



CAN guide

How to mezzanine*

*to mezzanine

to create high quality, low-cost office space

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welcome

...to CAN's guide to planning, setting up and running a mezzanine.

When Community Action Network (CAN) started in 1998, our aim was to network social entrepreneurs within the voluntary sector: to increase their profile, to raise their sights and to help them learn from each other.

We pursued this goal in many ways. But perhaps the most successful mechanism we stumbled upon was the idea of creating a 'physical centre' – shared offices where a cluster of not-for-profit organisations could work alongside each other. We began with five tenants and a short lease on 3,500 square feet just off Leicester Square. For five years, our Mezzanine in London's Waterloo brought together 25 tenants in over 19,000 square feet of space. Today, our third shared space houses 40 social enterprises in 21,000 square feet of high quality offices at 1 London Bridge. Hopefully, this may soon be expanded to 30,000 sq ft and 60 organisations.

Our success has led to a stream of enquiries about how we did it, so I am delighted to be able to share this story and the lessons learnt with you. It has not, by any means, been plain sailing. We have made mistakes and tried to learn from them. But I am convinced that for the social sector, there is a huge benefit to be had, all around the United Kingdom, if organisations can get together to share facilities and knowledge. If we can be of any assistance in advising on your own situation and plans, please don't hesitate to get in touch: CAN is here to help any group that would like to learn from our work.



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before you read on...

About this resource

We have chosen to publish this guide in two parts: first, we have prepared this abridged, printed booklet, which provides the key messages and points of information for doing a mezzanine project; second, this booklet is supported by a comprehensive series of downloadable resources, giving a wide range of extra detail, available for free on our website.

This approach not only helps us keep our distribution and printing costs as low as possible, but ensures as many people as possible have easy access to this material.

To get the details that sit behind the tasters provided in this booklet, go to the CAN website, where you can find briefing notes that cover key sections of this booklet in greater detail.

Remember that doing a mezzanine...

- Is about wanting to provide a great managed office service.
- Is not about developing a property portfolio on the cheap.
- Requires an attention to detail and quality.
- Is only one way of providing co-location.
- Needs to have a clear champion who will drive it forward.
- Will demand financial discipline.

www.can-online.org.uk/publications/

the mezzanine

...19,000 square feet of office space in London's Waterloo, was shared by some 25 social sector organisations, from 2000 to 2004. It was a highly practical solution to a fundamental problem faced by this sector: how to find attractive, flexible, affordable, stylish and friendly offices in a great location.

Business school gurus who study small business call this sort of thing a 'cluster' – and have figures to prove how much added value such groupings create. It's hard for us to calculate the true value of the relationships in our Mezzanine, but we do know that every year, members saved a combined total of £230,000 in direct costs alone, due to economies of scale and sharing facilities.

Mezzanine Services Ltd (MSL), a company limited by guarantee, was set up by CAN specifically to manage the Mezzanine. Tenants were members of MSL and paid a fee to cover rent and the operating costs of providing a full-time office manager, office equipment, mail and franking services, and a communications and IT infrastructure that wouldn't be out of place in a multinational business.

Our approach not only saved us money, but also played a major role in promoting interaction between organisations, making the sum greater than the parts.







mezzanine 2

...is the name of the new social enterprise, formed by CAN in 2004, to take on new space as the Waterloo office lease was coming to an end. Our landlords had submitted plans to redevelop the site and were only prepared to renew our lease with short notice clauses. This was a hard moment. We thought we ought to move on but we didn't believe we could better the position and quality of the Waterloo office.

After much research and discussion, internally, with Trustees and external experts, we thought there was unlikely to be a better market in which to take on a new 'long' lease, between five and ten years. We engaged a property agent to help with the search and quickly narrowed down our shortlist to four buildings. Tough negotiations resulted in an affordable cost for one outstanding space at 1 London Bridge and we entered into a seven-year lease on two floors, totalling 21,000 square feet.

We created Mezzanine 2 Ltd, a company limited by guarantee and registered charity, to be the leaseholder. The member scheme we had used before was not acceptable to our new landlord and so we agreed a form of annual licence for our clients. This licence allows organisations to occupy their space, connect to phone and broadband, and share meeting rooms and conference facilities for a fixed fee. Our research shows that this fee is roughly half of comparable London office space. Extras, charged monthly, include photocopying, phone calls and mail franking.

Thanks to funding from the London Development Agency, we have been able to refit the space to a high standard but our business modelling did show that, even without this funding, the concept would have been viable.



who it's aimed at

- You want a high quality, professionally serviced office but can't afford it on your own.
- You are a group of people who are already sharing a building and want to know how to make it run a lot better.
- You own, or have access to, a building that isn't fully occupied and you are thinking of letting space out to make some money.
- You are a group of organisations that would like to work together in a shared office environment.

A photograph of a Buddhist altar. In the background, a golden Buddha statue is seated, holding a bowl. The statue is set against a highly ornate, golden, textured backdrop. In the foreground, several bright yellow sunflowers and pink lilies are arranged in a vase. To the right, there are some glass containers, possibly for offerings. A red circular overlay with the text 'step 1' is in the top right corner.

step 1

planning it

Check your motivations

The success of creating a mezzanine is measured in terms of how well it enables its tenants to prosper. So start by thinking about the types of organisations you want as tenants, and how your mezzanine is going to support them in being successful.

Before you commit to spending money, take time to articulate what it is that you want to achieve. At CAN, for example, we wanted our tenants to network and help each other win business.

Refer back to your plans over the duration of the project to make sure that it still fits with what you originally said you wanted.

Explore your property options

As you start to look for a property, use this time to refine your ideas about what sort of space you want, and to figure out what you are prepared to compromise on. You will probably be thinking about the relative value of size, quality, accessibility, parking, location etc. Also, consider what you want it to say about your organisation. An open plan loft space, for example, will feel completely different than a purpose-built cellular office. Talk to estate agents and local authorities, and use your network of contacts, to see what is out there. Designers and architects can also be sources of useful advice and insight.

Build your waiting list

Remember that your success relies on delivering a service that provides something better than tenants can get elsewhere. So start by carrying out a survey of potential customers' needs to assess what you could provide them with that would improve the quality of their working lives. Areas you might want to emphasise include the networking opportunities and the time and money they could save on dealing with contractors, cleaners, IT maintenance, landlords etc. As well as these practical issues, you need to make sure that tenants share your philosophy for the office space.

step 1 planning it

Plan your finances

The general advice at this stage in the game is to be realistic about costs and make sure you have included ALL of them. Be brutally honest with yourself, and don't fudge your finances to show that it's going to be self-sustaining if it is not. Test all your assumptions, and don't be shy about seeking advice from outside sources, such as your bank, local Business Link, accountant, and stakeholders. It takes time and effort to get this right and always requires several goes before it works really well. On our website you can find some spreadsheets, based on our own figures, that will help you assess whether an opportunity is likely to be financially viable.

Seek your primary tenants

It is important to pick your first tenants carefully. They should not only act as a draw to others, and be relatively established, but also have a long-term commitment to the project. At the Mezzanine, these organisations help make the business more stable and sustainable, so we value them very highly.

Our tenants sign up for a fixed one-year period subject to a two-month notice period. We ask for the Licence fee to be paid three months in advance and for a three-month deposit. We try to ensure that we have a secure income stream, at least in the medium term, by keeping a waiting list of potential replacement organisations.

Build your allies

You will need to identify your stakeholders: these are likely to include organisations such as your bank, trustees and funding bodies as well as the building owner and your local authority. During your conversations try to ascertain the extent to which they support your goals. Be aware that as the number of stakeholders goes up, the amount of work required to manage them increases considerably, and the more difficult it becomes to balance their interests. More than anything you need to get your stakeholders and potential customers excited and up-to-speed on what you are proposing and how it can benefit them. Keep the message simple and easy to grasp and be consistent about what you say.

Find your core employees

At the Mezzanine, three individuals share the responsibility for playing three key roles: Tone Setting, Animating and Enforcing. The Tone Setter's job is to constantly demonstrate, articulate and reinforce the culture of the organisation. The Animator nurtures relationships between our tenants and encourages collaboration. The Enforcer makes sure the bills are paid on time and that formal and informal rules are observed. If we didn't have really great people performing these roles, the Mezzanine would not work. Take time to seek out people who have the maturity, people skills and prior experience to perform these challenging roles, but note that these are not necessarily three full time posts.

Get early legal advice

It is crucial to make early contact with a lawyer who has experience of working with property and social enterprises. There is a range of possible legal structures that you could adopt, but remember that you must choose the best structure to serve your goals. CAN started to involve lawyers too late and almost lost the first Mezzanine. Don't let this become an afterthought. You can find further advice about legal structures in the extended version of this booklet, which you can download via our website.





step 2

doing it

Recruit your tenants

This will probably be best achieved through word of mouth and your network of contacts. At the Mezzanine we don't operate a formal recruitment process but we do make sure that a potential tenant is likely to fit in by asking them to come in and meet people and see the space. We also try to work on personal recommendation; doing this gives us some reassurance that we share common values and goals. We also check whether there is any potential for conflict of interest with existing tenants. By making the recruitment process quite thorough and not just taking whomever comes along, we have consistently chosen tenants with whom we can develop great working relationships.

Write a business plan

The process of preparing a business plan does not have to be a complicated one. When done well, it will help you see if you really have a viable opportunity, or just a nice idea. The plan should be short and simple – a tool to help you rather than a hurdle that has to be jumped. There are plenty of sources of advice and help available, ranging from Business Links to consultants, and even computer software packages. We made good use of PrimeTimers* as a source of up-to-date expertise. Whatever route you choose, CAN's experience indicates that it is very important that you are closely involved in its creation and development all the way through.

*PrimeTimers, partnered by CAN, was founded in 2001. See www.primetimers.org.uk

Design the workspace

Work with an architect or interior designer to ensure the space satisfies your tenants' needs and your own aspirations for the way the office will work, as well as fitting your budget. For example, making the Mezzanine a modern, open plan office allowed us to fit in more desks (and hence generate more rental income) than taking a traditional, separate office approach. Whatever your budget, you should always consider what the look and feel of the space will say about you and how it will encourage the culture and behaviour you wish to create.

step 2 doing it

Create an IT strategy

Consult with potential tenants as soon as you can to get an idea of their IT needs and current usage. Give one person overall responsibility for voice and data networks, from planning to installation and maintenance. This can be a contractor but make sure you understand their approach and that they are talking to your architect/interior designer. Expect this to take up quite a lot of your time. Consider installing as much capacity as you can afford. We didn't put in enough power sockets or network connection points at Waterloo and worked around it for five years.

Meet your legal obligations

It is all too easy to drift into an arrangement that may expose you to unexpected liabilities. The most obvious requirements for businesses come from property and employment law, employer's liability and financial regulations. You may also have to comply with regulations for accessibility, data protection and environmental health. It pays to spend time thinking through these requirements systematically. You can find more information about your potential legal obligations in the extended version of this booklet, available for download via our website.

Negotiate leases and contracts

If this project is going to work, you must be rigorous with leases and contracts. Get to grips with the statutory requirements (Health & Safety, Fire Regs., etc.) for offices and the costs of complying with them. Expect this to take time and effort. Ask your lawyer to prepare sub-leases, deeds of adherence, etc quickly so you can respond promptly to expressions of interest from potential tenants. Then get a standard lease or Licence drafted and a map showing the exact area allocated to them (see the extended version of this document on our website for examples). Don't forget that you will be liable to redecorate when you leave (referred to as dilapidations); ensure you have written arrangements for this phase in place. State clearly what the tenant has responsibility for.

Set up financial systems

You will need one system to deal with your bank and another to deal with payments from tenants and to suppliers. Invest in a robust accounting package from day one and try to arrange your credit terms to have money coming in before you have to pay it out. Make clear the consequences of not complying with these terms to your tenants. Invest in setting up Direct Debits to collect rent (quarterly) and facilities (monthly) payments. Keep meticulous records.

Arrange borrowing or grant funding for the capital costs early, and allow a decent contingency.

Establish the management structure

Your management structure should be set up to give your tenants the maximum involvement with the minimum hassle. There were five directors of MSL, three of whom come from CAN and the other two from tenant organisations, but day-to-day management was carried out by our office manager. In addition, all tenants were members of MSL and met twice a year. Mezzanine 2 has a more conventional Board of Trustees structure. The new office is run by a full time business manager. Our management style is based on maintaining good relationships, rather than confrontation or regimentation; however, it has taken time and effort to get to this state. Make clear from the start what is and what isn't negotiable.

Create an induction process

Newcomers to the space should be properly introduced, welcomed and added to any email list or groups. Another tool we use is to ask new tenants to host drinks or a lunch for other tenants and explain what their organisation does and how it works. Take time to introduce the Directors of other tenant organisations and make sure the roles of your Animator and Enforcer (see Step 1) are clearly understood by the new tenant.

step 3



keeping it going

Keep the space full

Space can be filled either by bringing in new tenants or allowing existing tenants to expand, and you should allow for both options in your plans. At the Mezzanine, history shows we lose one tenant per year but other tenants seem to grow by about the same amount. This means that we usually fill our space internally as we give priority to their requirements. Our business manager also has a waiting list of prospective new tenants. We always ask potential tenants to come in and visit us so they can see whether the set-up we have would suit them, and so we can determine if they would fit our culture and way of working.

Keep reviewing the service

Are you meeting your social and business goals? Are your customers and staff happy? Reviewing the financial, social and environmental impacts of your business can help you assess whether you are really offering what you promised.

You can also get an idea of the less obvious benefits you are providing and the 'added value' of your business. Some benefits can be hard to quantify, but you can gain a lot of information by asking stakeholders how you are doing.

If you want to take this further, there are resources available on our website about more detailed processes of impact assessment, such as 'social auditing'.

Keep communication going

Keeping things running smoothly requires good communication with all your tenants. You need to identify which of their staff members have the authority to make swift decisions. We tend to liaise with tenants at director level on strategic issues such as budgets, fees and legal matters, and with the individual office managers about day-to-day operational issues. Some of our tenants had to create an office manager position when they came to the Mezzanine. These people then channel all feedback through our own office manager.

step 3 keeping it going

Manage contractors and suppliers

When looking for new contractors and suppliers, be led by personal recommendation. Then check them out for yourselves; follow up references and make sure the organisations you intend to use are affiliated with the appropriate professional bodies. Once you have made your choice, don't be afraid to ask questions about things you don't understand – and never assume they know as much about running your business as you do. Make sure that the terms of the contract suit you and stand firm about negotiating changes. Always make sure you can terminate the contract if necessary.

Keep finances tight

There are a number of dangers you have to watch out for here. Don't allow your tenants to treat you as one of the creditors they juggle around. It may feel awkward but it pays to deal with any non-payment swiftly and decisively. Writing clear sanctions into your tenancy agreements will mean you can implement them with a clear conscience.

Keep meticulous records of suppliers' details and their invoices. It is amazing how often this is not done by small businesses. Ideally, the office manager should approve every invoice so that he or she has an accurate picture of what is going on.

Encourage interaction and trading

The layout of your space will affect how easy your tenants find it to interact and to trade ideas and resources. At the Mezzanine, creating areas with comfortable seating (that weren't meeting rooms) has encouraged this type of interaction. However, the most effective catalysts for collaboration have been the most simple, such as the 'borrowing' of resources and invitations to events – particularly those with food and drink!

This area is the domain of the Animator, so encourage the person with this role to keep an ear to the ground, and to spot opportunities for your tenants to work with you and with each other.

Manage conflicts and disputes

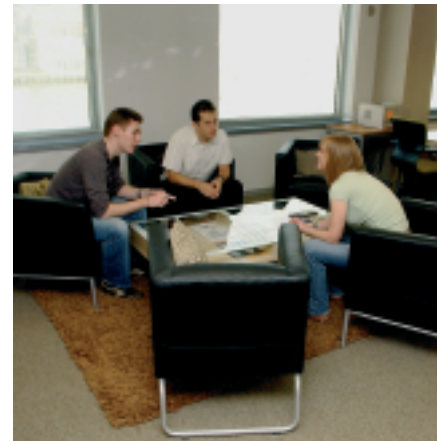
Start off by minimising the potential for conflicts and disputes by encouraging a sense of collective responsibility for the space. At the Mezzanine this is encouraged by our Licensee structure. You should also have a clear process through which issues can be resolved.

A common area where conflicts arise is over money, especially non-payment of rent. If it is important to you to give your tenants some flexibility, then you could consider having an arrangement with a loan fund to help tenants out, rather than subsidising them through your cash flow.

Enforce housekeeping

Keeping everything running as it should will take much more time during your set-up period, but persevere. It will take time and patience before the systems for checking and ordering supplies are embedded and everybody is clear about what is acceptable behaviour.

One challenge for us has been balancing the aim of collective responsibility with tenants' freedom to do what they want in the spaces they have paid for. One practical tip we would recommend is to ask your tenants to sign a written commitment to maintain tidiness in the general space – from CAN's experience, a verbal agreement is not enough.





we wish we'd known that ...

- We should have bought an industrial dishwasher rather than a domestic one.
- However nice people are, they don't pay their rent on time. Standing orders or Direct Debits from the start are essential.
- The size of most organisations fluctuates and to maintain high occupancy you need people to be flexible about the entire space. Sometimes this means organisations will have to move within the space and, while we've had significant assistance, occasionally some of our members have refused to move. We wish we'd made it a requirement (recognising that we'd use this authority sparingly).
- Integrated phone and data networks are much, much more complex than we imagined and require regular maintenance. Had we known this we would have charged more for them!
- Dealing with the Health & Safety, Fire and other legal requirements takes five times more effort than you expect.
- When prospective tenants/landlords/contractors say 'yes' it doesn't mean anything until the contract has been signed.
- We should have written into our members' contracts something about maintaining the high quality look of the space, e.g. tidiness, having clear desks etc.
- The demand for meeting areas will always be greater than you plan for.
- It's important to establish the culture you want to maintain from the outset.

we wish we'd known that ...

- It's important to keep your charges transparent so that tenants are clear about what they are paying for. Having an all-in charge makes us look expensive when we're not!
- If you give people really nice coffee they will drink loads of it!
- Unless you charge up front for social events (such as yoga, aerobics etc) then people won't attend and you will be left footing the bill.
- We needed to identify the key players in each tenant organisation at the beginning of our relationship with them and particularly those with the authority to talk to us about money.
- Our tenants would grow and that we should have built in flexibility from the start.
- We should check incoming tenants' financial status and assess their financial health.
- Waterloo was going to become so popular!
- Cutlery, crockery and glassware disappear at an unbelievable rate. Provide only the basics and ask your tenants to hire in everything they need for functions.
- We have to be constantly in communication to prevent a state of 'them' and 'us' developing.
- We have to be firm about making sure people leave the common areas as they'd like to find them.

at Mezzanine 2 ...

- We treated the office move as a separate project. This meant appointing a project manager and support team and giving them clear financial authority. We established an advisory committee and reporting structure so all concerned were up-to-speed with progress on a monthly basis.
- We learnt from previous lessons and appointed legal support right at the beginning; we also used professionals to help us negotiate the property deal. A local architectural practice was involved from day one; first on space planning to compare the short-listed buildings and then on designing, costing and managing the fit-out.
- We chose to take the risk (and potential reward!) by signing the lease ourselves rather than the collective responsibility members had for the Waterloo space. This made decisions easier as we didn't have to get 25 organisations to agree, but represented a significantly increased financial risk for CAN.



at Mezzanine 2 ...



- We spent time on developing a really professional business model. We found this instilled a lot of confidence in the banks and funding bodies as they could test the robustness of our business projections themselves.
- We assembled the team who were recruited to run the office early. It is easy to forget that it takes time to select the cleaning contractor, to develop meeting room booking procedures, to assign first-aiders and firewardens and all the other myriad tasks involved in running an office.

what next... give us a call

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DTI – Department of Trade and Industry

www.dti.gov.uk – is a good general introduction about the whole range of government and legal issues. The DTI Social Enterprise Unit can be found at: www.dti.gov.uk/socialenterprise/

HSE – Health & Safety Executive

www.hse.org.uk – can help you understand your obligations and how enforcement of regulations is carried out.

Information Commissioner

www.dataprotection.gov.uk – gives guidance on complying with data protection principles.

RIBA – Royal Institute of British Architects

www.riba.org – will help you find a local architect.

RICS – Royal Institution of Chartered Surveyors

www.rics.org.uk – can put you in touch with surveyors with experience in all aspects of commercial property, including management, landlord and tenant issues, investment, auctions, purchase, sale and leasing.

Design Council

www.designcouncil.org.uk – for inspiration on how you could use design most effectively.

Shor Associates

www.shor.co.uk – architects behind the new Mezzanine.

PrimeTimers

www.primetimers.org.uk, business inspired solutions for the third sector.

St John Ambulance

www.sja.org.uk – supplier of great First Aider training courses.

The Phone Co-op

www.phone.coop – a social enterprise that saves you money on your phone bills.

Green-Works

www.green-work.co.uk – a social enterprise that provides furniture, moving services and furniture disposal.

... and don't forget

Your local Council – for clarity on business rates, Council Tax, planning etc.

Your landlord's Building Manager – a great source of information and advice on all matters relating to operating an office.

downloadable resources

You will find a range of downloadable resources that expand on the points covered in this publication at www.can-online.org.uk/publications/

We've also put a number of templates there for you to use:

- Examples of our standard tenancy agreements.
- Spreadsheet that will allow you to assess the financial viability of a project using some rules of thumb we've developed at the Mezzanine.
- A detailed financial spreadsheet that you can use once you have a better idea of costs. This will allow you to model the venture and calculate breakeven margins and revenues.

Community Action Network

Founded as a company limited by guarantee in 1998, CAN is a national mutual learning and support network for social entrepreneurs. Since its inception, CAN has been at the forefront of one of the biggest challenges to affect the UK voluntary sector – how to find and create new, entrepreneurial ways of tackling social problems. Our 700 members throughout the UK deliver high quality, practical projects in almost every field of social change and service delivery, from homelessness to schools and from health care to recycling. CAN members learn from each other and enjoy a wide range of services provided through CAN's London Headquarters and its UK-wide network of Regional Directors.

At CAN's new HQ at 1 London Bridge, some 40 social sector organisations share 21,000 square feet of open plan office space and this has become an important landmark for the social sector in the UK. As well as providing a high quality office solution, an independent study has shown that the original Mezzanine at Waterloo saved its members a combined total of around £230,000 a year. The current cluster provides high quality space at roughly half the usual price. In addition, the open plan nature of the space naturally encourages interaction and shared working. Based on the success of this model and many other examples of co-location, CAN is supporting other organisations developing similar concepts around the UK.

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