

Title of meeting: Cabinet Member for Culture and City Development

Date of meeting: 20 March 2020

Subject: Hotwalls Studios Lease and Rental Model

Report by: Director of Culture, Leisure and Regulatory Services

Wards affected: All

Key decision: No

Full Council decision: No

1. Purpose of report

- 1.1 This report outlines the background and current operational model for the Hotwalls Studios and details the recommendations for a revised lease period and rental model at the Hotwalls Studios site.

2. Recommendations

2.1 That the Cabinet Member for Culture and City Development:

- 2.2 Approves the new maximum period of 6 years tenancy and this tenancy consist of two 3 year leases.**

- 2.3 Agrees existing tenants also have a maximum term of 6 years.**

- 2.4 Agrees that the revised rental model is applied from April 2021 and for all current tenants renewing in that year.**

- 2.5 Approves that the new notice period in the lease to increase by one month to 3 months' notice period, for both parties.**

- 2.6 Agrees to continue the current two tier rental model based on square footage.**

3. Background

3.1 Background to Lease period

- 3.1.1 In 2016 the original tenancy length for the Hotwalls Studios was proposed as a maximum of 3 years, planned through a series of 6 month licences. Following legal advice this process was changed as it was deemed the council was at risk and the process moved to a 1 year contracted out lease.

- 3.1.2 The original tenancy term was 3 years, this term ended in July 2019. It was decided to extend for a further 1 year as some of the original artists did not operate under a fully functional site, such as the installation of the canopy and completed ground works. Therefore, the current tenancy period has extend to a term of 4 years.
- 3.1.3 It is not possible to continue extending the lease each year as the creatives business find it difficult to plan under these circumstances, it creates uncertainty and also is an administration burden for the council. In addition, the operational experience of the past 4 years has given a new perspective to the operational assumptions made in 2014. Therefore, to continue the successful development of the site, a revised model is proposed which requires member agreement.
- 3.1.4 The first question to consider is why is a maximum tenancy period required? Following the benchmarking completed of the studio provider's networks from the New Forest to Portsmouth, a maximum tenancy period is not offered on these sites. However, some studios would wish to do so, but it is a challenge to action and operationally to manage, such a dramatic change. It is our opportunity now to shape our tenancy length and ensure there is a sound model for the future.
- 3.1.5 If our ambition and vision for the Hotwalls Studios is to:
- Offer as many opportunities as possible to creative businesses, giving them a chance to develop their practice in a unique customer facing environment in a subsidised space.
 - To refresh the offer for tourists and residents, not just in terms of retail, but in terms of offering different workshops and learning different skills as new creative practitioners are introduced to the site.
 - Support collaboration and forge links with as many different creative communities as possible to grow the creative industries in the city through partnership working of past, present and future tenants.
 - Continue to attract footfall to the varied events programme and markets delivered which support the economic activity of the local businesses in the area.
 - To allow the tenants to maximise their time at the Hotwalls Studios and grasp every opportunity that is offered by introducing a limited time frame to retain the energy and momentum required in a customer facing environment.

If all these points reflect our ambition, then the current principle of establishing a maximum tenancy period at the Hotwalls Studios should be continued and this proposal is reflected in this report.

- 3.1.6 In considering the benchmarking information, a 6 year tenancy term is proposed. This is an extension of 2 years to the current tenancy term. This term will be continuous and will include any transfer on the site from a smaller to a larger studio. There are a number of reasons for this extension:

- Our priority is to retain the highest quality artists and practitioners and ensure the reputation and brand of the Hotwalls Studios as a cultural and creative quarter is maintained. Studio demand remains at a premium but studio space is more widely available across the city than was available at the start of this scheme and it is a more competitive market. Linked to this is our quest to retain a high quality brand and therefore the number of artists available that meets this criteria is restricted.
- Introducing longer tenancy periods would free time spent in short term business reviews to discuss initiatives for longer-term development and would give tenants confidence to explore new opportunities.
- As the failure rate of a start-up business is higher in Portsmouth than the UK average and has been for some time, it was felt a 6 year tenure would be long enough to balance supporting the business over a crucial period of their development, but short enough to continue to offer opportunities for new creatives.
- There are limited suitable move on spaces for the more developed creative start-ups such as the Hotwalls Studios artists in Portsmouth. It is felt that a 6 year period is enough time for businesses to begin, to grow and then in the final year of their tenancy to transfer into suitable space to continue and sustain that growth, supporting a more successful transition into the right commercial environment.
- There are 8 from the 13 original tenants on the site and by the end of the 6 year term there will be fewer than this because of the natural churn. By extending the current term it will mean fewer tenants will be looking for alternative sites at the end of the tenancy period.

3.1.7 It is suggested that the period of 6 years would consist of two three year leases. This proposal will significantly reduce the administration required in the current model which is an annual refresh of all tenancies. A 3 year lease will save time, not only for Cultural Services, but also for the legal and leasing teams in PCC and will offer value for money and a more efficient method of operation.

3.1.8 However, it is also important that PCC have a level of comfort regarding the lease period and it is therefore suggested not to offer a lease longer than 3 years. A 3 year lease is long enough to support a reduction in time and expense of PCC legal costs but short enough to manage the risk to PCC around complications in exit. This provision negates the need for exercising a break clause, plus offers the ability to change other clauses of the lease, as and when appropriate.

3.1.9 In addition, the move from a one year to a 3 year lease will release time spent on reactive administration for the Hotwalls Studios Manager. This will encourage a more developmental role to increase the time spent on business support to help grow the creative businesses, seek further links for collaborative and

partnership working and developing initiatives such as arts trails and support future funding bids.

3.1.10 The length of the notice period should be flexible enough to enable the start-up business to be comfortable with the level of commitment and to withdraw easily from the lease in a short time scale, whilst also giving PCC enough time to support the churn of tenants and prepare the new lease. Therefore, it is proposed, the notice period in the lease is to be increased by one month to 3 months' notice period, for both parties.

3.1.11 It is proposed this tenancy term will also apply to existing tenants. There are 8 tenants that remain from the original tenants, who are in their fourth year, which under the new proposals, their term will end in July 2022.

3.2 Background to rental charges

3.2.1 The prime concept of the Hotwalls Studios was to develop the site as a creative industries start-up space, to support the creative industries and the development of a cultural quarter and creative community.

3.2.2 In relation to this, the current charging system is a two tier rental system:

- Start-up businesses which have more heavily subsidised rentals and are below market rate with incremental increases in year 3
- "Developing businesses" or more advanced start-ups which are less heavily subsidised with incremental increases in year 2
- A creative collective business in one of the larger studios which is developed business as a collective but has a number of as micro business sharing the overheads and based in a larger studio

3.2.3 All rental excludes VAT but includes the utilities and PCC provides the landlords maintenance for the site. The Hotwalls Studios rental are subject to VAT, this cost is payable by the tenant.

3.2.4 It is planned to retain this two tier rental structure, as a mix of micro creatives and more advanced start-up businesses works well on many levels:

- It offers a greater depth and breadth of the offer at the Studios with a more developed product for retail and the artists can learn from each other as they move through the different stages of their development.
- In terms of the financial model it is more sustainable as there is a range of rental rates which offers greater income potential whilst remaining subsidised.
- By offering shared space to the more developed start-up business, it means that they have the opportunity, even at the less subsidised rate, to share costs and manage overheads.

3.2.5 If the Hotwalls Studios is to remain a support to the creative industries, both tiers of rental will require some form of subsidy as it has now.

- 3.2.6 However, the differential on distinguishing what is a more advanced start up as compared to a micro business is currently problematic and needs strengthening. and has caused a number of issues in managing this model. To give greater clarity, it is proposed to include a threshold between the two levels based on turnover and in addition to include if a business has a registration with HRMC for self-assessment.
- 3.2.7 The Coastal Communities revenue funding that was successfully granted as part of the overall bid has been carefully managed to support this project much longer than anticipated, but this fund will come to an end over the next few years. In order to bridge this funding gap alternative income streams are being developed, such as The Round Tower, but these take time to build and the events programme, although successful, is cost neutral. There will be a budget pressure once this fund has ended, and a sustainable operational model should now be agreed.
- 3.2.8 As detailed in the original ARTches business plan of 2013, it was not the intention of PCC to continue the management of the Hotwalls Studios beyond the initial set up of the project. A not-for-profit organisation was to be sought to take over the management of the Hotwalls Studios who could apply more readily for various funding streams.
- 3.2.9 The PCC Property Team have advised, through a benchmarking exercise, the commercial rate for similar units excluding utilities and exclusive of VAT. The current rates that our tenants are charged, even though they are varied, are below this rate, and remain subsidised.
- 3.2.10 Therefore, it is proposed to retain the subsidised model at the site with a mixed rental model, with an adjustment to the square footage, and for :
- Studios rented to the "more developed start-up businesses" will continue at a higher square footage but still remain subsidised under the market rate. The option to share this space will remain.
 - One studio to be dedicated either as a collective space as it is now, to be shared by a maximum of 8 artists, or to be used as a project space to attract engagement from a wider cultural community such as working with neurodiverse artists or parts of the community that traditionally have limited access to arts and culture. This ambition is to improve our engagement with an under represented demographic and to develop further inclusivity to the cultural offer.
 - The majority of studios to remain at the most heavily subsidised rate, to give those micros the opportunity to transfer from the collective, as has happened in the past, or to attract a new creative micro business to the site. It would offer these young business affordable studio space, in a customer facing environment with an additional bonus of passing footfall.
 - All studio rents would be subject to an incremental increase each year, to move from a lower charge per square footage to a higher charge per square

footage, but would always remain under the commercial market rate. This will build a more robust financial model but at the same time offer a subsidised space to continue to support creative businesses in the city.

- 3.2.11 The rental will remain based on square footage and any new charges to begin from April 2021. This is to ensure that all the tenants will be given a year's notice of rental changes.

4. Reasons for recommendations

4.1 Reason for recommendation lease period

- 4.1.2 To enable the management team of the Hotwalls Studios to implement the new tenancy period for the current artist the new terms should have member approval. Therefore, the appropriate portfolio for this is the Cabinet Member for Culture and City Development.
- 4.1.3 This lease extension reinforces the primary objective of the Hotwalls Studio which is to provide spaces for creative businesses and to develop a creative community.
- 4.1.4 The new proposal adheres to the current principle of establishing a maximum tenancy period at the Studios whilst still offer as many opportunities as possible to the creative industries in the city.
- 4.1.5 This 6 year proposal is suggested to provide a sufficient length of time for a business to shoulder the incremental increase in rent over the tenancy period. The business will move from a subsidised rate per square foot to a higher subsidised rate per square foot in its tenure which will prepare them for a more commercial environment, if this is the option they chose.
- 4.1.6 As the failure rate of business in Portsmouth remains higher in Portsmouth than the UK average , it was felt a 6 year tenure would balance supporting the business over a crucial period whilst also enabling a new opportunities to as many new creatives as possible.
- 4.1.7 The experience over the past 4 years is that a natural turnover does happen at around the third of fourth year, as there are now just over half of the original business at the site, with more businesses looking to move over the next few years. These creatives business have moved to other sites such as Fort Cumberland but also have the flexibility to move from smaller studios to larger studio within the site, as their business grows or their practice changes.
- 4.1.8 Regular structured business reviews will play an important part of this model as they do now. At the end of the tenancy it will be key to support the businesses as much as possible to make the transition as easy as it can be for our tenants.
- 4.1.9 In their final year, the Hotwalls Studios tenants will be signposted to a number of sites that are currently operating for creative practitioners across the city. There

are the Cell Block Studios managed by the University of Portsmouth, The Makers Guilds based in the Guildhall, Fort Cumberland casemates managed by Historic England, Arts space in Southsea, Makers Space at Leigh Park, and desk spaces such as Aspex Gallery and newly available space at Portsmouth Museum. These spaces offer many varied environments, such as a mix of opening hours, event programming and public facing opportunities and are also varied in regards to the business support that is provided.

- 4.1.10 In addition, and linked to the pledge to strengthen the creative industries as outlined in the recent economic development strategy, there is a live application to the European Regional Development Fund for the provision of self-contained and co-working space for SMEs of all types but to be a flexible proposal to also support creatives. This is on a Commercial Road (in Cascades), and a decision for this in May 2020. In addition, an application has been made to the Future High Street Fund for the Commercial Road space and also a space in the Bridge Centre, Fratton. A decision on funding is expected in October 2020.

4.2 Reason for Notice period of the lease

- 4.2.1 The proposal is to increase the current notice period by one month to 3 months by both parties. This is primarily to give a longer enough notice period to vacate the current tenant and prepare for new creative businesses.
- 4.2.2 A three month notice period remains adaptable enough for the business to pull out of the lease with limited impact and is considered a flexible notice period for this type of small business.

4.3 Reason for recommendation on the rental model

- 4.3.1 The key to this proposal, is the principle remains of a subsidised model for all studios, whatever the size of the studio or where they are in the tenancy period. This will build an improved financial model but at the same time remain as a subsidised space to continue to support creative businesses in the city and honour the original principle of this regeneration.
- 4.3.2 These changes will give PCC the opportunity to build up alternative income streams such as the Round Tower and to seek alternative funding.
- 4.3.3 This model is a diverse offer to both artists, visitors and potential funders and is true to the ethos and principles of the original funding bid for the development of the scheme and continues to support the growth of the creative industries.

5. Integrated impact assessment (IIA)

- 5.1 IIA completed appendix 1

6. Legal comments

- 6.1 For the avoidance of any misunderstanding in reference to two three year leases the intention is that a first lease should be granted for a term of three years. A second lease again for a term of three years would subsequently be granted towards the end of the three year term of the first lease if that was what both parties wanted at the time. The term of the second lease would start at the expiration of the first lease.
- 6.2 All leases should be contracted out i.e. the provisions of sections 24 to 28 of the Landlord and Tenant Act 1954 should be excluded in relation to the tenancies created by the various leases.

7. Director of Finance comments

- 7.1 The Coastal Community grant support will end during 2020/21. The proposals to change the leasing and operational model detailed in this report seek to address the financial impact of this reduction in revenue funding. Any additional costs will be met from within existing budgets.

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Signed by:
Stephen Baily
Director of Culture, Leisure and Regulatory Services

Appendices:

Appendix 1 - Integrated Impact Assessment

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Hotwalls Update report January 2020	

The recommendation(s) set out above were approved/ approved as amended/ deferred/
rejected by Cabinet Member for Culture and City Development on

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Signed by:
Cabinet Member for Culture and City Development