MELBOURNE'S ENTERPRISE AREAS:
CATERING FOR THE NEW WORK ORDER
The development feasibility scenarios summarised in Chapter 5 was prepared by John DiNatale of Conceptus Property.
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INTRODUCTION

Shifts in technology, globalisation and demographic change are having a major disruptive impact on economies around the world - the impacts of this ‘fourth industrial revolution’ are already in evidence in Australia’s capital cities and they are likely to increase exponentially in the coming few years.

They are driving fundamental change to both the types of work that gets done and the types of workplaces that will exist in the future.

This paper explores these changes and their impact on how we plan for employment in Melbourne. It looks at these ‘bigger picture’ changes in the context of Melbourne’s metropolitan strategy (Plan Melbourne), as well as exploring their potential implications for commercial development and the Victorian Planning System. The paper has a particular focus on the role of Melbourne’s older industrial areas as locations for the incubation and growth of the sort of industries that are expected to prosper in a disrupted future world.

Plan Melbourne seeks to ensure that Melbourne is a productive city that attracts investment, supports innovation and creates jobs. It proposes the creation of a robust city structure that can deal with such disruptions, and it seeks to strengthen Melbourne’s global competitiveness for jobs and investment.

The main ‘jobs and investment’ related elements of the Plan Melbourne city structure are:

- An expanded Central City
- Seven National Employment and Innovation Clusters (NEICs)
- Enhanced health and education precincts
- Consolidated investment into a series of Metropolitan Activity Centres
- Urban renewal sites which support a mix of businesses and housing
- Provision of adequate commercial and industrial and across the city.

Plan Melbourne seeks to protect a number of Melbourne’s older industrial areas as locations for employment generating activities, and to promote their renewal for alternative employment uses such as offices and creative industries.

The Plan recognises that residential uses compete with commercial use and employment opportunities in Melbourne’s older inner city industrial areas, and that once residential use is permitted in such locations, commercial floorspace is likely to be permanently lost in that location.

These older industrial areas are shown in Figure 27 and they are referred to as ‘Enterprise Areas’ in this report. These enterprise areas are already attractive to startup companies, smalls-scale manufacturing and creative industries, and this range of activity is expected to be a significant part of Australia’s future economic growth. Enterprise Areas have a different character and function to other employment precinct such as NEICs or contemporary industrial parks. They typically comprise older style buildings and more compact urban forms, located close to public transport residential and other activities. Whilst they are no longer well suited to contemporary large scale manufacturing and logistics businesses, they have for many years offered affordable locations for a wide range of commercial and cultural activities, ranging from small scale manufacturing activities through to low-rent office and production spaces for a wide range of creative industries.

Melbourne’s Enterprise Areas will play an important role in meeting the workplace and economic productivity needs of our city in future. They make up an important part of the spatial structure that will support future jobs and investment and the strongly compliment the role that the central city and other employment will play in enabling Melbourne’s future economic growth.

In short, Enterprise Areas have ‘good bones’ that can support new investment and creation of new enterprises and new jobs.

The zoning of these areas require further consideration if they are to flourish as genuinely mixed use locations. There is currently no standard ‘VPP’ zone that can be applied to enterprise areas that facilitates the full range of uses (including limited live-work type development models) that will support the vibrancy and diversity of such areas. A new ‘enterprise’ zone is needed to enable a wider range of emerging workspace models and supporting/ancillary activities to establish and grow in such locations.

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1 Refer Actions 8 and 12 from the Plan Melbourne Implementation Plan
2 Plan Melbourne 2017, page 35
This report addresses the following:

Chapter 1: Disruptions and their implications on the future of work describes the broader disruptive changes (technology, globalisation and demographic change) that are already shaping the future of work and workplaces across the globe.

Chapter 2: Re-shaping the nature of work discusses the likely implications of these disruptions on the types of jobs that are expected to grow and decline in future. It explores the factors that are driving ‘flexible work’ across the global economy.

Chapter 3: Re-shaping where we work identifies the various workplace manifestations of these disruptions—including the flexible office (co-working) lifestyle oriented workplaces, integrated living/working spaces, artisan manufacturing and creative spaces.

Chapter 4: Re-shaping how Melbourne caters for work describes the role of Innovation Districts and Enterprise Areas in catering for new and emerging workplaces. It characterises Enterprise Areas as being different to Innovation Districts and it addresses various property, planning and regulatory challenges that face such areas in Melbourne, as well as the experience in similar precincts in Sydney and London.

Chapter 5: Workspace models in Melbourne’s enterprise areas: feasibility considerations explores the present-day commercial feasibility of a number of workspace models in inner Melbourne’s Enterprise Areas. It addresses:

- The broad factors that influence whether redevelopment occurs or not
- The present-day feasibility of emerging/potential workspace models in Cremorne and Brunswick.
- The implications of development feasibility issues on future redevelopment in inner Melbourne’s enterprise areas.

Chapter 6: Enterprise Areas and the need for new planning tools considers the relationship between various forms of creative industries and workspace models and the Victorian Planning System, including:

- How the concept of Enterprise Areas aligns with current strategic planning and zoning frameworks
- How emerging workplace models align with land use definitions under the Victorian Planning System
- How ‘creative industries’ align with the land use definitions under the Victorian Planning System.
- Potential planning strategies for facilitating more office floorspace in enterprise areas
- Potential planning strategies for retaining/creating low cost workspaces in enterprise areas.

Chapter 6 contains recommendations for certain changes to the Victorian Planning System in order to better facilitate the establishment and growth of creative industries, small manufacturers and startup businesses in such areas. It recommends that a new ‘enterprise zone’ be created which allows for consideration of mixed use live-work style developments under limited and strictly defined circumstances, and it sets out the potential circumstances under which such a zone might (and might not) be applied. It also recommends that a wider range of emerging workspace models and land uses be allowed on an ‘as of right’ basis under such a zone.
01

DISRUPTIONS AND THEIR IMPLICATIONS ON THE FUTURE OF WORK

- Disruptive Innovation
- Technology
- Globalisation
- Demographic change
The fundamental nature of Australia’s economy and the way that people perform work within it is changing. Many aspects of how we live and work (and indeed how our cities function) are being disrupted by the combined impacts of technology, globalisation and demographic change.

These disruptive forces are driving a range of large transformative trends which are already impacting on individuals, organisation and wider society.3

Whilst various forms of technological and socio-economic disruptions are nothing new (think of the impacts of the steam engine, automobile, contraceptive pill, internet, smartphone, etc.), they take hold much faster than they did in the past, and they are rapidly altering many aspects of our daily lives – how we live, how we work and how our entire city functions.

“The relationship between disruptive change, the nature of work in the future and their implications for individuals, organisations and public policy is conceptually illustrated by the figure below.

This Chapter describes these disruptive changes and it explores what they might mean for the future of work and the nature of workplaces in Australia in years to come.

“In retrospect, all revolutions seem inevitable. Beforehand, all revolutions seem impossible.”

3 These concepts are explored in numerous recent research papers including Upside of Disruption: Megatrends Shaping 2016 and Beyond’ (Ernst and Young, 2016), ‘Workforce of the Future: The Competing Forces Shaping 2030 (PWC, 2017) and ‘Deloitte Review Issue 21: Navigating the Future of Work.’ (Deloitte, 2017)

4 Michael McFaul, Former ambassador to Russia
DISRUPTIVE INNOVATION

Many new and emerging product and service models such as Uber and Airtasker are examples of ‘disruptive innovation’. Professor Clayton Christensen of the Harvard Business School described this phenomenon as being where an innovation creates a new market which initially disrupts an existing market, and eventually displaces the leading firms, products, and alliances within the established market:

“..as incumbents focus on improving their products and services for their most demanding (and usually most profitable) customers, they exceed the needs of some segments and ignore the needs of others. Entrants that prove disruptive begin by successfully targeting those overlooked segments, gaining a foothold by delivering more-suitable functionality—frequently at a lower price....When mainstream customers start adopting the entrants’ offerings in volume, disruption has occurred.”

There are already many examples of businesses based on disruptive innovation around us today, and they are expanding at a rapid rate, leveraging off technology, globalisation and demographic change. Disruptive innovation is making many traditional business models and jobs redundant, but it is also creating many new types of business and many new forms of work.

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5 Christensen, C (1997). ‘The Innovators Dilemma: When New Technologies Cause Great Firms to Fail.’
TECHNOLOGY

Technology is facilitating the rapid growth of the sharing economy and it is enabling cities and economies to reach new levels of productivity.

For example, new tools such as 3-D printing have democratised production and in the automotive industry, software development is now more important than vehicle hardware. The entire automotive industry may soon shift from being about manufacturing and selling vehicles to the provision of mobility services to members.

“Uber, the world’s largest taxi company, owns no vehicles. Facebook, the world’s most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world’s largest accommodation provider, owns no real estate.”

The next wave of technology-driven disruption will come via Artificial Intelligence (AI), ‘the internet of things’ (IOT) and robotics. For example:

- Networks of computing devices are likely to be embedded into everyday objects in our homes, workplaces and cities.
- The technologies that have already automated millions of routine transactional jobs (such as clerical work) are rapidly encroaching on more complex tasks in fields such as medicine, accounting and law.

A recent US analysis suggested that by 2027 the US economy will lose 17% of existing jobs to robotics but it will create 10% more new jobs- the net loss of 7% is equal to the job losses experienced in the Great Depression of the last century.

In Australia, some estimate than some 40% of our current jobs are considered at high risk of automation of the next 10-15 years.

Others argue that automation does not necessarily mean a net loss of jobs. Research recently undertaken by Google and the RSA Future Work Centre found that mass automation is unlikely because:

- There are still many things that machines cannot do
- In most cases, AI and robots will automate individual tasks rather than whole jobs
- AI and robotics will complement what humans do, enabling people to achieve more and do better work.
- New jobs will emerge

Whilst technology will inevitably displace many jobs it is also making being a self-employed global worker easier than ever. Digital platforms like Expert360, Amazon mechanical Turk, Fiverr, Task Rabbit, Upwork, and Freelancer enable sellers and buyers of products, services and specialist skills to interact instantaneously and at low cost.

Just as these new digital platforms created new types of jobs over the past decade, so might AI and the IOT result in new types of jobs that we can’t clearly foresee today.

Figure 2: (‘Workforce of the Future: The Competing Forces Shaping 2030’, KPMG, 2017)

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7 Source unknown
9 ‘The New Work Order’ (Foundation for Young Australians (2015)
GLOBALISATION

Globalisation has meant that individuals and businesses can exert greater ‘pull’ by finding and accessing people and resources from across the planet whenever they need them. Technology is making it possible for employers to connect with, combine and leverage talent wherever it resides – in fields as diverse as accounting, medical, design, legal and other professional services.

Globalisation has reordered how supply chains work, and it has often dramatically lowered the price point for goods and services today. It is relatively easy for local companies to access various suppliers of specialist components or services from anywhere in the world in order to support their business growth in Australia.

Globalisation also means that there are also many more customers available to local producers of goods and services. Many Australian workers are already providing services to overseas customers from Australia.

"...new technology platforms are making it possible for foreign workers to jobs in Australia from remote locations including legal, IT, architecture, and business services. Research suggests that up to 11% of service sector jobs may be at risk from being lost to workers undertaking jobs in Australia form foreign countries."

10 ‘The New Work Order’ (Foundation for Young Australians (2015) page 7)
Global demographic change is fundamentally altering the structure of economies, as well as the social and cultural orientation of our communities, businesses and workplaces.

### POPULATION AGEING
The number of Australians aged 65+ years will increase from 3.2 million in 2012 to between 9.0 million and 11.1 million in 2061\(^{11}\). These changes will mean:

- An increased need for specialist health, housing and lifestyle services
- A shortage of workers and ageing population will impact on a declining tax base from which to fund pensions, health services, etc. Older people will remain in the workforce for longer.

### MIGRATION
Overseas migration will continue to be a major component of Australia’s population. The influx of working-aged residents will help service and the jobs in the economy, pay taxes and supplement national talent.

Imigration to Victoria will mean that Melbourne will have a larger pool of residents of working age than the rest of the nation.

If this forecast proves correct, then Melbourne will be well positioned to generate employment and types of economic activity that supports and counter-balances the economic impacts of the older members of our community.

![Figure 4: Victoria In Future 2016](image)

**Ageing populations will transform everything from health care to real estate.** Millennial dominated workforces will reinvent the workplace. Urbanisation will increase cities economic clout even as it strains their ability to grow in sustainable ways. Migration and immigration will have profound impacts on workforces and economic development.\(^{12}\)

![Figure 5: Victoria In Future 2016](image)

11. Population Projections Australia 2012 to 2101 (ABS Publication 3222)
12. ‘The Upside of Disruption: Megatrends Shaping 2016 and Beyond.’ (Ernst and Young, 2016)
INCREASED URBANISATION

Victoria’s population will almost double over the period 2012-2061, and Melbourne will accommodate the majority share of this growth – Melbourne is forecast to be a city of 8 million people by 2051, and additional 700,000 jobs are also likely to be created in this time period.

Melbourne will need to provide more homes, more places of work, and better transport networks in order to sustainably cater for this growth. Already scarce urban land will need to be used even more efficiently, and there will be debate over what is the best use of land in Melbourne’s established areas.

MILLENNIALS SHAPING THE WORKPLACE OF THE FUTURE

By 2025, millennials will represent more than 42% of the Australian workforce.

Millennials will bear many risks associated with automation and globalisation (eg job insecurity, unemployment), but in turn they will shape the opportunities that arise from them, such as lower barriers to starting up a business, greater flexibility and access to wider markets.

The 2017 Deloitte Millenial Survey found that millennial workers: place a high value on flexibility in the workplace and they are cautiously optimistic about the impact of technology and automation.

“...are used to being connected, collaborative, and mobile. Millennials are used to sharing with each other, communicating through social platforms, working from anywhere, having a voice, and learning about what interests them. This is a big factor shaping the future of work as organizations seeking to attract and retain top talent are going to need to adapt.”

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13 ‘2012 (Base) to 2101 Population Projections’ (ABS Publication 3222)
14 Victoria in Future 2016.
15 Plan Melbourne (2017), p 20
16 ‘Australia in 2020: A Snapshot of the Future’ (McCrindle Research, 2016)
02
RE-SHAPING THE NATURE OF WORK

• Future jobs growth
• Flexible work trends
The nature of business and work has already been radically shaped by social and technological changes over the past 5-10 years:

- Social networks are fuelling the participatory economy
- Working from the cloud has become the norm
- Social and mobile computing has become ubiquitous
- Customers control commercial relationships more than ever before
- You no longer need cash to start a business
- Work is shifting from full time to free agent employment
- Individuals shoulder the risk burden for things like superannuation, income protection, etc.
- Immigrant entrepreneurs are driving a new wave of globalisation
- Data is critical for competitive advantage
- The digitally savvy kids from a decade ago are now in the workforce and are changing everything
- Baby boomer are older but staying in the workforce for longer
- Women are fuelling small business formation

Research by Intuit and others suggests that more changes are yet to come:

- Niche markets will flourish in the new economy
- Localism will create new ways of living
- Freelancers and global giants will more frequently collaborate in the sharing economy
- Smart machines will just keep getting smarter
- Generation Y is shaping up to be the most entrepreneurial generation ever
- Health and wellness spending will continue to soar.

This chapter explores how these trends are likely to affect the type of work and how people do work in future.

‘The coming decade will be complex, volatile and uncertain, but it will also provide many new opportunities...’

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18 ‘Twenty trends that will shape the next decade’, (Intuit, 2010)
THE TYPE OF JOBS THAT ARE EXPECTED TO GROW AND DECLINE

Technology and service-oriented job sectors are expected to thrive in the future economy, whilst various types relatively predictable or low-skilled work (such as manufacturing, transportation, logistics, administration, data-processing, and various types of physical labour roles) are expected to be affected by automation and artificial intelligence.

The Foundation for Young Australians has identified that the way work is defined in future will evolve into a series of clusters where workers within similar skills can readily transfer across types of work within any given cluster. Certain job clusters are at higher risk of being adversely affected by disruptive trends and the future prospects for employment in these clusters is expected to be weak (examples include machinery operators, book-keepers, printers, law clerks, receptionists, admission clerks, etc.).

Figure 8: [‘Jobs Lost, Jobs Gained: Workforce Transitions in a time of automation’, Mckinsey Global Institute December 2017]

![Figure 8](image)

Figure 9: [‘The New work mindset’, FYA 2016]

<table>
<thead>
<tr>
<th>Clusters</th>
<th>Growth and Automation</th>
<th>Future Prospect</th>
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<tr>
<td>‘The Generators’</td>
<td>Job Growth (2010-15): 7.4%</td>
<td>Moderate</td>
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<tr>
<td></td>
<td>Affected by automation: 45%</td>
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<td>‘The Artists’</td>
<td>Job Growth (2010-15): 5.6%</td>
<td>Weak</td>
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<tr>
<td></td>
<td>Affected by automation: 77%</td>
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<tr>
<td>‘The Creators’</td>
<td>Job Growth (2010-15): 18.0%</td>
<td>Strong</td>
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<td></td>
<td>Affected by automation: 26%</td>
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<td>‘The Coordinators’</td>
<td>Job Growth (2010-15): 3.0%</td>
<td>Weak</td>
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<td>Affected by automation: 71%</td>
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<tr>
<td>‘The Designers’</td>
<td>Job Growth (2010-15): 13.1%</td>
<td>Moderate</td>
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<td></td>
<td>Affected by automation: 43%</td>
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<tr>
<td>‘The Informers’</td>
<td>Job Growth (2010-15): 7.6%</td>
<td>Strong</td>
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<td>Affected by automation: 36%</td>
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<tr>
<td>‘The Technologists’</td>
<td>Job Growth (2010-15): 19.0%</td>
<td>Strong</td>
</tr>
<tr>
<td></td>
<td>Affected by automation: 50%</td>
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</tbody>
</table>

19 ‘The New Work Mindset’ (Foundation for Young Australians (2015)
FLEXIBLE WORK - RESHAPING HOW AND WHERE WORK HAPPENS

Increasingly, knowledge-work is being done outside of the traditional notions of the company, employee and office. Many workers today are not direct employees of large companies, although they may contract to them or collaborate with them. Even where workers continue to be employees, they work on a very different basis to the traditional permanent desk-worker of the past. How and where people work is changing as a result of the following trends:

UNBUNDLING OF JOBS FUNCTIONS
One of the most significant effects of technology, globalisation and demographic shifts has been the rapid unbundling of not just business functions and supply chains, but also the individual tasks that were previously rolled up in discrete job descriptions.

TECHNOLOGY WHICH ENABLES WORK TO BE DONE ANYWHERE
Mobility has become synonymous with productivity - workers are no longer bound to their desks or offices in order to be productive. The mass adoption of mobile technology has created an environment where workers expect to leverage mobile technology at work. The fact that workers can communicate through apps, online, email, phone calls or in person, means that there are many more locations available from which to do work.

THE COMPLEXITY OF INNOVATION IS RE-VALUING FACE TO FACE COMMUNICATION
Collaborating across disciplines requires a greater focus on team building and collective problem solving. Regular face to face communication reduces the risk of complex technical information and ideas being lost in translation, and it also creates opportunities for unexpected ideas to form as happy by-product of incidental and tangential discussions.

‘Ideas move imperfectly over space.’

Workspaces need to incorporate many types of informal spaces for face to face communications – building foyers and atria, internal staircases, corridors, shared kitchen lounge spaces are critical to facilitating informal conversations. Such spaces are increasingly programmed by building managers in ways which foster workers to come together and share ideas and stories.

“[flexible work] is unlikely to herald the death of the firm. For many tasks, firms will remain the most efficient way to organise resources. However, as technology lowers the transaction cost and risks associated with finding, verifying and paying for talent, the logic of the firm won’t hold true for all tasks, and we’ll continue to see flexible forms of work on the rise.”

THE OPEN AND COLLABORATIVE NATURE OF THE INNOVATION PROCESS IS CHANGING THE WAY PEOPLE WORK
Innovation is increasingly a collective process. Companies are increasing utilising a process of ‘open innovation’ where new ideas are generated and brought to market by drawing on both internal and external sources. The ‘open licence’ research collaboration between Google, Facebook, Amazon, Microsoft and Amazon is high profile example of this model.

Workspaces need to be purposefully designed as flexible, collaborative spaces in order to enable open innovation to occur.

THE GROWTH OF THE SHARING ECONOMY
The sharing economy is based on the notion that assets that are not used all the time can be rented or shared with others. The millennial generation has quickly adopted ‘pay as you go’ and membership-based model of consumption (eg Uber, Carshare, streaming movies and television shows, listening to music via Spotify rather than purchasing CDs) and they place relatively less emphasis on consumerism and ownership (homes, cars, products) than previous generations.

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21 These office space design issues are discussed in greater detail in the report ‘Innovation Spaces: the New Design of Work’ by Julie Wagner and Dan Watch (Brookings Institution, April 2017, p.18)
22 The New Work Order’ (Foundation for Young Australians (2015))
Combine this trend with the ubiquity of mobile technology and the millennial’s deep connections to online social networks, and it is easy to see why this generation has rapidly adopted the sharing economy ethos. The freelance worker is a flexible and readily available resource in this new sharing economy.

**COMPANY EFFICIENCY AND PRODUCTIVITY**

For large companies, work can be done by people who are on or off the company balance sheet, and by workers who either work at the company headquarters, a satellite location or remotely. Companies utilise consultants/freelancers, crowd-sourced labour, contract-based workers and transactional remote workers to reduce the company headcount and provide flexibility to scale resource levels up or down as needed. Companies are increasingly placing tenured workers in satellite offices, or supporting remote work (in co-work spaces or at home for example) to reduce the fixed cost and provide more flexibility in relation to staff of accommodation.

“**Firms that are making use of these models are in essence ‘network orchestrators’ connecting to skills and resources on demand rather than owning them.”**

Companies today have considerable scope to reduce ‘balance sheet’ costs and to scale their human resource needs up or down as needed. This is a major driver of the rapid growth in professionals and specialists who are consultants, freelancers, sole traders.

**WORKERS SEEKING MORE FLEXIBLE WORK AND LIFESTYLES**

The worker of the future will place high value on flexibility, social connectedness, health and wellbeing, collaboration, and achieving positive impacts. They will seek workplaces that provide these characteristics.

The workplace of the future will be shaped by the ‘push and pull’ effect of collectivism vs individualism and integration vs fragmentation. Research undertaken by

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23 EY Megatrends 2015: making sense of a world in motion, page 13
PWC identifies four possible world of work in 2030, based on the likely interplay between each of these variables, as illustrated in Figure 11.

If these scenarios are realised, then future workplaces will be much more diverse, including:

- Highly agile companies focussed on the rapid commercialisation of new ideas and technology.
- New forms of collaborative ‘workers guilds’, where individuals with specialist skills collaborate to undertake work.
- Companies centred social and environmental stewardship.

The common theme across these three alternative scenarios is flexibility – where the worker is less tied to a single company, job description, location or set of working hours. Workers will also seek work experiences that expose them to more diverse projects, and that help them to develop more rapidly than a simple-employer career.

Flexible work and collaboration with others will be the new norm for many workers. This trend is already upon us - a recent US study found that 94 percent of net job growth over the period 2005-2015 was ‘alternative work’ defined as independent contracts and freelancers. In Australia, around 30% of the work-force is already engaged in flexible work, including moonlighting, juggling multiple part time and casual roles and independent contracting. Freelancers and contingent workers are likely to form various types of collaborations to undertake projects, and that over time, collaborations will evolve into perpetual teams or even new companies that capitalise on their combined skill-sets and newly created networks.

Whilst the gig economy of today is largely made up of people undertaking rudimentary tasks such as Uber and Airtasker, it is likely that in future gigs based on more analytical and sophisticated tasks will become commonplace.

Whist there are many risks for workers in this new work order (including unemployment, inequality, insecurity) the barriers to trying new ideas and starting new businesses are lower than ever.

The workplace of the future will increasingly have the following characteristics:

- Work can be done anywhere, any time
- The office is about connecting with others
- Office spaces will be active, social and flexible environments
- Technology is completely embedded into daily working life
- Work and life are blended - workplaces will support flexibility for fitness, health and personal matters.


25 ‘Culture Clash: Flexible workplace, cowering and the future’, Knight Frank August 2017
Figure 11: ['Workforce of the future: the competing forces shaping 2030', PWC, 2017]
RE-SHAPING WHERE WE WORK

• The flexible office
• Lifestyle oriented workspaces
• Integrated living/working spaces
• Artisan manufacturing & 'guild' spaces
• Creative spaces & cultural venues
Until recently, paid work was largely done from long-established workplace (such as offices, factories, warehouses, shops, etc.) and to a much lesser extent from people’s homes.

Whilst much of the work of the future will continue to be done from such locations, it will increasingly be done from new types of workplaces. This chapter explores the following new types of workplaces:

- The flexible office
- Lifestyle-oriented workspaces
- Integrated living/working spaces
- Artisan manufacturing and ‘guild’ spaces
- Creative spaces and cultural venues

Some of these workspace models (such as the co-work space and the humble public library) are familiar, although the nature of how they operate as workspaces is rapidly changing. Other models are less well established in Australia but they have the potential to substantially enhance the choice available to workers of the future.
THE FLEXIBLE OFFICE

THE GROWTH OF CO-WORKING AND THE FLEXIBLE OFFICE.

Co-work spaces are a type of flexible workspace, but they are differentiated from the traditional 'serviced office' products by their emphasis on creating social, collaborative and informal work spaces.

Co-working offers a solution to the problems of isolation and distraction that many freelancers experience while working at home. Such spaces typically work on a membership model and operators usually curate their spaces to foster social interaction, networking, shared learning, collaboration and peer support. The layout and aesthetic of co-work spaces is typically more casual and communal than traditional office spaces.

“Flexible workspace is no longer a disruptor. It is a fundamental part of the commercial real estate market and a sector in its own right.”

The growth of flexible workspaces has had a major impact on the office market worldwide. Whilst such spaces only represents a small overall share of office space in most capital cities across the world, Colliers (2017) estimates that there will be a 30% growth in the take-up of flexible workspace year on year, and there are even some estimates that around 30% of entire corporate real estate portfolios will be flexible workspaces by 2030.

The growth in flexible workspaces in Australia has been exponential, albeit that it has come from a very low base.

26 Colliers, 2018

Figure 12: Exponential growth of Australia’s coworking industry [Culture Clash: Flexible workspace, coworking and the future’, Knight Frank August 2017]

The Cowork Collective, Brunswick
A substantial part of the growth in flexible workspaces across the globe has come from corporate providers of flexible workspaces, commercial real estate operators and private corporations. For example, in the United Kingdom around half of the flexible office space created over the past 5 years has been created by WeWork, Google and Amazon.27

Private corporations and real estate operators are increasingly integrating features of the co-work model into the design and management of their spaces. At the same time, there has been a substantial takeup of co-work space by large companies, together with an increase in the amount of private office space created in such facilities. These convergences have been so great that many now simply group co-work, serviced office and other variants into a single ‘flexible workspace’ category.

From a commercial perspective, the flexible workspace model is simple. An operator leases a large commercial space, breaks that up into a mixture of private offices and communal workspaces, blends in good design and community features and then sub-leases it to end-users at a mark-up. Recent evidence suggests that more co-work space achieve profitability as the size of the membership base increases.

“Flexible workspace is a low-margin, low-volume business, with low barriers to entry and therefore operators need to develop stickiness in order to retain strong occupancy levels and drive profitability.”28

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27 Cushman and Wakefield (UK, 2017)
28 Colliers, 2018
WHERE ARE FLEXIBLE WORKSPACES TYPICALLY LOCATED.

Flexible workspaces across Australia are predominately located in the central city and inner metropolitan core of large cities. In Melbourne around two-thirds of spaces are located in the CBD and city fringe.

Research by Colliers across the Asia Pacific region, shows that flexible workspace operators that cater to larger corporates typically seek locations locate in CBDs whereas facilities catering to freelancers and startups more commonly take up space in CBD fringe or suburban locations.

‘Co-working is not just about fining a cool place to work…Its about having a fabric of locations for people to figure out how they want to do their life.’

For a city such as Melbourne, the question will be whether the flexible office model takes hold at scale in middle and outer suburban areas. It seems highly likely that demand for workplaces outside of Melbourne’s inner core will grow in response to urban congestion and long commute times. Being close to home, school, recreation activities creates much more flexibility for workers, especially those with young children who are juggling school drop-offs and child care. Suburban co-work facilities are already emerging in locations like Point Cook and Ringwood and more are likely to follow.

Figure 14: [www.bizbuddyhub.com.au]

Figure 15: Australian coworking spaces by location type (Coworking Spaces in Australia: An introduction to the growing coworking industry in 2017, Tim Mahlberg & Kair Reimer)

29 Colliers 2017
30 ‘Why co-working is moving to the suburbs’ by Pooja Makhijani (The Atlantic Citylab, December 2016)
WHO IS USING FLEXIBLE WORKSPACES AND WHY?

Flexible workspaces memberships are highly diverse, and include freelancers, micro/small businesses, startups and larger corporations seeking temporary project space or flexible touch-down space for their employees and contractors.

The appeal of flexible workspaces to startups and small businesses is obvious. Conventional office markets don’t cater very well to their needs - institutional landlords typically offer commercial office space that is much larger than a sole-trader or small company needs or can afford. Commercial leases are typically long term and inflexible and they come with onerous security requirements (6 to 12 month bank guarantees are common). The fitouts (where provided) usually comprise uninspiring partitions and cubicles. If refurbishment is required (it usually is) the fitout costs are expensive.

Co-working spaces overcome all of these issues, and they are increasingly becoming the workspace of choice for small businesses and freelancers. For self-employed freelancers, micro/small businesses and startups other benefits of co-working include:

- High amenity and ease of use
- Access to technology
- Flexibility
- The potential for serendipitous encounters
- A sense of belonging and identity

For self-employed and freelance workers, professional ties are strongly enhanced by membership in a co-working space, with members typically reporting significant expansion in their professional networks, peer-support and work/business referrals. Critically, co-working is a way of freelancers feeling part of a community and avoiding a sense of loneliness or isolation31.

31 See “Co-working is not about workspace- its about feeling less lonely.” by Steve King Harvard Business Review December 2017.
Many have argued that large corporations are taking up flexible work space because they are seeking a more collaborative work environment and they want to align themselves with innovation and talent. The argument goes that multinational corporations are attracted to co-work spaces because they enable employees to align with innovators, attract and retain talent and to provide a diversity of work environments.

There is certainly evidence to support such a view. In 2016, Microsoft announced that 30 percent of their employees in New York City will have access to WeWork locations, and companies like Barclays Bank and IBM have partnered with co-work operators to run co-work spaces within the headquarters. Companies like Unilever are establishing co-work facilities with in house incubator and accelerator programs.

However, others have observed that the corporate take-over of space once reserved for creative industries are mostly driven by the flexible lease arrangements are reduced rental costs, and that the notion of collaboration between corporate employees and startups is a myth:

"...In our survey of Asia’s top 200 occupiers, 44% choose flexible workspace to benefit from flexibility of lease term, followed by 20% looking to reduce capex. Only 16% are looking for a creative environment and a mere 7% to access the innovation of the start-up community within their chosen operator’s space. This demonstrates that multinational corporations have little interest in collaboration. This, coupled with security and privacy being in their top three concerns, ensures that multinational corporations, as end-users, keep themselves in private offices – effectively ensuring that collaboration is a one way street and the other endusers within the community do not get much back,"

There is evidence that the flexibility of the co-work offering to corporations leads to cost savings averaging at 25% compared against traditional offices, but that these savings diminish over time.

Figure 17: [JLL Research, 2016]

There is evidence that the flexibility of the co-work offering to corporations leads to cost savings averaging at 25% compared against traditional offices, but that these savings diminish over time.

Cost Savings Based on a Hong Kong Example

![Cost Savings Graph](image)

Figure 18: Cost function overtime ['Coworking: analysis of flexible workspace an Hamburg, Germany', JLL Research, 2017]

Figure 19: [The Flexible workspace Outlook Report 2017, Collier]

The Flexible workspace Outlook Report, Collins 2018
REPURPOSING OLDER BUILDINGS

“[F]or really new ideas of any kind—no matter how ultimately profitable or otherwise successful some of them might prove to be—there is no leeway for such chancy trial, error and experimentation in the high-overhead economy of new construction. Old ideas can sometimes use new buildings. New ideas must use old buildings.”

In Melbourne, nearly 90% of co-working spaces occupy secondary grade commercial building space. Knight Frank Research have noted that the workspace preference of co-work operators and members differs from the traditional office sector, with secondary grade and under-utilized stock well suited for this industry from both a cost and fit-out perspective:

“ A large majority of co-working operators across Melbourne, notably in the City Fringe, are located in converted warehouses or factories including decommissioned knitting mills, framing factories, woolsheds and heritage listed buildings. With many operators establishing in lower cost fringe locations, there is evidence of nano-cores (new fashionable zones created in often run down areas) emerging. Areas such as Cremorne, Abbotsford, Collingwood and more recently Footscray, traditionally industrial and manufacturing suburbs, have been revitalized into commercial hubs through a plethora of co-working spaces and the diverse business sectors they attract.”

The occupation and repurposing of older buildings by co-work operators only partly about the relatively affordability of such buildings. In fact, land values of Melbourne’s inner city industrial and commercial areas are so high now that they could hardly be described as affordable locations.

The research of CBRE and others identifies the importance of reinventing old building stock to the tasks of creating ‘buildings with soul’.

“There is a tenant preference for character over glossy Class A. People increasingly want a loose and casual work environment over suit and tie corporate offices. Class A/B/C categories no longer make sense; perhaps pre-war building types should be replicated.”

33 Jane Jacobs, the Life and Death of American Cities, p. 245
34 ‘Melbourne’s Co-working Culture: Research Insights’ Knigh, (Frank Research July 2016)
YOUNGHUSBANDS WOOLSTORE, KENSINGTON

The historic Younghusband Wool Stores complex has been used as a base for 300 or so artists and creative industry workers.

In 2011 a proposal to construct an apartment building on the site was rejected by the City of Melbourne, primarily due to the site’s adjacency to the Allied Four Mill which operated 24 hours a day.

Council subsequently applied heritage controls to the site, and the property changed hands to the Impact Investment Group (IIG). The IIG has obtained approval to refurbish 17,000 square metres of space within the existing buildings, as its first stage of the creation of a new industrial village on the site.

This approval provides for the rejuvenation of the woolstore for use as offices, shops, studios and new communal indoor spaces. It will quadruple the employment levels on the site to circa 1200 people.

The ultimate IIG vision for the site is for it to become a mix of education, arts, production, co-warehousing and co working space. The core building program will centre on food, education, the arts, technology, co-working and wellness. It will ultimately include 40,000sqm of office and retail space.
EMERGING TRENDS WITH FLEXIBLE WORKSPACES

The global rise of co-working has stimulated the following trends in flexible workspace:

- Flexible workspace operators are striking deals with larger corporations based on a ‘core and flexible space’ model, whereby core space (the minimum required for the business to function efficiently) is rented on a longer term lease, and flexible space (ie space available for projects, overflow office space, gathering spaces for team meetings and events, meeting space, etc) is rented on demand.
- Landlords (either by themselves or by partnering with an operator) are embracing co-working concepts to give life to their buildings and help incubate firms that eventually will lease office space at their properties.
- Companies are including co-working facilities within their own operations, for use by their own staff, as well as contractors, clients (eg Westpac Bank, Docklands) and third parties (Nous Group).
- Some companies are establishing a ‘city campus’ model whereby a business has its HQ office and reduces its physical footprint, enabling it to put a number of its staff onto a digital platform that grants hot desk or even private office space across a number of locations within a flexible workspace operators portfolio.

Figure 20: [Flexible Workspace Outlook Report 2018, Collier]
“Co-working centres represent a particular unique type of shared space because their fundamental premise is neither about the efficiencies of sharing, nor the access to a much greater diversity of space and setting types, but about curating an experience of work. Co-working centres don’t just build spaces for work, they build communities of work and those that run them successfully have a finely tuned awareness about the creation of experience.

For millennials, work and life are increasingly blended – they seek workplaces that support flexibility for fitness, health and recreation.

The idea of a curated lifestyle workspace builds on research by CBRE (2014), which suggested that workplaces of the future would blur distinctions between work and life, by:

- Integrating health and wellbeing into workplace design
- Curating experiences to build community within workplaces
- Creating buildings with soul

The CBRE research urged building owners, developers and managers to:

‘activate buildings, provide useful amenities, mix-up uses, introduce gardens, and use the roof the lobbies and ground levels. Create spaces for serendipity and places where the creative arts community and young and emerging businesses can add to the cultural diversity and experience of a building. Building providers will need to bring a service mindset and skills, and if they don’t have them they will need to partners with the emerging organisations that do.”

A number of workspace operators (such as Naked Hub in Asia, and Rise by WeWork in the USA) are now creating buildings and spaces that offer large components of health, wellbeing and recreation services ranging from yoga studios and gyms to medical/wellbeing suites, bars and cafes.

“Create a Life, Not Just a Living” is in WeWork’s DNA. Rise is a clubhouse for the soul, based on the principles around Social Fitness... Moving from the Future of Work to the Future of Wellbeing.”

“We’ve built a global network of spaces where people work to make a life, not just a living. In that spirit, we’ve brought wellness classes into our workspaces, but still heard from members that they’d love more support in their mind-body goals... What good is success if you’re not taking care of yourself?... Whether you’re looking for personal training, massages, meditation, or a rejuvenating cocktail, you can find it all under one plant-filled roof.”

A number of workspace operators (such as Naked Hub in Asia, and Rise by WeWork in the USA) are now creating buildings and spaces that offer large components of health, wellbeing and recreation services ranging from yoga studios and gyms to medical/wellbeing suites, bars and cafes.

36 Fast Forward 2030: The future of work and the workplace, CBRE, 2014) p. 37
37 Fast Forward 2030: The future of work and the workplace, CBRE, 2014), p. 10
38 https://www.risebywe.com/about/
MIXED USE IN MELBOURNE: MOLLISON ST, ABBOTSFORD.

Whilst apartment developments with a non-residential ground floor are common in Australia, there are relatively fewer examples of vertically integrated mixed use developments that provide for living and working spaces under the one roof. However, as the inner parts of Sydney and Melbourne become denser and more diverse, such developments are becoming more commonplace.

A recent proposal in Mollison Street Collingwood incorporates space for a business incubator, wellness centre, child care, retail/café, theatre and presentation centre on the lower levels of a mixed use apartment building.
The provision of housing close to where work happens is a critical factor in the success of any city. The concept of live/work can be realised at the scale of a precinct, an individual building or an individual living/working space.

Accommodation spaces that combine both living and working spaces was commonplace up until the industrial revolution (e.g., bakeries, shops, pubs) but the modern reincarnation of the concept emerged via the colonisation of under-used industrial areas for living and working in places like SoHo in New York City in the 1970s. Such spaces were initially occupied illegally by creative communities and subsequently legitimately by real estate developers and speculators.

City planning departments in the US and UK began to see the introduction of ‘live/work’ as a method to revitalise urban areas suffering from a decline in manufacturing uses.

The policies were intended to stimulate activity in locations where market demand for employment space was apparently declining.

In the UK, a number of reviews of live/work policies found that over time, developments that received consent as ‘live/work’ were often only used for residential purposes. Many boroughs in the UK have since revoked their ‘live/work’ policies and adopted new positions.

The main issues experienced with live/work developments in the UK include:

- Exploitation of policies as a ‘back door’ means of delivering single use residential units.
- Loss of employment floorspace
- Reversion from live/work to residential use over time
- Low employment levels—where the only worker is the resident
- Potential amenity conflicts between employment and residential activities

Notwithstanding, there are still many successful examples of live/work models to be found in the UK, Europe, and the United States.

More recently, many innovation districts and employment areas have taken a more masterplanned approach to fulfilling their ‘live-work-play’ aspirations. Numerous precincts have sought to incorporate affordable housing into workplaces, as a means of increase the vibrancy and attract knowledge workers at the start of their careers.

This is often pursued by mixing apartments alongside workspaces and education, research facilities, however in other situations the live/work concept has been embedded into individual buildings and spaces.

The examples below illustrate some ways in which the concept of live/work has been delivered.

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LIVE/WORK COLLECTIVE: HACKNEY, LONDON.

The collectives in Hackney-Wick in the United Kingdom during the 1990’s were amongst the earliest pioneers of the live/work concept. A series of live-work collectives reinhabited redundant industrial buildings in this location and the live/work concept was defined in London Borough of Hackney’s planning instrument as ‘the provision of integrated living and working accommodation within a single self-contained unit’. Other nearby boroughs followed suit. Whilst many of live-work developments were established in the area over the following decades, there were also many instances where development that were approved as flexible live-work spaces was subsequently occupied as pure residential spaces. Regulating the use of individual private space ultimately proved to be very challenging for local authorities.

CHIPS BUILDING, MANCHESTER

A new-build 8-storey mixed use development comprising workshops/makerspace, flexible space for use as a commercial and community uses, together with 140 apartments.

The ground floor spaces include a health and wellbeing centre, art gallery, and a Fabrication Laboratory (Fab Lab) which has over 2,000 registered users.
JOHN JONES ARTS BUILDING, FINSBURY PARK LONDON

A 6-storey light industrial, office and residential development scheme. The development provides dedicated facilities for bespoke framing company John Jones alongside workspace for other enterprises, plus student and affordable housing.

The ground floor comprises an art gallery and café, and a variety of offices and workspaces are available for rent on the upper levels, above the John Jones business.

BUGRUPPEN ODERBERGER STRASSE 56, BERLIN.

There are numerous successful international examples of mixed-use buildings where apartments, workplaces and other uses are distributed across the floors of multi-level buildings. In some instances, the mix of uses is mandated (via vertical zoning or floor area ratios for example) whilst in other instances, the mix is simply a response to needs and opportunities in the local market.

The Bugruppen Oderberger Strasse 56 in Berlin is an exemplar of the live/work building typology, incorporating a basement workshop, street level shop, café and gallery, rental work space and short term residential studios at first floor and a mixture of rental and owner occupied apartments and guest rooms.
Flexible housing options were a key component of the Boston Innovation District vision from the outset. The District Plan provided for an innovative housing model which combined affordable housing and networking-oriented common spaces designed to enable entrepreneurs work, live and socialise within the District.

A total of 12,000 new residential units have been approved in the District, 15 percent of which are affordable housing and another 15 percent of which are be “micro-units” designed to offer affordability and convenience attractive to Innovation District workers.

One of the first of these buildings in the District was Factory 63, a restored former warehouse, comprising 38 affordable units suitable for living and working, together with shared conference rooms, meeting rooms, phone booths and workstations.

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CURATED LIVE/WORK MODELS.

A number of companies are beginning to venture into live/work models that provide managed short-medium term rental facilities within the same buildings as co-working spaces, including:

- Rent24 live/work building in Hamburg Germany
- Welive live/work buildings in New York and Washington
- The Collective live/work building in London

These curated live/work buildings offer dorm-like apartments which are supplemented by communal facilities — like a grand kitchen, media room, and terrace— as well as activities like daily happy hours, comedy nights, and yoga classes.

“WeLive is a new way of living built upon community, flexibility, and a fundamental belief that we are only as good as the people we surround ourselves with. From mailrooms and laundry rooms that double as bars and event spaces to communal kitchens, roof decks, and hot tubs, WeLive challenges traditional apartment living through physical spaces that foster meaningful relationships. Whether short term or long term, WeLive has flexible options designed to meet your needs.”

As is the case with the co-work desk model, apartment spaces are available on a flexible, short-medium term leasing basis. Various real estate commentators are anticipating that this co-living and live/work model will be extremely popular in Melbourne and Sydney, and Welive is rumoured to be considering establishing this model in Australia.
The Collective, London
Source: https://www.thecollective.co.uk/
ARTISAN MANUFACTURING AND 'GUILD' SPACES

The makers movement is a platform for today’s artisans to create, craft and develop leading ideas and products. It is where "do-it-yourself" (DIY) and invention spills over into small scale manufacturing and sales.

A maker-microbusiness can be defined as anyone who is integrating design and production to create goods for sale. In a world of mass-produced products, modern technology has made it easier than ever for a single individual to create and distribute items that are customizable and unique without having to rely on middlemen like manufacturers, distributors and retailer.

"Technology is changing the way we build — whether sitting at your desk or working on the manufacturing floor. Printers now use plastics and metals instead of just ink. Prototyping happens in a number of hours — not weeks, months or years. Software is sharpening design capabilities beyond a pencil’s reach."

The Intuit 2020 research describes this as the ‘new artisan economy’, although it is also often referred to as small scale manufacturing, urban manufacturing, and simply ‘making’. The artisan manufacturing process varies widely across traditional and new technologies such as 3-D printing, laser printing, 2-d printing, wood and metal fabrication, food production and packaging. The enterprises typically produce high value design oriented products ranging from electronics, prints, furniture, fashion, art, jewellery, craft beer, coffee, etc.

In the new economy, micro and small businesses has the potential to regain meaningful segment of on-demand, specialised manufacturing activities. Micro and small businesses are likely to fill niche markets that larger manufacturers can’t or don’t want to participate. Such businesses are likely to be much more nimble at quickly fulfilling small order sizes and customised orders to client specifications.

‘The makers movement is the physical manifestation of the digital movement.’

For instance, the relatively low-cost 3-D printing and laser cutting technologies has effectively moved certain types of production onto the desktop and into people’s homes and offices. These tools allow rapid and relatively low-cost prototyping of new products, thus substantially reducing the time and cost of getting products to market.

The manufacturing space needs to be able to accommodate the assembly of products, storage of raw materials and finished products, and potentially the display of such products as well. They need to keep operating overheads as low as possible in order to establish and maintain business viability.

Whilst artisan manufacturers do not generate the same amenity impacts as traditional industry, the use of machinery and manufacturing process can nonetheless generate localised noise, dust and odour issues which need to be taken into account in selecting where to operate from.

For all of these reasons, artisan manufacturers often collaborate in maker-spaces so that they can share ideas knowledge, equipment and rent. They typically share common skills and interests, and their collaboration therefore can take on the form of an informal guild or association, where the space is jointly operated on a not for profit basis, in the interest of its members.

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43 GE Garage website (www.ge.com/garages)
45 Nicole Shariat Farb, CEO Darby smart p/l
Prominent examples of urban manufacturing centres in the United States include the Brooklyn Naval Yards, Greenpoint Manufacturing and Design center (both in New York City) and the American Industrial Center (San Francisco)\textsuperscript{46}.

A number of membership-based, open-access, DIY workshops and fabrication studios have been established across the United States. They offer safety and basic equipment training equipment in addition to advanced and special interest classes and workshops. These are supported by successful ‘made local’ branding and marketing campaigns such as ‘Made in NYC’, ‘Make it in LA’, ‘Portland Made’, and ‘SFMade’.

In Australia locations such as Newcastle, South Sydney and Melbourne’s inner north are emerging as locations for artisan manufacturing.

The success of Renew Newcastle is well documented\textsuperscript{47} and it has spawned similar initiatives such as Renew Adelaide, Renew Townsville, Made in Geelong and Pop-up Parramatta.

Large technology and equipment providers are also now looking for ways to support artisan manufacturing – in the US and Europe, GE runs "Garages" to provide space for makers to come learn all about the latest in manufacturing technology. Locally, Autodesk run free courses in computer aided design from the Spacetank makers studio in Coburg.

The size of the makers movement is growing rapidly. For instance, Etsy now has over 1.7 million artisan sellers who have created handmade products to be sold on the site. The site also did over 2.8 billion dollars in revenue in 2016, clearly indicating there is an extremely high demand for these handmade goods\textsuperscript{48}.

In 2015, Amazon launched a maker marketplace to compete with Etsy. When it launched it featured over 80,000 items from about 5,000 sellers in 60 countries.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure22.png}
\caption{Etsy Annual Report 2016}
\end{figure}

\textsuperscript{46} Refer to the report ‘How Cities Can Growth The Makers Movement’ by the National League of Cities (2016) for further details.
\textsuperscript{47} http://renewnewcastle.org/about/
\textsuperscript{48} https://www.huffingtonpost.com/brit-morin/what-is-the-maker-movemen_b_3201977.html
CASE STUDY - SPACETANK STUDIO, COBURG

Spacetank studio describes itself as a product incubator for startups and entrepreneurs. It is a Makerspace offering more than fifteen permanent studio spaces plus a technology lab, woodworking machinery, metal working bay, spray booth, large fabrication area and storage solutions.

A further 450sqm offers more studio space options as well a dedicated 200sqm of flexible project space. Facilities include:

- Laser cutting, 3D Printing, 3D scanning, Vacuum Forming, Multi Axis Milling
- Bronze Forge, Fabrication space, spray booth, storage solutions.
- Traditional woodworking and metal working machinery/equipment.
- Dust extraction and compressed air outlets.

Spacetank Studio also runs training courses and events.
CREATIVE SPACES AND CULTURAL VENUES

Creative industries encompass a wide diversity of activities that are sometimes commercially-driven and export ready, and sometimes community-based and experimental. Creative industries depend on having access to a diversity of creative spaces and cultural venues in order to thrive. Creative spaces and cultural venues form part of a wider cultural production value chain which incorporates infrastructure for creation, production, dissemination, consumption and education.

Creative industries require access to as many parts of this value chain as possible in order to successfully foster innovation and economic growth. The physical spaces associated with this value chain are characterised in the classification framework below.

Commercial and enterprise spaces typically take the form of offices, retail spaces and maker spaces, albeit that specific industries (such as TV and radio broadcasting, film making and sound recording) have very specialised space requirements. Some community and participatory activities (such as business incubation, co-working, makerspaces, housing arts and cultural organisations) are also accommodated within offices, warehouses, factories, shopfronts and public buildings. The various types of flexible work space and guild spaces discussed in Chapters 3.3 and 3.4 of this paper provide appropriate spaces for these activities.

However, the other types of space that support creative industries are typically more specialised, such as performing art venues, exhibition spaces, specialist schools and colleges. They are sometimes delivered by public institutions, although galleries, training colleges and the like are commonly privately operated.

Older industrial areas in inner Melbourne have for many years provided a low-cost base for a wide variety of creative industries. Warehouses in suburbs like West Melbourne, Footscray, Northcote, Brunswick and Collingwood have provide affordable rental space for artist studio, band practice rooms, art galleries, performance spaces, production studios, etc.

“Our creative industries are important to our prosperity. They will drive new approaches to job creation and industry innovation. As our economy transitions and the new jobs of the future emerge, creative industries will be increasingly important to the economic future of the next generation.”

The above framework differentiates ‘commercial and enterprise’ spaces from various other types of spaces.

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49 This description is derived from the Victoria Government’s Creative Industries Discussion Paper ‘Let’s get creative about Victoria’s future Developing Victoria’s first creative industries strategy.’ (2016)

50 The report ‘Mapping Culture: venues and infrastructure in the City of Sydney,’ (City of Sydney and Western Sydney University, September 2016) contains a more detail description of this value chain and its component parts.

51 Martin Foley (Minister for Creative Industries) as cited in the introduction the Victorian Government’s First Creative Industries Strategy (2017).
The barriers to maintaining a sustainable creative industries sector in such locations have been significant over the past few decades.

The challenges include:

- Displacement of existing facilities in locations where zoning changes allow for housing development. Therefore, land value dramatically increases.
- The cost of renting space in a rising property market.
- Challenges associated with negotiating commercial leases – in some instances landlords seek longer term commercial lease commitments (which may be too much financial commitment for a fledgling cultural enterprise) and in other cases landlords only want to commit to very short term leases because their intention is to redevelop or sell the site in the shorter term. Challenges associated with negotiating red tape to obtain the relevant approvals.
- Costs associated with fitting out buildings to comply with town planning, building and OHS regulations.
- Finding the up-front capital to fit out the building for the new use.
- Securing critical mass to generate sufficient income to cover rent and operating costs – it is common for creative industries to band together to generate the funds needed to secure a space. Maintaining tenant occupancy at a level which sustains the facility is often a challenge.
- Creating a business model that generates multiple revenue streams to assist with the financial sustainability of the facility. This might include running courses and events, leasing out space for filming, photo-shoots, etc.
RE-SHAPING HOW MELBOURNE CATERS FOR WORK

• Innovation Districts

• Enterprise Areas
The preceding chapters have defined the future of work in Australia as centered on knowledge and creativity-based industries which will require a diversity of spaces suitable for advanced manufacturing, research and development, artisan manufacturing, flexible and collaborative work, as well as spaces that support the integration of working, living and recreation.

Melbourne’s city plan and zoning framework currently caters for some but not all of these activities. Whilst various types of work are spread right across cities and regions, creative and knowledge-intensive businesses and workers tend to agglomerate in the centre of capital cities and other inner urban employment centres because:

• Central cities offer critical mass, with large customer bases and access to suppliers.
• Co-location provide opportunities for the transfer of skills and innovation (known as ‘knowledge spillovers’) between businesses and individuals
• This typically provides access to the greatest number of knowledge-workers for businesses, and the greatest number of job-opportunities for those workers (known as ‘deep labour markets’)

Combined, these are powerful locational drivers for businesses and workers engaged in knowledge industries. Knowledge-oriented work will continue to locate in places where businesses and worker can ‘rub shoulders’, share knowledge, skills and opportunities in various ways.

Plan Melbourne proposes an enhanced economic geography which has the following characteristics:

• An expanded Central City
• Seven National Employment and Innovation Clusters (NEICs)
• Enhanced health and education precincts
• Consolidated investment into a series of Metropolitan Activity Centres
• Major urban renewal sites redeveloped for jobs and housing
• Provision of adequate commercial land across Melbourne

The expanded Central City provides opportunities for the workspace needs of larger and well established knowledge-intensive businesses to be met (in the CBD, Docklands, Southbank, Carlton and Fishermans Bend).

As the city expands, the NEICs are expected to play a larger role in also catering for workspace needs of knowledge intensive businesses.

Melbourne’s network of activity centres, together with local-scale industrial, community health, education and community precincts will provide locations for the range of population serving jobs that the city needs to function efficiently.

Melbourne also has a substantial stock of land in defined State-significant industrial precincts to meet the larger-scale manufacturing, warehousing and logistics needs of our city over the long term.

The majority of the seven designated NEICs closely align to the idea of ‘innovation districts’ that have been pursued elsewhere in the world. Each present substantial opportunity for renewal and each is co-located with universities, research centres, hospitals and/or activity centres. In particular, NEICs such as Parkville, Monash and Fishermans Bend all offer the necessary pre-conditions to function as an innovation district.

In addition, many of the older industrial areas within the inner and middle suburbs of Melbourne are still well connected to the economic mass of the central city, and they offer many of the pre-conditions needed to support innovation, business and employment growth. These locations are referred to in this report as ‘enterprise precincts’.

The concept of innovation districts and enterprise precincts are explored further in this chapter.

52 ‘Productive Cities: Opportunity in a Changing Economy’ (Grattan Institute, 2013)
Map 3

Jobs and investment

- Central city
- National employment and innovation cluster (NEIC)
- Metropolitan activity centre
- Metropolitan activity centre - future
- Health and education precinct
- Health precinct
- Education precinct
- State-significant industrial precinct
- Transport gateway - major airport
- Transport gateway - airport
- Transport gateway - seaport
- Inland freight terminal (indicative)
- Metro Tunnel (rail)
- Urban growth boundary
- Urban area
- Road network
- Rail network
- Waterway
- Waterbody
- Metropolitan Melbourne region

Figure 24: Map 3 Jobs and Investments, Plan Melbourne 2017-2050 [Department of Environment, Land, Water and Planning]
INNOVATION DISTRICTS

The Brookings Institution has described innovation districts as follows:

“Innovation districts constitute the ultimate mash up of entrepreneurs and educational institutions, start-ups and schools, mixed-use development and medical innovations, bike-sharing and bankable investments—all connected by transit, powered by clean energy, wired for digital technology, and fuelled by caffeine.”

The Brookings research has identified three types of innovation districts:

- Anchor-plus models – large scale mixed use development centred around major anchor institutions and related firms in downtowns and midtowns of major cities.
- Re-imagined urban areas – often along historic waterfronts where industrial districts are undergoing physical transformation, and change is powered by transit access, historic building stock and proximity to downtowns in the rent cities, supplemented by advanced research institutions and anchor companies.
- Urbanised science parks - Re-urbanisation of the traditional suburban office park with higher densities, mixed use and improved amenity.

Innovation Districts can be generally described as having the following characteristics:

- Focus on a certain set of industries, topics, or the unique features of the local economy
- Bring together ‘hotspots’ of activity which bridge local interests with national economic / research agendas and international trade opportunities
- Create a mixed use environment for diverse interactions between individuals, organisations and institutions.
- Invest in transport and ICT infrastructure

There are numerous examples of innovation districts across the US and Europe, notable examples of which include the Boston Innovation District, South Lake Union (Seattle), Here East (London), Chiswick Park (London) and Kendall Square (Massachusetts).

The critical spatial planning features of innovation districts are illustrated in figure 25. A review of a number of emerging and established national and international innovation districts confirms the importance of these characteristics to driving investment and growth.

The Amsterdam Science Park and Macquarie Park (NSW) case studies illustrate the diversity, land use mix and urban density typically found in contemporary innovation districts.

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53 ‘The rise of innovation districts: A new geography of innovation in America’ (Brookings Institution)
54 Refer to ‘Innovation District Opinion Paper:’ A model for a thriving national innovation ecosystem.’ (Optus, 2017) and ‘Cultivating a Successful Innovation District: The Bays Precinct, Sydney’ (Urban Growth NSW)
ACCESSIBILITY
Efficient access for workers (public transport, walking, cycling) and goods (freight networks)

DIGITAL CONNECITIVITY
High capacity IT infrastructure, including broadband and free public WIFI

ANCHOR ENTERPRISES/INSTITUTIONS
Including universities, research organisations and large corporate anchors

SPACES FOR COLLABORATION
Cowork spaces, makerspaces, training spaces, incubators, public innovation centres, cultural facilities, event spaces, art galleries, etc.

CRITICAL MASS OF RELATED INDUSTRIES
A density of businesses and enterprises that can collaborate and support each other.

ACCESS TO AFFORDABLE HOUSING
Either close to the precinct, or integrated with it, in the form of student accommodation, affordable short-stay accommodation, curated live-work accommodation, etc.

AFFORDABLE WORKSPACES
A diversity of affordable work spaces which cater for the needs of individual freelances, small businesses, emerging and larger established companies.

FLEXIBILITY
A planning framework that provides flexibility to respond to changes in industry and technology.

HIGH QUALITY URBAN ENVIRONMENT
Comprising mixed use, urban density, high quality buildings and public spaces, plus places to eat and drink, recreation, childcare, health and wellbeing facilities.

OVERARCHING VISION AND GOVERNANCE
A formal governance agreement between parties that aligns their purpose and goals

Figure 25: Innovation District Criteria (prepared by Echelon)
AMSTERDAM SCIENCE PARK

- The Amsterdam Science Park is a 70ha precinct located 3.6km outside the city centre in Amsterdam-East.

- The precinct is surrounded by canals and waterways to the north and east, medium density residential and sporting fields to the south and medium density residential to the west.

- The precinct is a joint venture between the University of Amsterdam (UvA), City of Amsterdam and the Netherlands Organisation for Scientific Research (NWO).

- The precinct is the largest precinct dedicated science and education research precinct in the Netherlands. As of 2017 there are over 3,100 workers employed within the precinct from 130 companies and numerous research institutions.

- The precinct is also home to campuses for the University of Amsterdam (6000 students) and Amsterdam University College (9,000 students).

- The precinct has been planned to accommodate over 1,300 student dwellings and 700 normal dwellings, and as of 2017 is home to 2,500 residents.
PRECINCT FEATURES

EDUCATION FACILITIES
- University/college
- Research facility
- Education/training institution

AMENITIES
- Child Care
- Meeting/conferencing facilities
- Open Space
- Restaurant/cafe/bar
- Recreational facilities
- Student/Worker housing

ACCESSIBILITY
- Bus stops
- Bus interchange
- Railway station
- Freight access
- Way to freight access
- Bike Parking

CREATIVE ENDEAVOUR
- Makerspace
- Startups
- Incubators
- Cowork spaces
- Art galleries
- Event spaces
MACQUARIE PARK

- The Macquarie Park is approximately 200 ha precinct located 15 km outside of the northwest of Sydney’s Central Business District.

- The precinct is surrounded by low density residential to the east, south and west, and the lane Cove National Park to the north.

- Development of the Macquarie Park dates back to establishment of the Macquarie University and the Macquarie Park Employment Area in the mid of 1960s.

- The precinct is the second largest employment district dedicated to science, communication, education corporations in the Sydney. The precinct compromises the Macquarie University, hospital and incubator services of the university, a number of colleges linked to the university, and 200 large international and 200 small businesses.

- Today the precinct is home to 45,000 workers, 30,000 students and 10,000 residents. It is projected to create more than 40,000 jobs by 2031.
A poll of existing businesses at Macquarie Park has identified a range of amenities and non-business facilities that existing workers and businesses consider to be needed for the precinct to fulfil its role as thriving innovation district (refer Figure 26).55

A review of the precinct by the NSW government has identified that the key challenge will be encouraging the right types of uses that will make it an attractive place to work, live and play. Some key learnings from the review include56:

- Transport infrastructure and business services (restaurants, hotels, serviced apartments, etc.) have failed to keep pace with the speed of commercial development within the centre.
- There is a huge legacy issue concerning car usage within Macquarie Park. Over-provision of parking and under-provision of public transport has resulted in inefficient land development and traffic congestion.
- Future development should focus on creating a finer grain block density and pedestrian networks that facilitate better movement amongst buildings and to/from PT nodes.
- A greater density of development will attract more services/facilities.
- Inclusion of residential apartments would provide opportunities to work closer to home, create greater vibrancy and support uses such as shops, restaurants, recreation facilities, etc.
- Key sites should be set aside for commercial development in the longer term.

55 Macquarie Park: Destination Innovation Event Poll Results (February 2017)
56 Strategic Employment Review, Macquarie Park, BIS Shrapnel (2015)
ENTERPRISE AREAS

Plan Melbourne seeks to protect a number of Melbourne’s older industrial areas as locations for employment generating activities, and to promote their renewal for alternative employment uses such as offices and creative industries. These are referred to as enterprise areas in this report. They include land zoned for Industrial 1, Industrial 3 or Commercial 2 purposes in locations including:

- Cremorne
- Abbotsford/Collingwood
- Alphington/Heidelberg
- Northcote/Thornbury
- Brunswick/Coburg
- Footscray/Tottenahm
- Arden/Macaulay
- West Melbourne
- South Melbourne

Plan Melbourne recognises that residential uses compete with commercial use and employment opportunities in Melbourne’s older industrial areas, and that once residential use is permitted in such locations, commercial floorspace is likely to be permanently lost in that location.

Older industrial areas in the inner core of Melbourne are different to both NEICs and contemporary industrial precincts. They typically comprise older style buildings and more compact urban forms, and they are located close to public transport, residential and other activities. Whilst they are no longer well suited to contemporary large scale manufacturing and logistics businesses, they are affordable locations for a wide range of commercial and cultural activities, ranging from small scale manufacturing through to co-work office spaces, health and fitness facilities, creative industries and cultural facilities.

Refer Actions 8 and 12 from the Plan Melbourne Implementation Plan.
Such areas play an important role in the incubation of creative industries, small batch manufacturing and startup companies, and for this reason they are referred to as ‘Enterprise Areas’ in this report\(^59\).

The displacement of employment activities by residential uses in such areas is a worldwide phenomenon, and various international cities have pursued different strategies for retaining such areas as low-cost locations for start-up companies and creative industries.

For many years inner city industrial areas in Melbourne have been considered by planners as being redundant because manufacturing was viewed as being in a state of inexorable decline and what remained was seen as requiring larger land holdings and buildings free from conflicts and with more efficient access to the national freight network.

As a result, these inner city industrial areas have been the ‘low hanging fruit’ for urban renewal programs that provide housing close to transport and services. This has been a trend not just in Melbourne but in capital cities pretty much all over the world.

What this story does not account for is that whilst certain types of businesses have fled from older industrial areas, there are many new types of businesses that have colonised these places because they are affordable, close to similar businesses, skilled labour, cultural venues and institutions, and to a large urban market of consumers. Often these businesses are small manufacturers, creative industries and startup companies\(^60\). These are the very industries that are expected to bloom in the disrupted economy that lies ahead.

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\(^{59}\) This term broadly reflects the ‘enterprise zone’ concept contained within the draft London Plan (2017)

\(^{60}\) ‘Manufacturing an cultural production: Towards a progressive policy agenda for the cultural economy.’ Grodach, Culture and Society (2017)
MADE IN MARRICKVILLE: A CASE STUDY OF CARRINGTON ROAD.

More than 200 diverse micro-enterprises and small manufacturers are located along a 700m stretch of Carrington road in South Sydney. Collectively they employ an estimated 1,800 workers. A recent study found that what underpinned this interface of creative industrial and manufacturing activity was a combination of affordability, sympathetic landlords, industrial land use zoning and a mix of small and large factory spaces with suitable features.

The precinct’s location close to the CBD, larger media companies, major entertainment venues and a variety of iconic cultural institutions has contributed to its success, and the social and cultural milieu of the surrounding areas was also found to add the vitality and attractiveness of the area to creative types and artisan makers.

“We’re refugees from 75 Mary Street, which was rezoned from industrial into a ‘Creative Space’. But ‘Creative Space’ doesn’t mean woodworkers or cabinet-makers or sculptors or another manual trade any more. It means IT start ups, web designers and fashion boutiques. Sure, those things are ‘of the moment’, and now the industrial chic, grunge look is in, they love old factories. But at $300 m2, we can’t sustain that.”

Many cities that have retained their older industrial areas for business and employment purposes have benefited from an economic renewal of such areas. International examples include Chicago’s Planned Manufacturing Districts, industrial areas in Portland, Oregon, San Francisco, 22@Barcelona, and the New York waterfront.

Closer to home, the retention of industrial land in locations such a South Sydney, Cremorne and Collingwood have proven the value of patience in dealing with the transition from old to new economy industries. These areas have been subject to pressure for land rezing for many years, but it has only been in very recent times that these location have emerged as thriving hobs for creative industries and business.

The substantial stock of older industrial land in Melbourne’s inner and middle suburbs present substantial opportunities to facilitate the growth of creative industries and artisan manufacturing activities. However, some clear decision need to be made about these places, and new rules are needed in order for such an outcome to be realised.

Source: Made in Marrickville: Enterprise and cluster dynamics at the creative industries-manufacturing interface: Carrington Road Precinct

61 ‘Made in Marrickville: Enterprise and cluster dynamics at the creative industries-manufacturing interface: Carrington Road Precinct.’
63 Heartwood Creative Woodworking, Carrington Road, cited in Made in Marrickville’.
CASE STUDY – THE DRAFT LONDON PLAN.

The Greater City of London is seeking to address the challenges of retaining low-cost business space and creative industries. The draft London Plan (December 2017) contains the following policies to address these issues:

LOW COST BUSINESS SPACE:
Development proposals that involve the loss of existing space (including creative and artist studio space) in areas where there is an identified shortage of lower-cost space should ensure that an equivalent amount of space is re-provided in the proposal. Development can be exempt from this requirement where existing businesses are being relocated to an equivalent affordable workspace, or where sufficient evidence exists of vacancy and marketing efforts (for at least 12 months at market rates suitable for the type, specification, use and size).

CREATIVE INDUSTRIES AND AFFORDABLE WORK SPACE:
The Plan proposes establishment of Creative Enterprise Zones (CEZs) to support the provision of dedicated affordable workspaces for creative industries. In certain circumstances, planning obligations may be used to secure affordable workspace at rents maintained below the market rate for that space for a specific social, cultural or economic development purpose. Such circumstances include workspace that is:

- dedicated for specific sectors that have social value such as charities or social enterprises
- dedicated for specific sectors that have cultural value such as artists’ studios and designer-maker spaces dedicated for disadvantaged groups starting up in any sector providing educational outcomes through connections to schools, colleges or higher education
- supporting start-up businesses or regeneration.

RESIDENTIAL AND LIGHT INDUSTRIAL MIX:
The Plan encourages a plan-led approach (as opposed to via ad-hoc planning applications) to intensifying industrial activities on industrial land, including consideration of allowing the co-location or mixing of light industrial and residential uses. It proposes the use of development plans, staging plans and development agreements to facilitate the transition of certain underutilised industrial areas to a more intensive commercial and light industrial use, co-located with some limited residential use.

Source: Draft London Plan (December 2017, page 251).
CASE STUDY – LOW-COST SPACE FOR CREATIVE INDUSTRIES IN MELBOURNE’S INNER NORTH.

There is a strong relationship between the industrial and commercial zoned areas in Melbourne’s inner North and the clustering of creative spaces. Such activities in commercial zoned areas along strips such as Sydney Road and High Street are in constant risk of displacement as commercially zoned sites are redeveloped for residential apartments. The nearby industrial areas are already areas that provide affordable space for such industries and it is likely that many existing activities will recolonise such areas as redevelopment along the activity strips continues in the future.

The City of Darebin’s Creative Industries strategy has identified the following 6 priority needs for creative industries within its municipality:

- Large numbers and diversity of affordable making spaces with secure tenure
- Protection and cultivation of live music venues
- Enabling of live-work spaces and affordable housing
- Provision of subsidised rehearsal spaces
- Provision of greater diversity of creative spaces in the middle and northern parts of Darebin
- Expansion in the range of co-working spaces to help foster the growth of (currently) home based businesses.

The Strategy seeks to maximise opportunities for urban renewal to contribute to the growth of creative and cultural industries through the facilitating creative spaces in new developments, the use of inclusionary zoning, developer incentives, and statutory planning incentives for creative industry practitioners.

The City of Moreland is facing similar pressures on spaces for creative industries and its Arts Infrastructure Plan recommends the establishment of new arts hubs in Brunswick, Coburg and Coburg North.
FLOCK WORKSPACE -
A CASE STUDY OF ZONING AND TRANSITION.

The Flock Workspace was a small co-work and maker-space located in a Mixed Use Zone on Victoria Street, Brunswick. In early 2017 the studio was fully occupied with a waiting list for prospective tenants. The land was rezoned (from Industrial 3 to Mixed Use) and the landlord subsequently sought to increase the rent. Despite reported endeavours by the Studio operator to manage these changes, the studio closed in early 2018.

EARLY 2017 FLOCK STUDIO AT FULL OCCUPATION....

EARLY 2018 - STUDIO CLOSED....
CASE STUDY – ZONING AND WORKSPACE IN BRUNSWICK

The correlation between zoning, property development trends and the presence of different types of enterprises is well illustrated in Brunswick. Land in Mixed Use and Commercial 1 zones is rapidly being redeveloped for residential purposes, which is displacing affordable workspaces and only relacing these with small, quasi-retail spaces that are not ideally suited to many types of businesses.

The Mixed Use Zone (examples 1 and 2)
The Mixed Use zone is intended to cater for a range of residential, commercial and industrial uses. However residential uses are ‘as of right’ under this zone and to such uses typically become the predominant use in redevelopment projects. The potential to redevelop land for multi-storey apartment buildings quickly displaces older buildings that previously provided affordable workspaces for creative industries, startups and micro-business.

The Commercial 1 Zone (examples 3 and 4)
The Commercial 1 zone is intended to cater for a mixture of retail, office, business, residential entertainment and community uses. However because residential uses are ‘as of right’ above the ground level, the most common redevelopment response has been mid-rise apartments with small retail/commercial spaces at ground level. The potential to redevelop land for such purposes is rapidly displacing older buildings that previously provided affordable workspaces for creative industries, startups and micro-business.

The Industrial 1 Zone (examples 5-8)
The Industrial 1 zone is intended to cater for manufacturing, storage and distribution of goods. A broader range of uses are also permissible under this zone, including offices, manufacturing sales, leisure and recreation facilities, cafes, bars and convenience shops. These locations are providing important affordable workspaces for a wide range of enterprises, including creative industries, startups and micro-business.
WORKSPACE MODELS IN MELBOURNE'S ENTERPRISE AREAS: FEASIBILITY CONSIDERATIONS

- Factors that influence development
- Workspace model assessment
- Mixed use development assessment
- Implication for Melbourne's Enterprise Areas
This chapter explores the present-day commercial feasibility of a number of workspace models in Inner Melbourne’s enterprise areas. It addresses:

- The broad factors that influence whether development occurs or not
- The results of a feasibility assessment undertaken by Conceptus Property of five potential workspace models in Cremorne and Brunswick
- The results of feasibility assessments undertaken by Conceptus Property for five potential workspace development scenarios (including one mixed-use development scenario) in Cremorne and Brunswick
FACTORS THAT INFLUENCE DEVELOPMENT

Whether or not redevelopment of land or refurbishment of buildings occurs depends on a multitude of factors. First, for any redevelopment to occur, the land owner must have a motivation and desire to develop their land – this will be influenced by whether the owner of the land is an owner/occupier, property investor or developer. There must also be a sufficiently strong market demand for the intended use, and the proposed development must be financially feasible (ie it must generate an acceptable development margin or yield).

When a land owner is occupying the land for their own business purposes, or an investor is generating an acceptable income from a property (particularly under a medium to long term lease) there is limited incentive to redevelop their land. Only when the land becomes surplus to the owners requirements or the owner can no longer generate a reasonable income from a property to cover their cost of ownership (interest, council rates, maintenance, etc.) is there likely to be sufficient motivation to consider development of the property.

However, the owner of a property will not always be the party who develops the property - in fact, this is rarely the case. Property owners, investors and developers each have different motivations, competencies and risk appetites. Property owner/occupiers do not typically have the skills or capacity to design, finance, market and construct a property development. Investors tend to look towards the fundamental economics of an investment such as the return and risk - they tend to be risk averse and property development is often a risky venture.

Therefore, if a property become surplus to an owner/occupier’s needs or the investment begins to perform poorly (e.g. it cannot be leased, or the yield is low) then the owner/investor is often likely to sell it rather than develop it.

Owner/occupiers or property investors may sometime take on the role of a property developer, and may set development margins/yields based on a different basis to that of a conventional property developer. However, it is much more common for owners or investors to sell their property to a developer in order for development to be initiated. In those circumstances, the developer will seek to achieve a margin and/or yield on costs within commonly accepted ranges for undertaking development within the Melbourne property market today.
The present-day commercial feasibility of various commercial development scenarios have been tested during the course of preparing this report. Conceptus Property has undertaken an evaluation of the following workspace models in Cremorne and Brunswick:

- Repurposing an existing warehouse for office uses on a 400sqm site
- Repurposing an existing warehouse for office uses on a 1500sqm site
- Redeveloping an industrial site as a 4 storey office building on a 1500 sqm site
- Redeveloping an industrial site for light industrial suites with mezzanine offices on a 1500 sqm site

In addition, Conceptus has considered a mixed use development scenario comprising a purpose built 5 storey building comprising a mix of retail, industrial/warehouse, offices and residential apartments. This scenario is intended to test the impact of allowing limited residential development on the overall feasibility of a mixed office/‘maker space’ model in enterprise areas.

The scenario analysis is based on theoretical development sites in Cremorne and Brunswick. These locations were selected on the basis that they are each located close to the CBD, and have access to public transport, local amenities and a skilled workforce, but each occupies a very different place in the Melbourne industrial and commercial property market today. For instance:

- The value of Commercial 2 zoned land in Cremorne ($9,000-$11,000p/sqm) is approximately 2.5 to 3 times higher than IN3 and IN1 zoned land in Brunswick ($3,000-$4,000p/sqm)
- The current net rent for office space in Cremorne (at $420-$500 p/sqm) is up to 2 times higher than in Brunswick (at $250-$280 p/sqm)

The scenario analysis was based on a commercial property development achieving a target development margin of 20%. These returns are within the range typically accepted by developers and financiers within the Melbourne property market today.

The purpose of this analysis is to understand whether each development model is commercially viable in today’s property market, which in turn will shed light on:

a. The potential market constraints facing the conversion or redevelopment of former industrial buildings to new workspaces models (such as offices, co-work spaces and maker-spaces)

b. The commercial sensitivity of each workspace model - ie what development variable might have to change in order for workspace models that are not currently viable to become viable in future.

The outcomes of the feasibility studies for each location are summarised in the following pages.  

PRESENT-DAY COMMERCIAL FEASIBILITY OF FIVE WORKSPACE MODELS
THE FIVE WORKSPACE MODELS

The following summarises the five workspace models that were tested by Conceptus Property as an input to this paper.

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th></th>
<th>Scenario 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Conversion of existing warehouse for office use</td>
<td>Conversion of existing warehouse for office use</td>
</tr>
<tr>
<td><strong>Site Area</strong></td>
<td>400m²</td>
<td>1500m²</td>
</tr>
<tr>
<td><strong>Net Lettable Area</strong></td>
<td>300m²</td>
<td>1200m²</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Scenario 3</th>
<th></th>
<th>Scenario 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Redevelop existing industrial site as 4 storey office building</td>
<td>Redevelop existing industrial site for light industrial suites with mezzanine offices (Assume 8 units – Average 197m² NLA)</td>
</tr>
<tr>
<td><strong>Site Area</strong></td>
<td>1500m²</td>
<td>1500m²</td>
</tr>
<tr>
<td><strong>Net Lettable Area</strong></td>
<td>Total 4200sqm 400sqm ground level 200 sqm mezzanine level 1200sqm Levels 1-3</td>
<td>Total 1575 sqm Building area – 60% of Site Area Car parking and hardstand area- 40% of Site Area Mezzanine Office Area – 75% of Building Area</td>
</tr>
</tbody>
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<table>
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<tr>
<th>Scenario 5</th>
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<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Redevelop existing industrial site as purpose built 4-6 storey office/light industrial/retail/residential building</td>
<td></td>
</tr>
<tr>
<td><strong>Site Area</strong></td>
<td>1500m²</td>
<td></td>
</tr>
<tr>
<td><strong>Dimensions</strong></td>
<td>25m Wide x 60m Depth 6.1m rear laneway access</td>
<td></td>
</tr>
<tr>
<td><strong>Net Lettable Area</strong></td>
<td>Ground Floor – 400m² (Warehouse/Workshop) Level 1 – 1200m² (Offices) Level 2 – 1200m² (Offices) Level 3 – 794m² (Residential 9 x 2 Bed, 2 x 3 Bed) Level 4 – 763m² (Residential 9 x 2 Bed, 2 x 3 Bed)</td>
<td></td>
</tr>
</tbody>
</table>
CREMORNE:

The scenario analysis found that a freestanding office is currently the only feasible workplace model for Cremorne. Land zoning across the majority of Cremorne is typically Commercial 2 and land values are relatively much higher than other comparable industrial or Commercial 2 zoned precincts Inner Melbourne.

High land values in Cremorne have been driven by strong demand by occupiers for office premises, which has in turn resulted in a growing number of office development activity. Several notable A-grade tenants (such as MYOB, Carsales and Disney) have occupied purpose-built office premises in the precinct over this period.

The feasibility study affirms why there is a high level of office development activity in this sector – new office developments in this location area is shown to achieve a target development margin of 20% or greater. However, the consequence of this has been the ‘pushing out’ of other forms of development due to these other forms not being viable or deriving a lower development margin when compared to office. For example, lower rent occupiers such as specialist manufacturing or warehousing businesses are unlikely to afford current market rents in Cremorne.
BRUNSWICK:

Brunswick can be described as an emerging property market within inner suburban Melbourne. Demand for traditional residential dwellings in the suburb is high and parts of the suburb have experienced substantial volumes of mid-high rise apartment development. However, the level of commercial and industrial development activity in Brunswick’s industrial areas have been relatively low when compared to other inner suburban locations such as Cremorne, Collingwood or Richmond.

There is a low supply of quality office space in Brunswick and the market demand for new office space in Brunswick is largely untested.

Notwithstanding the relatively low levels of commercial development activity, the value of industrial land has risen substantially over the past three years, largely because of an influx of funds from passive investors and/or the owner occupier market.

The scenario analysis has found that rental returns for offices, light industry/office, small-scale specialist manufacturing or warehousing purposes have not matched rising land values in Brunswick. As a result it is not possible for a developer to purchase and redevelop a site for such purposes and achieve a target development margin of 20%. Such developments also do not currently generate an acceptable yield for an investor at this point in time either.

From a property economics perspective, although land values have appreciated significantly, sales revenue from completed developments within these sectors (office and industrial) has not risen by the same proportion to enable developers to derive a higher revenue and consequently an acceptable development margin.

For example, the feasibility modelling for a 4 storey office in Brunswick shows a breakeven development margin that is driven by lower net rent levels in the office market due to lower levels of occupier demand in this location. Rents for office space in Brunswick would have to rise from the present-day range of $250-$280 p/sqm to circa $350 p/sqm in order for a target developers margin of 20% to be realised.

These factors have inhibited development activity within the IN1 and IN3 zoning to date.

This is not to say that some level of development activity is not occurring in Brunswick’s industrial areas. Building owners who operate their business from the property often refurbish the property to support the particular businesses needs. For some businesses, holding and refurbish buildings via a self-managed super fund offers certain tax benefits. Long-term investors may be prepared to refurbish properties on the basis that the property is appreciating in value over time, noting that the short term losses (ie the difference between rents and holding costs) can be negatively geared.

However, the present-day fundamentals do not support a property developer acquiring land and either refurbishing an existing building for an office or redeveloping it for warehouse, office/warehouse or office purposes.
MIXED USE DEVELOPMENT SCENARIO

The feasibility of a mixed use development scenario (comprising a purpose built 5 storey building with a ground floor retail/industrial/warehouse space, two levels of offices and two levels of residential apartments) has also been tested for Cremorne and Brunswick. These scenarios are intended to understand the impact of allowing limited residential development on the overall feasibility of a mixed office/industrial workspace model in each location.

The analysis suggests that the nominated mixed use development feasibility model (ie Scenario 5) does not currently derive an acceptable target development margin for either Brunswick or Cremorne. The key reason for this in each location is the relatively low residential yield (derived from only two residential levels) and subsequent high land value apportioned to each apartment, in combination with a relatively higher construction cost base for residential development.

This has the impact of limiting the net value of uplift to the overall property economics by introducing residential use.

In the case of Cremorne, the relatively high land rates mean that including (or substituting) residential forms of development derive an overall lower development margin than a single use office building. This is primarily due to the high apportioned land value per apartment. Increasing the allowable levels of residential development in Cremorne is unlikely to increase the development margin due to the relatively lower construction cost and relatively equivalent sales price per square metre of office vs residential floorspace in this location.

However, an improvement to the development margin would arise in Brunswick if the allowable levels of residential development was increased (ie creating a higher project yield). A basic sensitivity test of this feasibility model suggests that if 4-5 levels of residential was allowed with the addition of 4-5 levels office (i.e. a ratio of 1:1), this would result in a feasible development outcome, albeit subject of market demand for office floorspace. It is important to note that the necessary quantum of commercial vs residential floorspace will however vary from location to location, depending on local market conditions.
Figure 28: Scenario 5 - Conceptus Development Model and comparison projects

Figure 29: Scenario 5 - Conceptus 3D model, cross section and floor areas
IMPLICATIONS FOR MELBOURNE'S ENTERPRISE AREAS

Melbourne’s enterprise areas are not homogeneous – the capacity for each location to support a diversity of workspace development models is influenced by its zoning and by local property market conditions (which are in turn linked to factors including location, accessibility, amenity, etc.).

This diversity is illustrated by Conceptus scenario analysis which confirmed that the property fundamentals of land in Cremorne today strongly support the construction of new office floorspace, whereas this is not the case in Brunswick.

The same underlying strength of the Cremorne property market has meant that certain uses that do not have capacity to pay higher rents (such as artisan manufacturers, cultural venues and certain types of creative industries) are priced out of the location. In comparison, a location like Brunswick remains relatively affordable for such uses, although this is changing.

In enterprise areas where land prices are relatively static or are yet to experience rapid growth, existing buildings are commonly repurposed for a wide range of cultural and economic activities such as workshops, art studios, recording studios. Bars, micro-breweries, etc. These activities do not typically involve expensive building refurbishments and whilst the rents that such activities can support are lower than commercial or retail activities, they are typically higher than the use of such space for warehousing and storage. The availability of affordable spaces such as this is important for the incubation of new business and creative industries.

However, the property market in enterprise areas can be highly dynamic and as values rise they typically reach a level where creative industries and small manufactures are priced out of the location. The NSW ‘Made in Marrickville’ case study illustrates this phenomenon, and there is similar evidence of such displacement occurring in other parts of Melbourne like South Melbourne and Collingwood.

If Melbourne is to retain enterprise areas that support a diversity of workspaces, ranging from purpose-built offices for larger companies through to affordable workspaces for artisan manufacturers, cultural venues and certain types of creative industries, then new and different types of planning policies and controls will be required from those that we have today. For example:

- New tools will be required to ensure the retention/creation of low-cost workspaces in enterprise areas.
- Where residential use is seen as being a positive solution to creative diversity and/or creating land-value uplift that can be captured in the form of new workspace, then it is essential that the specific quanta of permitted residential use can be defined and mandated in such locations.
RETENTION/CREATION OF LOW-COST WORKSPACES IN ENTERPRISE AREAS.

Locations where land prices are relatively static or are yet to experience rapid growth usually provide low-cost workspaces for creative industries, smaller manufacturers and startup businesses. These locations are typically zoned for industrial purposes, and there is no particular need to alter the zoning in such circumstances.

Simply leaving enterprise areas in industrial zones is one means of limiting the effect of rising property values on the displacement of creative industries and small manufacturing activities. However, the Brunswick case study has demonstrated that retaining land in industrial zones will not always prevent sharp rises in land values, over time this may well cause ongoing displacement of such uses.

In a rising property market where higher-value uses such as commercial offices might begin to price-out creative industries, smaller manufacturers and startup businesses, there may be a case to either require or incentivise redevelopment to incorporate low-cost floorspace.

The London Creative Enterprise Zones proposes that planning obligations be used to secure affordable workspace at rents maintained below the market rate for that space for a specific social, cultural or economic development purposes. Alternative incentive-based models (such as Floor Area Uplift, waiving carpark requirements) might also provide some incentive for affordable workspace to be created. In such instances, mechanisms are required to ensure that the affordability is retained in perpetuity.

As a minimum, the ground floor of new developments in enterprise areas could be designed with the needs of creative industries and smaller manufacturers and in mind. This might include features such as higher ceilings, larger open layouts than conventional retail paces, and inclusion of three-phase power.

There are numerous other regulatory barriers which face creative industries and startup businesses when they seek to take up industrial space in enterprise areas.

These include:

- The need to prepare technical drawings and commission numerous technical assessments relating to issues such as traffic, parking, environment site assessments, structural engineering, heritage, noise, fire engineering, universal access, energy efficiency, etc.
- The cost of upgrading buildings and sites to comply with planning and building standards relating to carparking, fire engineering, universal access, energy efficiency, etc.
- The cost and complexity of navigating town planning, building, environmental health, local laws, liquor licencing, EPA and other regulatory approvals pathways
- The impact of unexpected approvals delays on the cashflow of resource-strapped startup businesses

Whilst certain regulations are necessary to ensure that basic standards are satisfied in relation to issues such as workplace health and safety, visitor amenity, etc. Such regulations rarely differentiate between a small vs large or simple vs complex development proposal. The time and cost of compliance for a creative industry or startup business to simply take up occupation of an industrial space, is often not much different that incurred by a much larger, established business undertaking major development.

These complexities are barrier to successful incubators of new businesses. Numerous opportunities exist to simplify and streamline approvals for creative industries, smaller manufacturers and startup businesses in such locations. Overseas precedents include:

- The US ‘Pink Zone’ pilot program in which red tape is lightened and new protocols are pre-negotiated in order to remove impediments to economic development.
- The UK Localism Act which allows changes to allow buildings to be constructed without applying for planning permission, including increasing the size limits for office extensions and new industrial buildings.
FACILITATING NEW OFFICE DEVELOPMENT IN ENTERPRISE AREAS.

A number of Melbourne’s inner city enterprise areas such as Cremorne, Collingwood, Abbotsford and South Melbourne have the right location, accessibility, and amenity to support the creation of new office development. The Conceptus scenario analysis demonstrates this to be the case in Cremorne.

In such circumstances, there is no particular need to alter the zoning of land in order to foster investment in commercial floorspace.

However, the present-day property fundamentals in a location such as Brunswick do not support either stand-alone commercial development or refurbishment of existing buildings for commercial (office) purposes. This is likely to be the case in other enterprise areas such as Alphington, Northcote, Coburg and Footscray.

The question of whether or not to alter the zoning of land in enterprise areas that do not currently have a viable commercial property market comes down to a strategic planning decision about the desired future role of such area (ie is there a net community benefit in retaining such areas for employment purposes) and a judgement about the reasonable prospect of such a market emerging in the short-medium term.

Less than a decade ago there was not a strong market for office floorspace in Cremorne or in other similar locations. However, population growth combined with overall growth and restructuring of the Melbourne economy has subsequently favoured commercial development in such locations today.

Whether or not we will see similar changes which will favour commercial development in locations like such as Brunswick Alphington, Northcote, Coburg and Footscray in the coming decade remains to be seen.

If it is considered that there a net community benefit in retaining such areas for employment purposes, and there is a reasonable prospect of commercial market emerging in the short-medium term future then such land should remain in an existing industrial or Commercial 2 zone.

If on the other hand, the local property market is unlikely to support freestanding commercial development today (or in the short-medium term), and there is a desire to bring on such development, then there may be merit in applying new planning tools to enable genuine mixed use development in such locations.
REGULATING RESIDENTIAL USE IN ENTERPRISE AREAS.

Determining what the right mix of uses is for a given locality will necessarily need to be informed by consideration of what is required to support vibrancy and diversity of the location and also of a development feasibility based on current and emerging property trends/opportunities.

For example, the Brunswick mixed use development scenario set out in the Conceptus scenario analysis found a mixed use development comprising 3 levels of commercial/workshop space and two levels of residential apartments does not derive an acceptable target development margin in the current market.

However, a sensitivity analysis over this scenario suggests that increasing the quantum of residential floorspace (at a 1:1 ratio with office floorspace across an 8-10 storey development) in a mixed use development in this location might be commercially viable in the current Brunswick market. The residential yield would need to be sufficiently high to cross-subsidise the delivery of the non-residential floorspace which currently does not attract strong enough returns to support creating it in its own right. The demand for office floorspace on high volumes is also untested in the current market.

If the over-riding objective in enterprise areas is to retain affordable workspaces and to increase the diversity and amount of workspace, then it will be critical to tightly control residential development in such areas.

There are a number of planning mechanisms that could be utilised to achieve this. For example, the amount of residential development per site could potentially be controlled as a fixed ratio to office or industrial area within a development proposal. This would ensure that the overall ratio of employment to residential floorspace (ie a floor area ratio – FAR) was appropriately managed. It would also enable a development led market to establish the right balance between office and residential yield within the defined FAR controls. The key controlling element would be the quantity of residential product as a percentage of office and workshop area within a development.

The existing standard zones under the Victoria Planning Provisions do not contain a mechanism to regulate the amount of residential use permitted on land. The existing zones either permit or prohibit such uses - they do not contain means of specify a quantum or ratio of residential use, nor do they allow such a quantum to be specified in a zone schedule. This is discussed further in Chapter 6.
ENTERPRISE AREAS AND THE NEED FOR NEW PLANNING TOOLS

- How emerging models align with the Victorian Planning System
- Planning strategies for retaining and creating new workspaces in enterprise areas
This chapter considers the relationship between enterprise areas, various forms of creative industries and workspace models and the Victorian Planning System, as follows:

- How enterprise areas align with current strategic planning and zoning frameworks
- How emerging workplace models align with the Victorian Planning System
- How ‘creative industries’ align with the Victorian Planning System.
- Planning strategies for creating more office floorspace in enterprise areas
- Planning strategies for retaining/creating low cost workspaces in enterprise areas.

It recommends various changes to the Victorian Planning System in order to better facilitate the establishment and growth of creative industries, small manufacturers and startup businesses in such areas.
Melbourne’s enterprise areas have provided affordable locations for the establishment of creative industries, small manufacturers and startup businesses for many years. Plan Melbourne seeks to protect these locations for employment generating activities and to promote their renewal for alternative employment uses including offices and creative industries.

These areas complement the business and employment opportunities available in other employment precincts identified under Plan Melbourne (i.e. the Capital City Zone, NEICs, Activity Centres, State-significant Industrial Areas, etc.).

The conceptual framework below identifies the respective role of enterprise areas in delivering specific types of workspaces and employment densities. It suggests that enterprise areas offer a ‘middle ground’ of amenity and affordability that sit between Central City, inner city activity centres, urban renewal areas, NIECs, and the outer urban Industrial areas.

The framework also illustrates that there is currently no suitable standard ‘VPP’ zone to apply to enterprise areas that might desirably cater for live-work type accommodation models.
Whilst this ‘integrated living and working’ model is permissible under the Commercial 1 and Mixed Use zones, these zones do not enable limits to be placed on residential floorspace. Because residential use generates a stronger commercial return than office or industry uses in many inner city locations, these zones will tend to price out the inclusion of any meaningful office or workspace areas.

In fact none of the current standard VPP zones allow the exercise of discretion in relation to the quantum of permissible residential use. It is not possible to specify any limits on dwelling yields or floorspace under the current standard VPP zones. This results in an ‘all or nothing situation’ where the zone either allows residential use to establish without limit, or residential use is prohibited. The lack of a tool to enable limits to be placed on residential use in employment precincts places a significant limitation on being able to encourage diversity within such locations.

 Whilst in certain instances there may be a case for introducing opportunities for people to live and work from such areas in some instances, this needs to be very carefully managed so as to avoid land prices rising to a point where these areas become uneconomic to use or develop for employment purposes.

**RECOMMENDATION:**

A new ‘enterprise zone’ should be created which allows for consideration of live-work style residential uses under limited and strictly defined circumstances.
HOW EMERGING WORKPLACE MODELS ALIGN WITH THE VICTORIAN PLANNING SYSTEM.

The following table identifies how the various current and emerging workplace models are treated under the relevant zones within the Victorian Planning System.

The various composite uses associated with the emerging workplace models are generally either ‘as of right’ or discretionary under the current VPP zones. The notable and obvious exception to this is the ‘integrated living and working’ model which is not permissible under the Commercial 2 or the industrial zones.

There are a range of other workspace models (such as research and development, artisan manufacturing and advanced manufacturing) that are permitted in various VPP zones, subject to the granting of a permit. Whilst in some cases there may be justification for requiring such uses to be subject to a permit approval (eg in order to manage amenity or off-site impacts) the requirement to obtain a ‘use’ permit creates risks, uncertainties, delays and costs for proponents of such uses. There is merit in exploring whether any such uses might be defined as ‘as of right’ under any future of enterprise zone.

RECOMMENDATION:

The new ‘enterprise zone’ should enable a wider range of emerging workspace models to occur on an ‘as of right’ basis.

<table>
<thead>
<tr>
<th>EMERGING WORKPLACE MODEL</th>
<th>CHARACTERISTICS</th>
<th>RELEVANT VPP DEFINITIONS</th>
<th>ZONES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated Living</td>
<td>Accommodation co-located with workplace (office or artisan manufacturing space)</td>
<td>Office</td>
<td>*1</td>
</tr>
<tr>
<td></td>
<td>in the one space or co-located within a single building</td>
<td>Office (incl. R&amp;D Centre)</td>
<td>*2, *3, *4</td>
</tr>
<tr>
<td></td>
<td>Manufacturing Sales</td>
<td></td>
<td>*2</td>
</tr>
<tr>
<td></td>
<td>Warehouse</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Curated Lifestyle Spaces</td>
<td>Office space integrated with recreation facilities, health facilities, restaurants, bars and cafes</td>
<td>Office (associated uses likely to be ancillary to this function)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Food and drink premises</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Restricted recreation facility</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Restricted place of assembly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexible Office</td>
<td>Curated office space made available to members on flexible terms and offering education, training, professional networking and social activities</td>
<td>Office (associated uses likely to be ancillary to this function)</td>
<td></td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>A facility for creating new innovations in existing products/services/procedures or the discovery of new innovations that lead to the creation of new products</td>
<td>Research and Development Centre</td>
<td>*2</td>
</tr>
<tr>
<td>Artisan Manufacturing</td>
<td>Small-scale production manufacturing where design and production are integrated to create goods for sale</td>
<td>Industry</td>
<td>*2, *2, *3</td>
</tr>
<tr>
<td>Advanced Manufacturing</td>
<td>Manufacturing involving the application of new technology, improved processes, and management methods to improve the manufacturing of products</td>
<td>Industry</td>
<td>*2, *2, *3</td>
</tr>
</tbody>
</table>

*1 must not exceed 250 sqm
*2 must not be a use with adverse amenity potential
*3 must not exceed 150 sqm
*4 must not exceed 100 sqm

- Green = As of right
- Yellow = Discretionary
- Red = Prohibited

Planning for a Productive Economy: A Discussion Paper
Creative industries span a very wide range of activities which makes it difficult to pigeon-hole such activities into the land use terminology under the Victorian Planning System. The following table summarises how the various types of cultural activities and spaces described in Chapter 3 of this report align to the land use nesting diagrams under the Victoria Planning Provisions (VPPs).

### How ‘Creative Industries’ Align with the Victorian Planning System

The majority of the activities undertaken under the banner of ‘creative industry’ fall within one or more of the following overarching land-use categories under the VPPs:

- Education Centre
- Industry
- Office
- Place of Assembly
- Retail
- Arts and Craft Centre

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>Education Centre</th>
<th>Industry</th>
<th>Leisure &amp; recreation</th>
<th>Office</th>
<th>Place of Assembly</th>
<th>Retail</th>
<th>Warehouse</th>
<th>Art &amp; craft</th>
<th>Research Centre</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commercial &amp; Enterprise space</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creative Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creative Culture (artists)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creative manufacturing</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Creative print</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Creative AV &amp; digital media</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creative recreation (cinema, production, operations)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creative retailing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Community & participatory spaces** |          |        |                      |        |                   |        |           |             |                 |
| Community centres               |          |        |                      |        |                   |        |           |             |                 |
| Libraries                        |          |        |                      |        |                   |        |           |             |                 |
| Makerspaces                      |          |        |                      |        |                   |        |           |             |                 |
| Coworking spaces                 |          |        |                      |        |                   |        |           |             |                 |
| Business incubators              |          |        |                      |        |                   |        |           |             |                 |
| Government organisations         |          |        |                      |        |                   |        |           |             |                 |
| Cultural organisations           |          |        |                      |        |                   |        |           |             |                 |

| **Practice, education & development spaces** |          |        |                      |        |                   |        |           |             |                 |
| Schools                           |          |        |                      |        |                   |        |           |             |                 |
| Colleges                          |          |        |                      |        |                   |        |           |             |                 |
| Universities                      |          |        |                      |        |                   |        |           |             |                 |
| Art residency                     |          |        |                      |        |                   |        |           |             |                 |
| Not for Profit/artist run galleries |          |        |                      |        |                   |        |           |             |                 |

| **Festival, Events & public spaces** |          |        |                      |        |                   |        |           |             |                 |
| Festival spaces                   |          |        |                      |        |                   |        |           |             |                 |
| Indoor public spaces (halls)      |          |        |                      |        |                   |        |           |             |                 |
| Temporary spaces                  |          |        |                      |        |                   |        |           |             |                 |

(*) only a limited range of activities fall within this category, some of which could equally be said to fall within the category of arts and craft centre or manufacturing sales.)
Therefore, so long as such uses are permitted under the relevant zone (and such uses are not competing against various other uses that attract higher rents) then the planning system should not be an impediment to facilitating creative industries.

The table below summarises the status of these uses under the relevant VPP zones.

Inclusion of activities such as retailing, food and beverage in enterprise areas can greatly enhance the amenity and vitality of such areas. The challenge is that such uses often generate higher rental return than the activity that enterprise areas are intended to support (eg creative industries, office space, small scale manufacturing, etc.). As such, there is a case for only allowing uses such as shops, food and beverage to be ‘as of right’ on a limited basis (eg via the use of floorspace limits).

**RECOMMENDATION:**
The Commercial 2, Industrial 1, Industrial 3 and any new ‘enterprise zone’ should enable certain small-scale ‘creative industry’ related uses (eg education centre, office, retail, place of assembly, arts and craft centre’ on an ‘as of right basis’ subject to specific limits on either floorpsace or student/attendee numbers).

The new ‘enterprise zone’ should only allow shop, food and beverage uses to be ‘as of right’ on the basis of modest floorspace limits.

<table>
<thead>
<tr>
<th>CREATIVE INDUSTRY WORKSPACE TYPE</th>
<th>ZONES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Commercial 1</td>
</tr>
<tr>
<td>Education Centre</td>
<td>As of right</td>
</tr>
<tr>
<td>Industry</td>
<td>*1</td>
</tr>
<tr>
<td>Office</td>
<td>*1</td>
</tr>
<tr>
<td>Place of Assembly</td>
<td>*2</td>
</tr>
<tr>
<td>Retail</td>
<td>*1</td>
</tr>
<tr>
<td>Arts and Craft Centre</td>
<td>As of right</td>
</tr>
<tr>
<td>Residential Use</td>
<td>As of right</td>
</tr>
</tbody>
</table>

As of right  
Discretionary  
Prohibited

*1 - must not be a use with adverse amenity potential  
*2 - exhibition centre is as of right  
*3 - limited to restricted retail and small-format shop/supermarket  
*4 - must not be a primary or secondary school  
*5 - cannot be a shop  
*6 - limited to a small format shop/supermaket  
*7 - must not exceed 250 sqm  
*8 - shop must not exceed 150 sqm
Planning for a Productive Economy: A Discussion Paper

The broad urban planning options for facilitating more office floorspace in enterprise areas will vary depending on whether the areas is in a location with an affordable market for workspaces (ie an area with stable land and rent costs) or a rising market (where land and rent costs are escalating).

The analysis in the table below makes comment on the likely impact of various options for facilitating more office floorspace, and their likely impact on development feasibility.

**RECOMMENDATIONS:**

In enterprise areas with stable land and rent costs, and where there is a reasonable prospect of a commercial office market emerging in the short-medium term, land should be retained in Industrial/Commercial 2 zones.

In enterprise areas with stable land and rent costs, but there is not is a reasonable prospect of a commercial office market emerging in the short-medium term, then:

- Policies should be included in the planning scheme to support the creation of commercial office space, and;
- Alternative zoning should be considered which includes development incentives that support the creation of commercial office space (eg a floor area ratio control or similar that permits a defined amount of residential floorspace on the basis of delivering a mandated minimum commercial floorspace).

In enterprise area with escalating land and rent costs, land should be retained in industrial/commercial 2 zones. Alternative zoning that allows for limited ‘live-work’ accommodation options should only be contemplated where the inclusion of such use:

- Is considered essential to the vitality and effective functioning of the area as an employment precinct
- Is secondary to the primary use of any given site for employment purposes (in terms of both floorspace and anticipated worker/resident ratios)
- Is not likely to be secretive to the commercial viability of office development in the location

---

### PLANNING STRATEGIES FOR CREATING MORE OFFICE FLOORSPACE IN ENTERPRISE AREAS

<table>
<thead>
<tr>
<th>Property Market Type</th>
<th>Options</th>
<th>Likely Impact on Achieving Outcome</th>
<th>Likely Impact on Development Feasibility</th>
<th>Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Affordable Market (stable land and rent costs)</strong></td>
<td>Retain land in industrial/commercial 2 zones (where there is a reasonable prospect of a commercial market emerging in the short-medium term)</td>
<td>MEDIUM (over time)</td>
<td>LOW</td>
<td>YES</td>
</tr>
<tr>
<td></td>
<td>Retain land to encourage mixed use development comprising a mix of small manufacturing, office and residential use - (where there is no reasonable prospect of a commercial market emerging in the short-medium term) (NOTE: - planning controls to mandate maximum residential and minimum non-residential outcomes)</td>
<td>MEDIUM-HIGH</td>
<td>HIGH (positive)</td>
<td>YES</td>
</tr>
<tr>
<td><strong>Rising Market (escalating land and rent costs)</strong></td>
<td>Retain land in industrial/commercial 2 zones</td>
<td>NEUTRAL (market likely to deliver office as the highest and best use permitted under the zone)</td>
<td>LOW</td>
<td>YES</td>
</tr>
<tr>
<td></td>
<td>Policy to support office development</td>
<td>MEDIUM</td>
<td>LOW</td>
<td>YES</td>
</tr>
<tr>
<td></td>
<td>Planning requirement: to create a percentage of office space at rents at below market rate</td>
<td>MEDIUM</td>
<td>LOW</td>
<td>YES</td>
</tr>
<tr>
<td></td>
<td>Retain land to encourage mixed use development comprising a mix of small manufacturing, office and residential use (planning controls to mandate maximum residential and minimum non-residential outcomes)</td>
<td>MEDIUM (negative) - refer case studies</td>
<td>MEDIUM (negative) - refer case studies</td>
<td>NO</td>
</tr>
<tr>
<td></td>
<td>Retain land to allow mixed use development comprising a mix of small manufacturing, office and residential use - with requirements to create low cost workspace at below market rents (planning controls to mandate maximum residential and minimum non-residential outcomes)</td>
<td>MEDIUM (negative) - refer case studies</td>
<td>MEDIUM (negative) - refer case studies</td>
<td>MAYBE</td>
</tr>
</tbody>
</table>
PLANNING STRATEGIES FOR RETAINING/CREATING LOW COST WORKSPACES IN ENTERPRISE AREAS.

Low cost workspace can be defined as workspaces that are suitable for a broad range of employment activities (creative industries, small manufacturing, startup businesses) and that are substantially more affordable (ie 20-30% lower rents) than equivalent sized workspaces in higher order locations such as the Central City, NEICS and Activity Centres.

The broad options for retaining/creating low cost workspaces in enterprise areas will vary depending on whether the areas is in a location with an affordable market for workspaces (ie an area with stable land and rent costs) or a rising market (where land and rent costs are escalating).

The analysis in the table below also makes comment on the likely impact of various options for retaining/creating low cost workspace, its likely impact on development feasibility.

### RECOMMENDATIONS:

In enterprise area with stable land and rent costs, then land should be retained in industrial/commercial 2 zones.

In enterprise area with escalating land and rent costs, then:

- Policies should be included in the planning scheme to support retention and/or creation of low cost workspaces, and;
- In locations where an enterprise zone is to be used which allows for limited live-work accommodation options, then a ‘floor area uplift’ control could be considered to provide additional residential floorspace on the basis of a mandated minimum amount of commercial floorspace is delivered on a perpetually ‘below market rate’ basis (via a section 173, covenant on title or similar mechanism).

### Property Market Type

<table>
<thead>
<tr>
<th>Property Market Type</th>
<th>OPTIONS:</th>
<th>Likely Impact on achieving outcome</th>
<th>Likely Impact on development feasibility</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable Market</td>
<td>Retain land in industrial/commercial 2 zones</td>
<td>HIGH</td>
<td>LOW</td>
<td>YES</td>
</tr>
<tr>
<td>(stable land and rent costs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rising Market</td>
<td>Policy to support retention and/or creation of low cost workspace</td>
<td>LOW</td>
<td>LOW</td>
<td>YES</td>
</tr>
<tr>
<td>(escalating land and rent costs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum design standards for ground floor non-residential uses</td>
<td>MEDIUM</td>
<td>LOW</td>
<td>YES</td>
<td></td>
</tr>
<tr>
<td>Planning incentives to support replacement/creation of low cost workspace (residential floorspace, carpark reduction, other)</td>
<td>MEDIUM</td>
<td>LOW</td>
<td>YES</td>
<td></td>
</tr>
<tr>
<td>Planning requirement to replace/create low cost workspace</td>
<td>HIGH</td>
<td>HIGH (negative)</td>
<td>MAYBE</td>
<td></td>
</tr>
<tr>
<td>Planning incentive to replace/create low cost workspace at rents at below market rate</td>
<td>MEDIUM</td>
<td>LOW</td>
<td>MAYBE</td>
<td></td>
</tr>
<tr>
<td>Planning requirement to replace/create low cost workspace at rents at below market rate</td>
<td>HIGH</td>
<td>VERY HIGH (negative)</td>
<td>NO</td>
<td></td>
</tr>
</tbody>
</table>
CONCLUSIONS

Melbourne’s enterprise areas offer a ‘middle ground’ of amenity and affordability that sit between locations like the Central City, inner city activity centres, urban renewal areas, NEICs, and the outer urban Industrial areas. The zoning of these areas require further consideration if these locations are to flourish as genuinely mixed use locations.

There is currently no standard ‘VPP’ zone that can be applied to enterprise areas that facilitates the full range of uses (including limited live-work type development models) that will support the vibrancy and diversity of such areas. A new ‘enterprise’ zone should be created which enables a wider range of emerging workspace models and supporting/ancillary activities to occur on an ‘as of right’ basis (based on maximum floorspace areas for uses such as cafes, bars, retail, etc.).

The enterprise zone should provide the flexibility to consider the introduction of limited accommodation uses in ‘live work’ building formats, although the ratio of living vs working spaces needs to be tightly controlled to ensure that the predominant employment function of such areas is not undermined. This could be achieved via a schedule to the new zone, which allows the floorspace ratios to be set, but only up to a prescribed maximum ratio.

The questions of when, where and how to apply such a zone require careful consideration, having regard to the current and prospective economic outlook for each location. In areas which are already attracting employment activities, or where there is a reasonable prospect that this might be the case in the near future, then it may be best to retain such areas in Industrial or Commercial 2 zones. In other instances it might be appropriate to apply the new enterprise zone, to either stimulate market interest in the location or to diversify the range of activities as a way of increasing the vibrancy of the precinct. Every location will have its different local considerations and so a one size fits all approach should not be taken to the question of whether or not to apply the enterprise zone to a given place.
ACKNOWLEDGEMENTS

AUTHOR

Mark Woodland is a Director and Co-founder of Echelon Planning. He has held public and private sector roles across Australia’s planning and development sector for over 25 years.

Mark has expertise in regional-scale strategic planning as well as precinct scale masterplanning, property and development and approvals advice. He has developed a particular expertise and interest in emerging workplace trends, and their implications for the future planning of cities.

CONTRIBUTOR

John DiNatale - Conceptus Property (Development Scenario Analysis summarised in Chapter 5)

CREATIVE

Elena Furno - Echelon Planning

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