

NCNCANADA 

## Shared Spaces Learning Series

### KNOWLEDGE IN ACTION 2:

### FROM START-UP TO SUSTAINABILITY – EMERGING BUSINESS MODELS

Roman Katsnelson  
Erin McFarlane



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## NCN Canada and the Shared Spaces Learning Series

Mission-driven shared spaces have long operated across Canada in service of a variety of social and hybrid missions. More recently, the phenomenon of shared spaces has been experiencing a surge in growth and strategic interest across the public, private and non-profit sectors. In 2016 Tides Canada, with support from the Non-profit Centers Network (NCN), initiated a new program, **NCN Canada**. The aim of NCN Canada is to address the unique needs of Canadian organizations involved in non-profit shared space projects.

This paper is a part of NCN Canada's *Shared Spaces Learning Series* initiative, designed to contribute to the emerging national conversation about the roles, capacities, and limitations of shared spaces, broadly understood in various contexts as Community Hubs, Social Purpose Real Estate, and Non-profit Centres. The Learning Series features "Knowledge in Action" research briefs, which gather and summarize relevant data and information, and "Stories from the Centres" case studies, highlighting emerging practices and perspectives in Canadian shared spaces.

### HOW CAN THIS GUIDE BE USED?

Operators of Canadian non-profit centres in both planning and operational stages should find the information here relevant for examining the financial aspects of their work, generating new possibilities, and evaluating these in the context of their organization's vision and mission to inform fiscal strategy.

Each organization's context is unique and no general guide can replace the utility of specific research, consultation, and legal counsel. The aim of this paper is to organize information in a complex field, to help facilitate useful preliminary and evaluative conversations, and to help operators clarify the questions relevant to their specific context.

The information in this paper should not be construed as legal counsel.

### WHAT IS INSIDE?

This paper is organized in three sections: *Building the Puzzle*, *Sustaining the Function*, and *Centre Profiles*. The first section focuses on financing capital asset acquisition (buying, developing or improving a space). The second section describes various approaches to balancing revenues and costs while operating a centre. The final section includes brief profiles of two Canadian centres, describing their sustainability strategies in further detail. Sources and additional resources can be found after the final section.

The information in *Knowledge in Action 1: Corporate Structures and Regulatory Contexts* is complementary to the information here.

## Introduction

Canadian non-profit centres, as one manifestation of social-purpose real estate, are firmly situated in the social economy. While the mix of legal structures varies greatly (from non-profit societies to public foundations to corporations limited by guarantee),<sup>1</sup> non-profit centres exist in service of social missions “searching for a space – distinct from both the state and the market – that offers focal points for constructive forms of civic engagement.”<sup>2</sup>

In support of their missions, centres operate at the intersection of the private, public and non-profit sectors – combining from each sector a bundle of stakeholders, accountabilities and required capacities. Strategic financial acumen – the development, clarification, evaluation and adaptation of your centre’s business model – is one capacity critical to the success of your space and your mission.

The shared space sector has a high degree of variability. Centres we reviewed ranged in annual budgets from \$200,000 to over \$38 million, with the accompanying range in physical size. Some centre operators own their space, others lease it, still others hold it in trust. Foundational mandates of non-profit centres vary as well – from a small group of partners looking to leverage proximity and a shared platform, to public-facing missions looking to provide space to tenants and members. And, not least, local contexts – made up of geographies, histories, community relationships, real estate markets, municipal and provincial governments – are surely different in each case. Each of these factors has significant implications for your centre’s strategy and business model. As a result, we do not aim to describe a single, best-practice approach to business modeling. Rather, we want to provide a brief overview of emerging practices and strategies used in Canadian centres, with the hope of helping you contextualize your own planning and modeling efforts, and perhaps spark some new ideas.



<sup>1</sup> See NCN Canada Learning Series Vol. 1 – *Corporate Structures and Regulatory Context* – for detail.

<sup>2</sup> Jack Quarter, Ann Armstrong, and Laurie Mook, *Understanding the Social Economy: A Canadian Perspective* (University of Toronto Press, 2009).

## Building the Puzzle – Financing Capital Projects

Every centre can expect to come across at least one significant physical capital project at some point in its lifecycle. The project can take the shape of purchasing or developing a building at the outset of operations, renovations or leasehold improvements for a rental space, or the development of satellite space. In 2016, as this paper is written, the *Langs* centre in Cambridge is launching expansion financing, *cSPACE King Edward* in Calgary is set to open its doors after a multi-year acquisition, construction and renovation effort, and *Artspace* in Winnipeg celebrates a completed facility upgrade to increase accessibility. At any stage and at a variety of scopes, a capital project means a need for capital financing, quite distinct from ongoing operations.

Raising the significant funds required for such projects can seem like a daunting process. Vancouver's *Central City Foundation* has been around for over 100 years, and its founding story is of "a group of neighbours coming together to form a non-profit corporation and selling shares in the community for \$10 each."<sup>3</sup> This strategy, warmly reminiscent of the modern capital campaign, still forms the backbone and likely the first piece in many capital financing efforts. Today's groups of neighbours, however, are more likely to work with a growing mix of financing sources, navigating the complexities and unique opportunities of each, and working over time to fit them together like pieces of a jigsaw puzzle. Recent successful strategies combine access to equity, debt and charitable capital through a variety of structured financing activities. Your specific model will depend on a number of variables - including your local funder and market contexts, organizational and Board capacity, and length of time available. Your strategy will likely balance planned and responsive approaches when it comes to the sequence in which you activate funding components, as well as the relative percentage of capital funding each component supports. The information presented below is grouped into strategic components by source of finance.

### COMMUNITY CAMPAIGNS

In a capital campaign, you approach the broad community for support. In addition to contributing to your financing goals, a capital campaign is an excellent indicator of community support – an indicator that can be leveraged with other social-purpose funding partners. A capital campaign can have multiple strategic streams, accessing equity, debt and/or charitable capital, depending on the limitations and possibilities of your legal structure. For non-profits and charities, the most common approach is a broad-based charitable donation appeal to individuals and organizations. More recently, innovative organizations have begun to access debt capital in capital campaigns in the form of "community bonds." *The Centre for Social Innovation* in Toronto recently raised \$4.3 million by selling debt to the community to support its expansion to a 64,000 square foot building<sup>4</sup>.

<sup>3</sup>Central City Foundation, NCN Canada Interviews, October 10, 2016.

<sup>4</sup>"Community Bonds | Centre for Social Innovation," <http://socialinnovation.ca/communitybond>

## CHARITABLE FOUNDATIONS/CREDIT UNIONS

Approaching charitable foundations (at the local and national level) and credit unions can be an important piece of the puzzle. Community foundations (e.g. Hamilton Foundation, the Calgary Foundation, South Saskatchewan Community Foundation, etc.)<sup>5</sup> and other local civil society grantmakers, such as United Ways, have access to and accountability for stewarding locally directed pools of charitable capital to the benefit of the community. While community foundation grants vary in size significantly, even a small-scale grant can be a significant win in demonstrating long-term strategic alignment with the foundation, which can be leveraged into additional revenue from other sources.

In addition to grants, community foundations and credit unions – sometimes working in collaboration, as in the case of Vancity and Vancouver Foundation’s Resilient Capital Program<sup>6</sup> – can also provide access to low-interest, flexible repayment loans as a form of “patient capital.” Patient capital is one practical application of ideas and values in the emerging field of social finance, attracting financial institutions to seek social gain in parallel with financial returns.

## THE GOVERNMENT

The public sector at every level – municipal, provincial, federal – represents a critical stakeholder and ally for shared space centres. Government programs provide capital assistance grants and loans – often matching – in ranges from \$500 to \$500,000.<sup>7</sup> No matter the size of the grant, engaging the government as an early investor and stakeholder in your project increases the chances of being eligible for support with ongoing operating funds later.

In addition to direct funding, governments have leverage to contribute to capital strategy in a number of other ways. For example, recent work by the Ontario Community Hubs Secretariat is not only streamlining access to provincial funds, but working cross-ministerially to increase access to using existing infrastructure.<sup>8</sup>

## MARKET ACTIVITY

A final piece to the capital financing puzzle is direct participation in the market. Evaluating the assets you already have (or will have as your business model unfolds) can lead to some innovative approaches. For example, portions of your property can be reallocated for sale. Calgary’s *cSPACE Projects* purchased its site with funds obtained through a mix of community foundation, municipal and provincial grants. The site was subdivided and rezoned, yielding ‘surplus land’ that was resold to private-sector developers at a value-added rate, providing a significant portion of needed capital financing.

Another asset-leveraging opportunity is naming rights. Toronto’s *Centre for Social Innovation*, for example, sold the naming rights to one of its boardrooms to a local co-operative bank. This created a “true win-win scenario. We secured important core revenue [from] an organization we trusted and with whom we were proud to associate. [They] gained incredible exposure to thousands of individuals.”<sup>9</sup>

<sup>5</sup> Look for your community foundation at *Community Foundations of Canada’s* website: <http://communityfoundations.ca/find-a-community-foundation/>

<sup>6</sup> Centre for Social Innovation, “Growth Capital - Vancity,” accessed October 30, 2016, <https://www.vancity.com/BusinessBanking/Financing/GrowthCapital/>.

<sup>7</sup> For an excellent inventory of capital grant sources, see the extensive list published in Artscape’s DIY Media Library: [http://www.artscapediy.org/ArtscapeDIY/MediaLibrary/ArtscapeDIY/ArtscapeMedia/documents/canadian\\_capital\\_funding\\_sources\\_for\\_cultural\\_projects.pdf](http://www.artscapediy.org/ArtscapeDIY/MediaLibrary/ArtscapeDIY/ArtscapeMedia/documents/canadian_capital_funding_sources_for_cultural_projects.pdf)

<sup>8</sup> “One-Year Progress Update on Community Hubs in Ontario: A Strategic Framework and Action Plan | Ontario.ca,” <https://www.ontario.ca/page/one-year-progress-update-community-hubs-ontario-strategic-framework-and-action-plan>.

<sup>9</sup> Centre for Social Innovation, “Rigour: How to Create World-Changing Spaces” (Toronto, ON, n.d.).

## Sustaining the Function

Established centres, as any organization, need to balance their revenues with their expenses to ensure basic operational sustainability. Business acumen and strong business models are critical success factors. Adding to the complexity, a social enterprise business model exists within the context of its mission, and “to achieve the spirit of its mission, commercial goals should be subsumed within its social objectives. If these objectives are being sacrificed for commercial success, then the organization is drifting away from the social economy.”<sup>10</sup>

Operational business models have to begin by making a decision – is the goal for the operation to be *subsidized*, *self-sustaining* or *generating a surplus*? Depending on the foundational mandate of your centre, any one of the three might be appropriate. For example:

- If your mandate combines the maintenance of a historic building with providing space at a deep subsidy to grassroots groups, your rental operation may itself require external subsidies (other revenue streams).
- If your mandate is based on the provision of shared space and support to other organizations working towards social missions, your rental operation may need to be self-sustaining (operating at zero balance).
- If your mandate includes contributing to the financial sustainability of a parent organization(s), your rental operation may be required to generate a surplus.

Non-profit centres’ business models vary in response to their mandate, combining revenues from *earned revenue*, *government* and *charitable funding*. We performed a brief analysis of the 2015 financial returns of 28 Canadian operators of shared space.<sup>11</sup> Grouping by total annual revenues, the centres range significantly, from \$221,000 to over \$38 million. The majority of organizations manage a fiscally sound operation, with just five centres posting an annual deficit of 5% or more. Four centres posted an annual surplus of 5% or more, with 19 centres landing at break-even (see Figure 1).

However, the revenue mix responsible for sustainable operations varied significantly. We examined the overall group, and two sub-groups – “Higher Budget” and “Smaller Budget” (above and below median, respectively) – looking at the percentage of total revenue from the above three sources. The results (see Figure 2) suggest that

**CANADIAN SHARED SPACE OPERATORS: FISCAL HEALTH 2015**

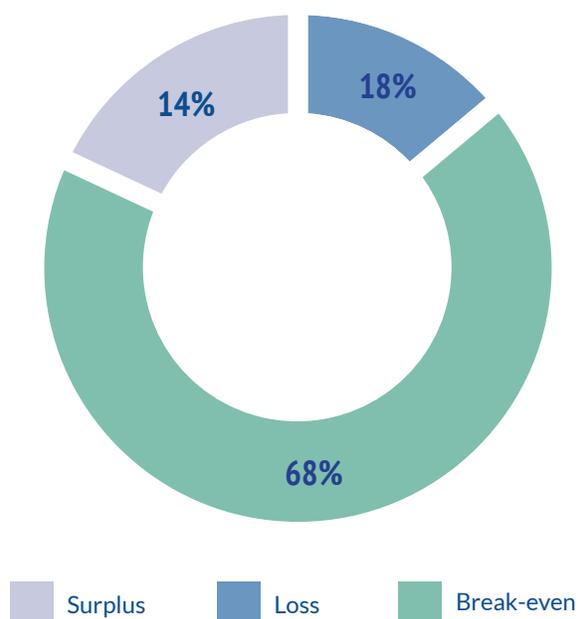


Figure 1.

<sup>10</sup>Quarter, Armstrong, and Mook, Understanding the Social Economy.

<sup>11</sup>A note on sample selection: we started with a convenience sample of 58 Canadian members of the Nonprofit Centers Network who were listed as “established.” Of these, 18 were excluded because financial data was not readily available; 12 others were excluded due to reporting 0% of annual revenue from space rental. The data generated is not intended to show statistical significance, but rather trends of anecdotal data.

**CANADIAN SHARED SPACE OPERATORS: REVENUE MIX 2015**

larger organizations (annual budget over \$1.75 million) tend to rely more on government grants than earned revenues, while the inverse is true for smaller organizations. Shared space operators in all three groupings derive a tertiary benefit from charitable donations. For half of all “Smaller Budget” organizations (7 out of 14), earned revenue represented over 85% of the revenue mix. The same was true for just 1 of 14 “Higher Budget” organizations. For small and start-up organizations in particular, then, business models require attention to the earned revenue component.

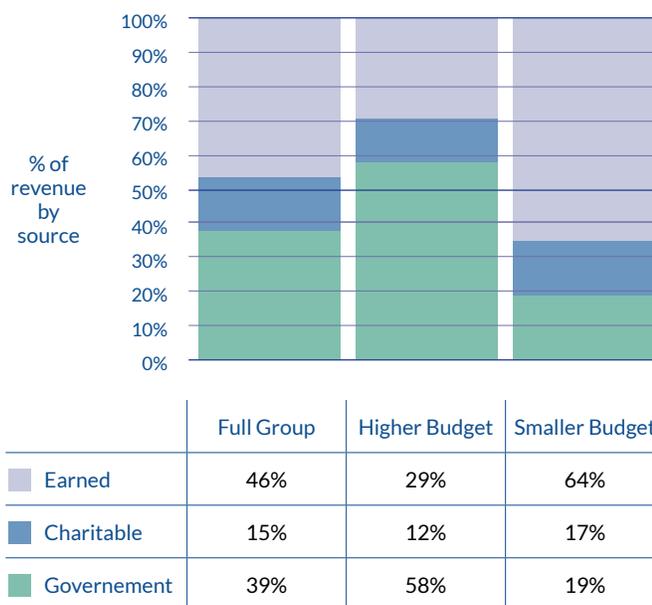


Figure 2.

**1. AREA RATIOS**

Calculating the ratio of revenue-generating square footage to passive square footage can be an important support to sustainability. From the financial perspective, “passive” areas include all common and public spaces (e.g. hallways and bathrooms) and other non-rentable space (e.g. your own office space). Revenue-generating areas include rentable office space, hot desk areas, event and meeting space, etc. Examining the ratio between the two totals can illuminate possibilities for re-allocation or redesign. Some common spaces are inevitable (e.g. staircases) and others highly desirable (e.g. kitchens, hallways and other “collision” places), but you may find spaces that can be converted or made flexible. In addition, consider the difference between “potentially” and “actually” revenue-generating space. For example, event spaces that sit empty for large periods of time can double up as flexible hot desk areas during off-peak hours.

**2. SHARING THE BURDEN – FIXED VS. VARIABLE COSTS**

In a 2016 report, the Nonprofit Centers Network found that physically larger centres were statistically more likely to operate at a surplus.<sup>12</sup> This may be because economies of scale operate in non-profit centres as elsewhere: the more square feet, the more tenants share the burden of fixed costs. In shared space management, the majority of costs are fixed (e.g. utilities, building maintenance, security). The higher number of paying contributors, the less each has to pay to cover these costs. An increase in number of tenants or members can be leveraged to subsidize all (in the case of a break-even model) or to increase surplus (in cases where that’s desirable).

<sup>12</sup> Nonprofit Centers Network, “Sound Shared Spaces: Focusing on Financial Sustainability,” 2016.

### 3. MIXED USE – MIXED REVENUE

Consider flexible uses of space to maximize the amount of time your shared space is being used by someone. Design choices have significant implications here – from both macro and micro perspectives. Designing with operational flexibility in mind will help to adapt to changing contexts later – from easily movable desks and furniture to more complex features like flexible room dividers.

Some centres are using a “mixed use” approach even to setting rental rates. Some tenants may be asked to accept a lower level of subsidy (in effect, pay closer to market rates) in order to help subsidize others whose need is demonstrably higher. Creating and managing such a sliding-scale model of rent can be challenging to implement, but pays off by increasing the overall resilience of the member/tenant community and its capacity to internally support each other.

### 4. NON-RENTAL REVENUES

Finally, consider additional fee-for-service activities to support revenue streams not tied to rent. A shared infrastructure of back-office services – from bookkeeping to human resources to technological supports – can be an impactful service for your tenants, particularly more grassroots, smaller groups or individuals. As another example, providing event-planning services to go with your event space can be a significant value-add to the space itself. Making your expertise in starting and/or managing a shared space available to others via a consulting proposition is another related activity. Make sure to perform a careful feasibility analysis, including any new costs you will incur in operating such activities, to ensure financial sustainability.

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Please note that if you are registered with the Canada Revenue Agency as a charitable organization, your permitted revenue-generating activities are significantly limited. You will need to ensure that any such activities fit the CRA’s definition of “related business” in order not to jeopardize your charitable status.<sup>13</sup>

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## Conclusion

As your centre moves through its lifecycle stages, business functions will shift. You will find yourself adapting to changes in the internal and external environment, emerging stakeholder priorities and new pressures and possibilities. Maintaining flexibility and the willingness to question past assumptions and practices are critical competencies for ensuring that your business model is a well-adapted strategic tool, situated strongly in the context of your core values and social mission.

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<sup>13</sup> Please see *NCN Canada Knowledge in Action Volume 1* for details.

cSPACE King Edward is Calgary's newest hub, a flagship project providing shared space in an incubator model for artists, non-profits and cultural entrepreneurs in the city. Opening its doors to tenants in late 2016, cSPACE has been working since 2011 to design its business model, finance the purchase and renovation of a historic building, and build its community..

cSPACE is a "specialist non-profit company that owns, builds and operates a portfolio of large-scale multi-tenant creative workspaces."<sup>1</sup> Its registration as a private company limited by guarantee allowed for maximum flexibility<sup>2</sup> in accessing different types of financing in a complex and innovative capital campaign. Over the course of its campaign, cSPACE was able to meet its capital needs through a combination of *charitable gifts, government grants, market activity and a public campaign.*

### Community Foundation

The cSPACE campaign was initiated with a commitment from The Calgary Foundation. The foundation is one of two shareholders in the cSPACE governance structure, and has a long-term stake in the success of the initiative. The initial funding commitment – a combination of grant and debt capital - contributed approximately 11% of the total capital budget, and was a testament to community support of the project.

### Government Contribution

With the initial funding in place, the municipal and provincial governments had the necessary confidence to support the project, contributing a further 34% of the budget. As a result of this contribution, cSPACE was able to purchase the 3 acre site, including a historic 100-year-old building and land.

## Centre at a Glance

|                          |  |
|--------------------------|--|
| <b>Name:</b>             | cSPACE King Edward   |
| <b>Founded:</b>          | 2011   |
| <b>Launched:</b>         | 2016   |
| <b>Centre Type:</b>      | Colocation & collaboration for arts groups, freelancers and artists. |
| <b>Membership Types:</b> | 2  |
| <b># of Members:</b>     | TBD  |
| <b># of Tenants:</b>     | 29   |
| <b>Total area:</b>       | 47,500 sq.ft.  |
| <b>Leased area:</b>      | 41,000 sq.ft.  |
| <b>Events area:</b>      | 1,600 sq.ft.   |
| <b>Common Space:</b>     | 4,900 sq.ft.   |
| <b>Average Rent*:</b>    | \$18/sq.ft. (53% market)   |
| <b>Revenue Mix*:</b>     | 20% Grant<br>80% Earned  |

\* Projected

### Market Activity

The land was master-planned with the community over 2 years and re-parceled, allocating some 30% for sale and future development to private sector partners. Proximity to the future cSPACE hub added value to the land, and its sale yielded an additional 36% of the required capital budget.

### Public Campaign

cSPACE is positioned as a social enterprise with integrated focus areas in supporting a thriving arts community, providing a world-class environmentally responsible facility, and combining subsidies with market-rate activities to achieve financial sustainability. This combination has allowed the initiative to reach a broad range of individual and corporate donors, running a public campaign that has provided an additional 13% of its capital budget.

<sup>1</sup> <http://www.cspaceprojects.com/about>

<sup>2</sup> See *NCN Canada Learning Series Volume 1* for details about the advantages and limitations of various legal structures available to Canadian shared space organizations.

Since its founding in 2001, Heartwood House has been a community home for a diverse mix of non-profit organizations in downtown Ottawa. Its business model involves a healthy mix of revenues, allowing the organization to provide its member organizations with highly accessible space at a significant subsidy.

Heartwood House secures 40% of its budget through a combination of fundraising, charitable donations and government grants, and 60% through earned revenues. Recognizing the risk inherent in depending on any one source of income, Heartwood House has implemented a strategy to diversify its earned revenue sources<sup>1</sup>. The model is a combination community space rental, market space rental, a pilot “virtual membership” project, and related social enterprises.

### Community Space Rental

Heartwood House is home to 18 community members – nonprofit organizations with a variety of specific missions within a broad scope of social and community services. Community members access highly subsidized rental rates at \$18/sq.ft gross.

### Virtual Memberships

In 2016, Heartwood House was planning a pilot project to introduce virtual memberships as co-working hot desks. The purpose of the initiative is to provide the benefits of the community to grassroots nonprofits that are not able to access, or do not require, permanent office space. The initiative is constrained by the lack of unleased common space, initially minimized in order to minimize overheads for community members. Hotdesk memberships were planned at a rate of \$105/month.

<sup>1</sup> For details about the variety of strategies employed by Canadian shared spaces to address this risk, please see NCN Canada Learning Series Volume 2 – Business Models

## Centre at a Glance

|                      |   |
|----------------------|---|
| <b>Name:</b>         | Heartwood House                                     |
| <b>Founded:</b>      | 2001  |
| <b>Launched:</b>     | 2001, 2012  |
| <b>Centre Type:</b>  | Multi-purpose colocation & collaboration space.     |
| <b>Membership</b>    |   |
| <b>Types:</b>        | 1   |
| <b># of Members:</b> | 18  |
| <b># of Tenants:</b> | 18  |
| <b>Total area:</b>   | 26,000 sq.ft.                                       |
| <b>Leased area:</b>  | 26,000 sq.ft.                                       |
| <b>Events area:</b>  | N/A   |
| <b>Common Space:</b> | N/A   |
| <b>Average Rent:</b> | \$18/sq.ft.   |
| <b>Revenue Mix:</b>  | 11% Grant<br>29% Charitable Donations<br>60% Earned |

### Social Enterprises

Heartwood House has partnered with the City of Ottawa to deliver the *OC Transpo Lost & Found* program. The project is enabled by the central location of the space, and processes over 30,000 items per year. The work is supported by HH staff and training volunteers from its member organizations, who

### Market Space Rental

When Heartwood House purchased its current location in 2012, the space came with three retail leases. These tenants are not community members, and pay market rental rates, which help to offset some of the subsidies for community members.

## Further Reading

Vancity Credit Union. "Growth Capital - Vancity." <https://www.vancity.com/BusinessBanking/Financing/GrowthCapital/>

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