



Financing the adaptive reuse of cultural heritage

Enabling complementary financing instruments for bottom-up initiatives

In this Policy Brief, we present recommendations for policy makers, heritage officers, and planners at national and sub-national levels of government, as well as other initiators of adaptive heritage reuse projects. These recommendations aim to provide an overview of the issues at play and support the implementation of adaptive heritage reuse projects across Europe. The challenges identified and recommendations provided are based on our studies in the OpenHeritage research project and, in particular on our work in the Cooperative Heritage Labs and our report on the OpenHeritage Observatory Cases.¹

Financing the adaptive reuse of cultural heritage is a challenging undertaking and requires the orchestration of complementary funding sources to cover both renovation and operational costs. This Policy Brief has been developed from the perspective of bottom-up initiatives active in areas, where fundraising efforts tend to face particular barriers. Although heritage regeneration is often seen as a heavy bill someone has to pay, adaptive reuse projects can become dynamic value generators for surrounding areas and their communities. We hope to inspire public and private actors to embrace mixed approaches by providing examples of different financing models as well as clear and applicable recommendations for their implementation.

¹ The Observatory Cases, including videos and detailed analyses, can be found on the [OpenHeritage website](#). The interactive OpenHeritage [Database](#) includes further information on each Observatory Case. Work in the Labs can be followed at their [individual pages](#).

Why diversification of financial sources matters

Ensuring financial sustainability of adaptive cultural heritage reuse projects is a challenging task, as it requires mobilizing adequate funding sources, while maximizing the social impact of the projects. Funding diversity counterbalances the different interests of the stakeholders involved, contributes to sharing risks and responsibilities, strengthens connections between people and their surroundings and makes a project more resilient through economic cycles or in times of economic crisis. Diversity in financing does not only give stability but can also demonstrate to other possible partners that there is already certain confidence and support in a project. “Mosaic-type” funding models have a high impact on the community while contributing to territorial integration.

Adaptive heritage reuse projects need both investment and operation costs. Investment needs of renovating heritage buildings very often constitute a sociocultural statement and are therefore covered by public sources. If needed, additional public funds can be provided for operation purposes, to protect the initiators from high running costs and ensure independence of social and cultural activities. Bank loans are also useful financial instruments to cover investment needs, however, adaptive cultural heritage reuse projects are often considered too risky by commercial banks. Social banks are more flexible in this regard, providing low interest loans to convincing adaptive reuse proposals.

In an effective funding mix, operation costs are covered by multiple funding sources. The most important one is income generated within the project. Stable incomes (usually from selling products or providing services, renting spaces, membership dues, etc.) significantly

contribute to funding diversity and strengthen the long-term financial sustainability of the project. Equity schemes can also motivate additional contributors, as they see that stakeholders risk and invest their own money. Pooled funding methods - channeling money from individual investors combined together for a common purpose - are also effective instruments to generate revenues for adaptive heritage reuse projects. At the end of the day, financing the adaptive reuse of cultural heritage is highly dependent on the initiators' capacity to demonstrate the added value created beyond strictly financial terms.

The OpenHeritage Project

The OpenHeritage project is developing inclusive governance and management models for overlooked heritage sites by working with six Cooperative Heritage Labs and analysing case studies of good practices in adaptive heritage from across Europe (Observatory Cases). Working together with residents, local businesses, higher education organisations and municipalities, OpenHeritage explores diverse partnership arrangements, community engagement methods, business and finance mechanisms to help develop and sustain community engagement with heritage sites. A central concept of OpenHeritage is the idea of “openness”: *open* when looking at what constitutes heritage or *open* when deciding who should be involved in heritage processes, or even *open* in terms of open-ended processes with possibilities for constant change.

www.openheritage.eu

Key challenges

Challenge 1

Lack of funding, cash flow and equity

Bottom-up initiatives for the adaptive reuse of cultural heritage generally have higher ambitions than their available budgets can cover. Additional funds are needed to cover investments and running costs. The lack of funds often is a barrier to access other funds. Banks often ask for an equity of approximately 25%, while foundations often ask if there is a share of equity brought up by the initiative itself. Bank guarantees or collaterals may be required by public funding programmes, creating a vicious circle of lack of cash flow.

Challenge 2

Funding diversity versus management complexity

Bottom-up initiatives for the adaptive reuse of cultural heritage often struggle to find the most appropriate legal and management structure that can support diverse income sources. Depending on the national framework, many choose to use different legal entities (NGOs, Foundation, Cooperative) to cover different fundraising needs. Such projects are usually driven by heritage aims, social or cultural motivations, however, managing a project funded by a mix of resources requires considerable management capacity, financial planning skills and solid business plans. A certain share of more economically or technically skilled people is often missing, yet necessary for the success of such endeavors.

Challenge 3

Unpredictable costs and timing of adaptive reuse works

Buildings awaiting adaptive reuse are old and often in need of heavy renovation works. But renovations are particularly unpredictable; once started, costs, even if calculated very cautiously, tend to rise and the timeframe of the works tends to be extended. Sufficient reserves and/or the

ability to gain additional funds along the way must therefore be one of the qualities of the project initiators.

Challenge 4

Harmonising the interest of different stakeholders

Owners, funders and the community have diverging expectations which can result in a conflict of interest, in need of mediation efforts. Building owners are anxious about interventions to their property and functions that may not be suitable for future purposes. At the same time the community running the every-day-business must have the feeling of autonomy of “its” building. Additionally, the local municipality can be anxious about some initiatives, and funders might be concerned about the right use of their funds or even of repayment. The ability of sensible communication and mediation is therefore a further necessity for a successful project.

Challenge 5

Changing interests in changing times

Long term contracts give a feeling of security. At the same time change and transformations are natural parts of a project's life-cycle. One could say “take care who your partners are and treat them well”. Re-inventing purpose and actions, or at least changing plans once in a while should be foreseen from the early stages of the project. Contracts may include a paragraph stating that both sides agree on new negotiations in times of change.

Challenge 6

Hostile takeover

Initiators of adaptive reuse projects usually start by gathering a group of interested people, establishing an association, just to become visible and have a “brand” to communicate with key stakeholders. A lot

Key challenges

of time and effort is put into concept development and community building, but lack of resources prevents investment in strategic consulting and equity. Since good will alone combined with “internet-knowledge” are just not sufficient, a danger of hostile takeover lurks over visionary groups of volunteers: they can be considered idealistic or utopian actors that fail to provide a structured plan, and their ideas can be hijacked by private actors or political players with weaker intentions but more capacity to deliver. Understanding the local political agenda and the interests of the commercial sector is key for bottom-up initiatives to ensure their seat at the decision-making table.

Challenge 7

Public funding can get political

Public funding is a crucial means to reach out to and support small-scale, locally-driven adaptive reuse initiatives, especially at the municipal level. However, a full dependency on public funds can jeopardise sustainability in the long run. Political alliances and priorities change, leaving dependent initiatives in a vulnerable position. Civic initiatives need independence to be a counterpart and enrichment to official narratives, hence if funding originates from multiple sources, dependencies can be alleviated.

Challenge 8

Lack of steady income/remuneration in comparison to the added value created

Most bottom-up reuse projects have a high rate of civil engagement but a low rate of commercial activities. In most cases it is difficult to cover all investments from the money-earning activities. Often the direct value created (e.g. increase of property prizes) does not flow back to the grassroots level. Certain benefits such as social

cohesion, new skills or improved health cannot be monetized and indirect savings to public services are difficult to measure. Creating a flowchart that maps all potential generated values in relation to income and funding sources can help in approaching beneficiaries and funders.

Challenge 9

Unequal distribution of available funding

There are remarkable differences across Europe in terms of access to funding for bottom-up initiatives. A funding mix consisting of public and community funding (e.g. crowdfunding) is more present in the Western and Northern EU member states, whereas initiatives in the Eastern and some Southern member states are more likely to face a challenge to access these funds. In turn, they might need to rely more on business investments and on support from private actors, which might directly influence their aims and the trajectories of their work. Similarly, tax incentives which can be a useful tool to attract investors in cultural heritage are not available in all countries and provide limited help in the starting phase.

Challenge 10

Finding the right balance of incentives

Each funding instrument is creating different incentives and a certain level of dependency from the body providing the money. There are always strings attached and funding incentives can influence how / to what extent bottom-up initiative can thrive. Concentrated funding (being it either public, private or corporate money) not just impacts community and territory integration on a much lower level, but also carries the risk that the interests of the dominant funder will override the original goal and mission of the project.

Examples of different forms of financing models

The 16 OpenHeritage Observatory Cases and the 6 Cooperative Heritage Labs represent a wide spectrum of financing models. Each model has identified income sources that are aligned with the purpose of each project and the key target groups it aims to engage.

Step by step adaptive reuse

Adaptive reuse is the process of transforming buildings and areas through a flexible approach. The transition means working towards an ambition, not towards an end-picture or blueprint plan. An important element is the organisation of events and activities that are aligned with the ambition. By this, you will prove the concept. The ambition is the compass. The route can be changed along the way.

Halele Carol (Bucharest)

Halele Carol (Bucharest, Romania) is an old factory owned by a private owner. It consists of an open part which is still used for production, and of abandoned production halls in need of transformation. The project was initiated by a group of people who wanted to preserve this industrial heritage area and give it a new function as a cultural and creative hotspot. The factory is located in the south of Bucharest, the poorer part of the city where there is a clear need for such a space. Through a process of workshops and meetings, the initiators managed to build trust with the owner and started to 'brand' the space. They co-invested in the project through organising events, redesigning the buildings and creating a network and community around the location. Early on, generating cash flow was considered a priority in order to reinvest income in making the buildings safe and accessible, creating better facilities for cultural and creative programming.

Key challenges: How to align short term objectives of the owner with long term development plans of initiators? How to develop a solid business case that generates enough cash flow to renovate the buildings? How to safeguard long term involvement of the initiators in the transformation of the area?

Solution: The Halele Carol project was based on step by step renovation of the building and branding of the area. It was supported by generating income through organising events and attracting sponsorships. Unfortunately, the inability to come to a long term understanding with the owner as well as the lack of funds to buy the whole plot and become independent owners, led to a halt in event production and a termination of the transformation process.



Navy Yard (Amsterdam)

Navy Yard (Amsterdam, Netherlands) was the subject of a redevelopment project by the Dutch Ministry of Defence, based on a step by step transformation process. The state and the municipality of Amsterdam came to agreement to implement a transformation programme for temporary use of the buildings and facilities. This constitutes an approximately 15-year programme managed by a professional team contracted by but operating independently from governmental organisations.

Key challenges: How to determine the best future function of this highly precious area? How to balance public access and private use of the area, as well as (short term) political ambitions?

Solution: The Navy Yard reuse project is based on a step by step adaptation process run by a professional team. Even though the team was contracted by the municipality and the ministry, it has been given a large mandate to freely determine what activities and which users to include in the project over a minimum time period of 15 years. Long-term planning unhindered by changes in local politics is key to the success of the project.



Examples of different forms of financing models

170/5 High Street West (Sunderland, UK)

170/5 High Street West (Sunderland, UK) is a row of three large residential buildings, built in the 1790s. They were in a very bad state when the Tyne & Wear Building Preservation Trust (TWBPT) obtained them in 2018. At the time, these buildings were valued at £1 and after investing £750.000 in restoration works, secured through a mix of grant funding, they are valued at approx. £100.000. After this first phase, working with traditional grant funding, there was a need for a more forward looking, and community building finance model.

Key challenges: How to secure initial capital from different sources to renovate the buildings? How to develop a successful financial model based on a variety of sources, including rent, and investments from tenants, as well as community-based financing-models?

Solution: In order to start building a “community of interest to invest” the project initiators piloted a crowd funder, which was focused not only on collecting money but also on getting a message out to various communities about this project, and create connections between them. The next step is to keep these communities engaged and committed longer-term, and experiment with other forms of ‘crowd’ based funding, e.g. community shares.



Hof Prädikow (Prötzel, Germany)

Hof Prädikow (Prötzel, Germany) is a former manor located in a 9.5ha estate, currently under renovation to become a place for working, living, social initiatives and culture. Better development of rural areas and “distant working” are the aims of the future tenants, many of whom are coming from Berlin located only 50 km away.

Key challenges: How to develop a self organized, democratic community in Hof Prädikow? How to establish mutual understanding and agreement with the local community? How to mitigate the risk of rapidly rising construction prices that might jeopardise the budget for the two remaining residential buildings in the first construction phase?

Solution: What makes this case special is a combination of three legal forms for the implementation of this adaptive reuse project: a foundation, a cooperative and an association. Each legal entity is meant to do what it can do best to support community building according to different financial necessities and abilities. Stiftung trias (foundation), through donations and loans provided by friends, was able to buy the site and grant it by a heritable building right to the cooperative. Mietergenossenschaft SelbstBau eG (the cooperative), used its long lasting experience, collected the necessary equity for the renovation loans and has been able to ensure considerable public funding by the Federal Government. The Hof Praedikow e. V. association represents the every-day-life in Hof Prädikow, running the “community barn” as a link between tenants and villagers.





Recommendations for public institutions

Local and regional governments

★ Use funding as a tool to create the right incentives:

Funding is not just a problem to be solved, but also a resource to engage stakeholders and generate new synergies. Building the right incentives into the funding schemes and matching well public sources with other types of resources can increase the financial potential of adaptive reuse projects without compromising their social value. Funding feasibility studies for adaptive reuse could help potential initiatives to flourish and filter out the less prospective ones.

★ Support the local civic ecosystem:

Well functioning local civic ecosystems provide the necessary environments for NGOs to stabilize, develop but also to survive crises and overcome challenges. Such an ecosystem provides mutual help, can support financial stability but also makes the often small initiatives more visible. Local authorities can support the creation of such ecosystems through platforms that offer networking, match making and visibility, seed funding, as well as through the development of a supporting local regulatory framework. This facilitates access towards investors but also provides more leverage for bottom-up initiatives.

★ Help civic initiatives become visible to investors:

Non-profit enterprises are usually not profitable enough to access financial markets and are considered too risky for private investors. Social enterprises that generate stable incomes look more attractive in the eyes of the right investors, however, this requires advanced financial management skills (financial

planning, revenue identification, expenditure analysis, risk management etc.). Public authorities can facilitate civic actors in strengthening their skills in this area by a wide range of actions and tools (capacity building and mentoring programs, workshops, consultancy etc.).

National governments

★ Develop reliable funding schemes:

Unstable and unreliable public funding represents a serious challenge for bottom-up initiatives, who tend to have less savings and limited revenue streams. It also contributes to a large fluctuation rate of the personnel and endangers the social mission of the initiatives. Predictable funding streams support financial planning and contribute to long-term sustainability in the sector. In the long run, stable public funding can also encourage further private and civic investments and contribute to the expansion and stabilization of these initiatives.

★ Create a transparent and predictable regulatory environment:

Clear guidelines, transparent regulations and a reliable institutional environment - independent of the political changes - is a precondition for a well-functioning NGO ecosystem. Stable and transparent evaluation processes support reliability and long-term planning for the entire civic sector, allowing the different initiatives to develop and expand.



Recommendations for public institutions

EU policy makers

★ Increase focus on the bottom-up:

Increasing bottom-up regional development (instead of top-down regional plans) can support local communities, allowing them to solve their own issues. This can be done in the form of subsidies, revolving funds or guarantees. EU funds need to be made easier accessible for civil initiatives and community led local development (CLLD). Instead of national governments, a specific body at EU level could manage such processes, helping communities all over the EU in setting up local projects and funding schemes.

★ Help bridge the gap of co-financing:

Many EU programmes do not cover 100% of adaptive reuse projects and require significant co-financing which can be difficult to ensure for civic initiatives. Despite the approval of a funding proposal, many projects fail to bridge the gap due to lack of cash flow or limited access to loans. A complementary partnership between EU funding institutions and the banking sector could substantially support co-financing of ideas that deserve to be realised.

Recommendations for private actors

Private investors (impact investors, developers etc.)

★ Take the opportunity to invest in a community:

Groups organised to reach a common goal can be powerful engines for generating economic and societal value. There are different types of investment tools available targeting different groups, ranging from small scale (e.g. crowdfunding) to large scale (e.g. social bonds, Corporate Social Responsibility budgets).

★ Look for new coalitions and business models:

Adaptive reuse requires new approaches to giving collective meaning to old buildings and urban areas. It's not only about the hardware (building and land) but also about the ability to organise (orgware) and to

create new use(rs) for each area (software). Different forms of input will lead to new forms of output and business modelling. Dare to make new types of coalitions (e.g. private developers along with a community cooperative) to create new organisational structures and services as well as attract new users to an area.

★ Look for the story behind the project:

Does it have the power to attract people? Private equity is not only a matter of big banks and investment funds but often relies on ordinary people, even at neighbourhood level, who have funds available and feel enough connection to the purpose of the project in order to invest in it.

Recommendations for private actors



Financial institutions

(ethical banks, regional banks etc.)

✧ Provide training and advice:

Know-how and connections can be as valuable as financial support. Connect civic initiatives to consultancy networks that can provide support in business planning, risk management etc. and support them with expert advice on financial management. Banks do not see their task in consultancy but could think over the possibility to have either an own consultancy company or maintaining good relationships to many external consultants.

✧ Create custom financial products and services:

So called “alternative Banks” as well as commercial banks should provide custom loans and financing programs offering special, favorable conditions for civic initiatives. E.g. place-based mortgage contracts or seed money for feasibility studies and try-outs. Funding of funds, lotteries and government institutions often have to be pre-financed. Finding tools for that, especially accepting different commitments as security is crucial. Risk and benefit calculations should be based on all values instead of financial values only.

Philanthropic foundations

✧ Simplify and be complementary:

The landscape of philanthropic institutions is complex and application procedures are often similar to public subsidies. Philanthropic foundations should consider collaborating and specialising on particular needs of civic initiatives in order to create more added value. Application processes could be simplified, e.g. two-stage procedures, to lower the threshold of entering.

✧ Become impact investors:

Philanthropic foundations may not only have a look at other projects for subsidies or grants but could also finance their own projects and missions as impact investors. Of course this would raise the need of an adequate interest for this investment. But interest is always dependent on the question whether an institution is centred around “money-making” only or “support-giving” instead.



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The highlighted countries are the locations of the OpenHeritage Observatory Cases, some of which are mentioned in detail in this policy brief