solve the problem.

Before looking at the range of financial tools and schemes that can help unlock vacant sites and buildings, it's probably worth trying to get under the skin of the development process to understand how property developers finance the development process and what public-sector funders can do to try and accelerate development.

Delivering viable developments

For many developers, for development to happen on the ground, the value (revenue) generated from the development must exceed the costs of undertaking the development. These 'costs' would normally include the developer's profit and many developers generally have a 'hurdle rate' they need to get over, for their company to be persuaded that the development is viable.

A hurdle rate is the minimum 'rate of return' on a project or investment required by a manager or investor. The hurdle rate denotes appropriate compensation for the level of risk present; with riskier projects generally having higher 'hurdle rates' than those that are deemed to be less risky. If the costs in a project exceed the revenues and the 'hurdle rate' cannot be achieved, then the development would be considered unviable. Consequently, it would be unlikely to progress on this basis.

However, the whole debate about development viability is a complex one.

In some European cities that are suffering from shrinkage, the developer may lack confidence that they can generate a reasonable return to make the development viable. In addition, because part of the development process might involve negotiations between the developer and local or national governments about the scale of contribution towards local infrastructure, it's not uncommon to find developers arguing their developments are on the margins of viability, in an attempt to reduce their tax contribution.

Viability is not something that only applies to the private sector. Tightening public sector finances mean that achieving viability is also something that the public-sector development community often also considers as being important. Indeed, it's not uncommon to find public sector developers also have 'hurdle rates' they need to get over.

Developers are building to bank covenants, not market need

The situation in buoyant, growing cities can also be a challenge. In some of these cities, it has long been argued that many developers are driven more by their bank covenants, rather than market need. Indeed, this behaviour is evident in the growing housing shortage in some parts of Northern Europe, in particular.

What this means in practice is that they try and manage the development process carefully, to minimise the cost of finance they need to deliver development, and decisions that maximise the profitability of their sites are prioritised over the needs of potential tenants/occupiers.

This behaviour can be seen in the way developers fund the development process through the sale of units on a large scale development (to minimise their lending requirements); the way they parcel up the development into phases (to minimise the need to trigger payments to landowners); and the way they can leave linked infrastructure until the end of the entire process (to avoid further borrowing). All of these decisions are taken to minimise their lending requirements, reduce the overall cost of the development and maximise shareholder profit.

Partnership working across the public & private sector can help unlock/accelerate development

One way to overcome the issue of poor viability is to establish an agreement across the public-private sector for part funding the development/regeneration process. However, the type of finance the public sector provides will need to be selected carefully, as certain types of finance don't necessarily help improve the viability of a development (see below).

The models for such collaborations are many and complex, so we'll not cover these here – merely point out that, providing State Aid Regulations are complied with, it is possible for the public sector to part subsidise a development, in order to improve the developers' viability, accelerate development or bring a redundant building/site back into use.

However, this may require the public-sector funder to undertake their own viability assessment, which of course may identify that the developer's viability is overly pessimistic (it's not uncommon for a developer to argue that a site/building is marginally viable, as a negotiating tactic to avoid having to pay any additional costs for linked infrastructure).

In situations where both parties agree the development is marginally viable, the key to getting the development away is to identify the 'right type' of public funding to support it. In many cases, the 'right type' of funding is money that is provided at a cost (real or opportunity) which is attractive (not too costly) for the developer.

In situations where the development is viable, but the developer is being driven heavily by their bank covenants, there may be opportunities to use funding to accelerate the development process, but – again – only the right type of funding can help achieve this.

Alternatives Funding Models

When it comes to **institutional investment**, a range of options exist, including **equity, loan and grant** finance.

As far as supporting an unviable project is concerned, securing commercial investment (i.e. **equity, angel investment** etc.) to support a development which is marginally viable can be a challenge, as equity investors are likely to want the scale of returns that the development just can't deliver.

Similarly, securing **loan funding** will likely require interest to be charged, so this kind of funding might not necessarily improve the overall viability of the development to be sufficiently attractive to the developer. Indeed, as even the public sector needs to lend funding at market rates (according to the [Commission Guidance](#) on the setting of reference and discount rates), a commercial developer may actually be able to borrow money cheaper themselves.

Whilst **grant funding** might seem to offer a potential way forward -and is likely to be the most attractive to a potential developer (as it is without doubt the cheapest line of money they can potentially draw on) - other barriers can prohibit their use. For example, the public sector can also

find itself somewhat constrained by traditional grant appraisal processes, which often place a particular emphasis on the need to ensure value-for-money (which can be particularly challenging if the appraisal process identifies that the cost of renovating a building far exceeds the cost of developing a new one).

In recent years, because interest rates have been relatively low in large parts of Europe, the returns consumers are getting from bank savings are much lower than commercial 'hurdle rates' and property investment is considered a relatively 'safe' investment, many individuals are increasingly viewing property as an interesting investment proposition. This is fuelling a growth in '**retail**' or **individual lending** and **alternative sources of finance** (such as crowd funding, peer-to-peer lending etc.). Many of these funds have the added advantage of not being classed as State Aid, so there are potentially fewer regulations restricting their use.

In addition to the institutional and retail investment models set out above, other innovations in this area which have a potential role in this discussion include;

- **Land value uplift capture**—where developers use the 'uplift' in the value of land as it secures planning consent, to finance development (by potentially selling a proportion of land to fund development);
- **Tax increment financing**— where property tax revenue increases (i.e. business rates) from a defined area or district are diverted toward an economic development project or public improvement project in the community;
- **Retail Estate Investment Trusts (REIT's)**— companies that own, operate or finance income-producing real estate portfolio's; and
- **Community Land Trusts (CLT's)** – a form of community-led housing, set up and run by ordinary people to develop and manage homes as well as other assets;

However, in many cases, their effective deployment often requires more effort, as investment comes from a wider range of potential investors and aggregating needs. That said, there are numerous examples of good practice across Europe, where these types of alternative funding sources have unlocked development.

Useful resources

A range of useful resources exist to help, support and guide urban development professionals in making the best use of the available finance. Here are just some examples;

- What investors want: a guide for cities. How should cities engage investors and developers? Centre for Cities. July 2017
- New Approaches to SME & Entrepreneurship Financing: Broadening the Range of Instruments, OECD, 2015
- The Third European Alternative Finance Report. Cambridge Centre for Alternative Finance, 2016
- Civic Crowdfunding: A guidebook for Local Authorities. Future Cities Catapult. May 2017
- Crowdfunding explained - A guide for small and medium enterprises on crowdfunding and how to use it, European Union, 2015
- European Crowdfunding Network
- Community Land Trust Handbook. CLT Network. 2013
- The Practitioners Guide to Community Shares. Locality & Co-operatives UK, 2011
- Tax Increment Financing. BPF. 2008

Contact person

Jim Sims,
URBACT Expert, Lead Expert of GEN-Y City
info@theservicedesign.co.uk



THE RESULTS OF THE THEMATIC MEETING IN DUBROVNIK

LOOKING FOR FUNDING SOURCES FOR THE REACTIVATION OF VACANT BUILDINGS?

This was the driving question that brought the cities of Maribor and Caen, Dubrovnik's Development Agency, the university of Genoa and Porto 's regeneration company for the historic centre (Porto Vivo) together in Dubrovnik, June 2017, to exchange and learn about alternative funding sources for the reactivation of their vacant target buildings and sites.

A first inspiration was provided by the Petar Misura from the City of Sibenik, telling the story about the o.

Based on a use and project development approach (rather than the classical "rehabilitation approach"), the four fortresses – supported with EU funds – were regenerated. Today they serve tourism, leisure and cultural purposes, allowing to gain yearly revenues. These are reinvested in the further rehabilitation and maintenance of the fortresses.

This was followed by a [deep dive into the financing tool ,crowdfunding'](#), accompanied by a crowdfunding campaign workshop, moderated by Kristina Lauš, expert in crowdfunding at the social enterprise Brodoto. Through the presentation and the workshop the participants received valuable hints and advice for using

crowdfunding as a tool for the reactivation of their vacant buildings.

This was rounded up by a presentation from Nils Scheffler, Lead Expert of the 2nd Chance network, giving an overview about [alternative funding sources for the reactivation of vacant buildings](#) like

- Alternative banks
- Foundations & lottery funds
- Social investment tools
- Crowdfunding & Online fundraising
- Generating own resources

Other highlight of the meeting, besides visiting the marvellous Old Town of Dubrovnik, was the boat trip to the 2nd Chance target building of Dubrovnik, [the Summer Villa Gucetic](#), a listed 2-storey building from the 16th century with a surrounding garden.

Click the links to receive further information!
For any questions and remarks, contact the 2nd Chance Lead Expert Nils Scheffler, scheffler@urbanexpert.net.

ALTERNATIVE FUNDING SOURCES FOR THE REACTIVATION OF VACANT BUILDINGS

Nils Scheffler, Lead Expert 2nd Chance

Following alternative funding sources have been presented:

- Alternative banks
- Foundations & lottery funds
- Social investment tools
- Crowdfunding & Online fundraising
- Generating own resources

For further information **download the presentation** from google drive, which includes also recommendations from the workshop and further download tips:

<https://drive.google.com/open?id=oB8rEL892ueogUoVNWxcxaXZHSkk>

CROWDFUNDING

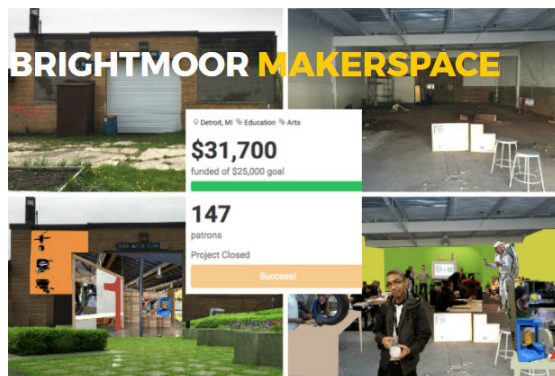
Kristina Lauš, expert in crowdfunding at social enterprise Brodoto

Objective

Crowdfunding is used as an alternative financing model for projects or ventures by raising money from a large number of contributors. It is usually used when access to capital and standard sources of funding is not available or inadequate. While its primary goal is acquiring monetary contributions, crowdfunding is often used as a tool for market research, as a proof-of-concept for investors and partners, for branding, marketing and community building purposes.

Description

Crowdfunding is a method of funding projects or ventures by raising money from a large number of contributors, usually through an internet crowdfunding platform. Through the use of digital media a wider (target) audience can be reached to collectively support and finance a project.



There are several *basic types of crowdfunding*:

1. *Donation-based crowdfunding* – the most basic type in which the creators of the campaign ask for monetary contributions without offering anything in return.
2. *Reward-based crowdfunding* – campaigners ask for contributions and offer rewards in return,

or 'perks'.

3. *Debt-based crowdfunding* – contributors lend money to the creator of the campaign under significantly better conditions compared to banks

4. *Equity crowdfunding* – contributors have the opportunity to fund enterprises, usually start ups and small businesses, in return for equity.

Key crowdfunding phases include the A. pre-campaigning phase, B. campaigning phase and C. post-campaigning phase.

The *pre-campaigning phase* includes important planning steps such as making a financial plan, choosing a platform and looking for partners. It also includes creating the content for the campaign: videos, text, visual identity and perks. An especially important part of this phase is creating the campaign plan and an extensive communication plan. For this the target group has to be defined, on which the marketing / campaigning focuses.

The most important task of the *campaigning phase* is creating and sustaining the campaign's momentum.

This phase includes communicating and coordinating team members, communication with backers and the media, public presentations, social media posts and campaign-page updates.

Finally, the *post-campaigning phase* mostly revolves around bringing the project to life. This includes sending the perks, communicating with backers and keeping the established community together.

Download of presentation:

<https://drive.google.com/open?id=oB8rEL892ueogRmNVMzVpcUYtSnc>

RECOMMENDATIONS FOR A SUCCESSFUL CROWDFUNDING CAMPAIGN

Kristina Lauš, expert in crowdfunding at social enterprise Brodoto

- A good starting point for first-time crowdfunders is to put themselves in the position of the backer and explore different types of campaigns to see which one they would back and why in order to establish a sense of what is relevant for attracting and motivating backers.
- Having defined the target group of the campaign think about what could be their emotional attachment and motivation to support the project. The whole campaign should allow the target group to easily connect personally and emotionally to the project (driving the motivation to support it).
- Every successful crowdfunding campaign is based on extensive and timely campaign planning. Creating content and planning a communication strategy, as well as a precise timeline, is crucial for success. At least 30% of the target goal should be achieved before launching the campaign since backers are less likely to support what seems as an unpopular or unsuccessful campaign. Each team member should prepare for a passive phase of the campaign and have a plan B for it in place.
- Content should be as diverse as possible and help to stick out with the project, including inspiring video and textual pitches with easy language, images and info graphics to visually transmit the message. It is recommended that teams should find an influencer or a celebrity to support the campaign and act as its ambassadors. Personalizing a campaign and sharing the campaign creators' enthusiasm and motivation is also a great way to persuade potential backers.
- Detailed lists of contacts must be prepared before the beginning of the campaign. Individually contacting each potential backer, friend or family member and directly asking them to support the cause is a necessary prerequisite of a successful crowdfunding campaign. A crowdfunding campaign in general is not longer than 1 month!
- Be aware of tax implications & regulations concerning crowdfunding. You might have to pay VAT.
- Crowdfunding larger projects such as renovating and repurposing vacant, unused spaces follow a different set of rules. Since financial goals are larger, they need to be broke into phases. So you can mix different crowdfunding campaigns for different parts of the project. Crowdfunding should also be combined with other financing models.
- Involving the government can be a successful model for crowdfunding and repurposing public unused spaces. The level of involvement can range from the government supporting a campaign, co-campaigning or setting crowdfunding platforms.

Further information

- [www.europarl.europa.eu/RegData/etudes/BRI E/2017/595882/EPRS_BRI\(2017\)595882_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRI E/2017/595882/EPRS_BRI(2017)595882_EN.pdf)
- Crowdfunding: A Guide for Local Authorities: <http://about.spacehive.com/civic-crowdfunding-a-guidebookfor-local-authorities>
- Crowdsourcing and Crowdfunding Explained (video): www.youtube.com/watch?v=38uPkyHgvI
- Crowdfunding platforms: <https://en.goteo.org/>; www.spacehive.com/; www.bulbintown.com/;

www.citizeninvestor.com (a crowdfunding and civic engagement platform for government projects free to use).

- Crowdfunding information website:

www.crowdfundinsider.com/

- Statistics about crowdfunding:

<http://crowdexpert.com/crowdfunding-industry-statistics/>

Contact person

Brodoto (social enterprise)

Kristina Lauš,

Kristina@brodoto.com



“OLD FORTRESS – NEW LIFE” – THE ŠIBENIK REACTIVATION STORY

Petar Mišura, City of Šibenik, Department of Economy, Entrepreneurship and Development

Objective & background

The 4 fortresses of Šibenik were abandoned and derelict without any economic and social activities. Their physical status downgraded the image of the city. Thus, it was the objective to regenerate these fortresses for the benefit of the city. One of the main challenges was the lack of financial resources for the rehabilitation and future maintenance of the fortresses.

Description & key activities

In the beginning it was analysed why the fortress have been abandoned and neglected. Reasons have been that they had lost their original purpose, problems with ownership leading to no maintenance and devastation over the time due to war and weather. The local authority had lack of knowledge and financial resources to rehabilitate and maintain the fortresses.

With EU funds during the accession phase to the EU new opportunities open up. Based on a project case approach business plans for the regeneration of the fortresses were developed connecting the preservation of the cultural heritage with the reuse of the sites for tourism and socio-cultural purposes. The business plans demonstrated that the reuse of the fortresses will allow achieving revenues to be able to maintain and run the fortresses. Key activities for the reactivation of the fortresses have been:

- Development of project idea and technical documentation
- Public debate and interviews with key stakeholders about the reuse of the fortresses.
- Cost–benefit analysis
- Development of business plan
- Involving potential users in the planning of the fortresses.
- Application for EU funds

- Implementation of the project
- Achieving revenues for the financial viability of the project
- Introduction of new technologies

Achievements & benefits

Fortress St. Michael was regenerated as an open air summer event space for concerts, theatre, etc. with 1077 seats. The fortress has become a centre for cultural events, creating sufficient revenues for its maintenance (and even beyond) through entrance fees, concerts, weddings, private companies renting the space.

The fortress Barone was regenerated as a tourist destination with an augmented reality museum (based on an app application) and souvenir shop with restaurant. In addition there is a children playground and video games for youngsters.

The third fortress was developed as a leisure place for the citizens. The management is shared by the city and two members of NGOs from the cultural heritage field, deciding together about the programming and the budget of the fortress.

Recommendations & Lessons learnt

Very important is to take a project development approach rather than the classical “rehabilitation approach”. Key for this is to start with an analysis why the building site is vacant and what purpose it should have in the future (involve the public in that). The purpose should be needed in the city. During the planning phase involve future users to ensure the proper rehabilitation and functioning of the building. Base the regeneration on a business plan with a cost-benefit analysis, strict deadlines, sustainability, joint management, partnership with NGOs. With the business plan demonstrate the feasibility of the project, in particular if local resources are scarce.

Crucial was also the founding of a municipal owned association “Fortress of culture” in charge of the management of the fortresses and organising the events.

Key data

Regeneration costs: St. Michael fortress: 3 Mio. € (~1 Mio. € EU IPA funds; rest from local budget, which was a big challenge); Barone fortress: 1,25 Mio. € (85 % from EU funds).

Visitors and events in 2016: 420.000; 9 big events in St.Michael fortress, 30 small events in Barone.

Yearly revenues: 6 Mio. HRK through the activities in the fortresses.

Further information / examples in the web

www.barone.hr; svmihovil@sibenik.hr

<https://www.youtube.com/watch?v=j4BvnKYCXSw>

Contact person

City of Sibenik, Petar Misura,
misurapetar@gmail.com

Download of presentation:

<https://drive.google.com/open?id=oB8rEL892ueogaWtTS2pEYmQydoE>



Links and contacts

CROWDFUNDING

Contact person

Brodoto (social enterprise)
Kristina Lauš,
Kristina@brodoto.com

Further information

- [www.europarl.europa.eu/RegData/etudes/BRIE/2017/595882/EPRS_BRI\(2017\)595882_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/595882/EPRS_BRI(2017)595882_EN.pdf)
- Crowdfunding: A Guide for Local Authorities:
<http://about.spacehive.com/civic-crowdfunding-a-guidebookfor-local-authorities>
- Crowdsourcing and Crowdfunding Explained (video): www.youtube.com/watch?v=38uPkyHgvl
- Crowdfunding platforms: <https://en.goteo.org>;
www.spacehive.com; www.bulbintown.com;
www.citizeninvestor.com (a crowdfunding and civic engagement platform for government projects free to use).
- Crowdfunding information website:
www.crowdfundinsider.com/
- Statistics about crowdfunding:
<http://crowdexpert.com/crowdfunding-industry-statistics/>

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THE ŠIBENIK REACTIVATION STORY

Contact person

City of Sibenik, Petar Misura,
misurapetar@gmail.com

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Nils Scheffler, Lead Expert 2nd Chance

scheffler@urbanexpert.net

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