

ITEM 4. OXFORD STREET CREATIVE SPACES PROGRAM – FOLEY STREET**FILE NO: S094174****SUMMARY**

The Oxford Street Creative Spaces Program (the Program) has been one of the most visible initiatives that the City has undertaken in the precinct in recent times.

The Program meets two Council objectives:

- to activate Oxford Street (contribute to the revitalisation of the area by generating street level activity and support the diversification of the area's business mix); and
- to provide affordable work, exhibition and office space for the creative sector (supporting incubation and collaboration opportunities for creative practitioners, entrepreneurs and start up enterprises).

Since the Program commenced, the creative tenants' spend on local goods and services is over \$1.2 million. An average of 160 people per quarter work from these spaces and they have attracted more than 60,000 new visitors to the area.

Since February 2012, four formerly vacant City-owned retail properties and 14 office spaces have been activated by creative enterprise under the Oxford Street Creative Spaces Program. Originally for a one year lease term, Council endorsed lease extensions to creative tenants for a further two year term on 20 August 2012 and a further one year term on 3 November 2014. Rents have been incrementally increasing over the period and leases for current creative tenants are due to expire on 31 December 2015. On 3 November 2014, Council further resolved that an Expression of Interest be undertaken in 2015 for new creative tenants for the 14 office and four retail properties at affordable rental rates for a maximum three year term from 1 January 2016 to 31 December 2018.

As part of Council's continued commitment to the revitalisation of the Oxford Street precinct through the strategic use of City-owned properties, final lease negotiations for 56-76 Oxford Street are underway with new commercial anchor tenant Woolworths. Capital works programs across the properties, including shop front upgrades for five properties in Foley Street, between Riley and Crown Streets, are also underway.

To ensure continued activation and commercial activity in the precinct, commercial tenants for the four retail properties on Oxford Street that are currently activated by creative tenants until 31 December 2015 are now being sought. After 1 January 2016, as commercial tenants are secured, the current creative tenants will be replaced. To ensure creative retail opportunities are retained in the precinct, five retail properties along Foley Street will replace the four Oxford Street retail spaces as part of this Program.

Aligned with the rental subsidy levels and maximum tenancy length of three years previously approved for the Oxford Street Creative Spaces Program, an Expression of Interest calling for creative tenants for the five retail properties in Foley Street (and the 14 office spaces on Oxford Street) will be sought in 2015. Tenancies will commence after 1 January 2016 for a maximum term of three years to 31 December 2018. Rental amounts will depend on the category and mix of program tenants as detailed in the management model previously reported to Council, and will be scaled up during the term of the tenancy.

RECOMMENDATION

It is resolved that:

- (A) Council approve the use of five retail properties located at numbers 9, 11, 13, 17 and 19-21 Foley Street at affordable rental rates, as set out in Attachment A to the subject report, for a maximum three year term from 1 January 2016 to 31 December 2018;
- (B) an Expression of Interest be undertaken to source tenants for the subject properties in Foley Street against the management model detailed in this report; and
- (C) authority be delegated to the Chief Executive Officer to enter into lease/licence agreements for a maximum three year term from 1 January 2016 to 31 December 2018 with the successful applicants.

ATTACHMENTS

Attachment A: Oxford Street Creative Spaces Program, Foley Street – Rental Rates (Years One to Three)

Attachment B: Oxford Street Properties – Commercial and Creative Tenancy Mix (Current and Future)

BACKGROUND

1. On 27 June 2011, Council endorsed new directions for lower Oxford Street. On 22 August 2011, Council endorsed a number of short, medium and long-term (5 to 10 years) initiatives to activate lower Oxford Street.
2. Initiatives that were part of the Lower Oxford Street Activation Project included:
 - (a) activation of unusual spaces (events, street and public art);
 - (b) a review of cleansing and waste;
 - (c) an increased number of hanging planter baskets and trial of footpath planter boxes;
 - (d) feasibility studies for City properties; and
 - (e) the development of business mix principles and models for Council to work collaboratively with private property owners.
3. One of the most highly visible and successful of the short-term initiatives has been the activation of underutilised City-owned retail and office space with creative tenants. The now occupied properties were in very basic condition (C-Grade office / retail space), and were suitable for leasing at rates significantly lower than that of CBD rents, while being perfectly suitable for creative practitioners requiring 'raw' spaces.
4. Following an Expression of Interest, in February 2012, 16 creative tenants commenced occupation of three retail (now four) and 13 office spaces (now 14). Selected tenants represent a dynamic and complementary business mix of commercial and non-profit creative enterprises. The enterprises do not compete with existing tenants in the area, and the practices represented in the properties are diverse including design, film, transmedia, visual arts, screen writing and digital production.
5. The impact of the creative tenancies was immediately felt as they transformed their office and retail spaces into vibrant, professional, activated spaces. Originally under a one year lease term, on 20 August 2012, Council approved a two year lease extension to 31 December 2014. Original rental rates were commensurate with the condition of the property, the tenants' capacity to pay and the lack of tenure security (i.e. short term leases). On renewal, rental rates have been incrementally increasing to move tenants and the program to more financially viable levels.
6. The creative tenants occupying and activating these spaces immediately generated street level activity and positive media. They employed or otherwise supported a wide variety of creative practitioners, entrepreneurs and start-up enterprises, and contributed to the local economy. The collaboration between the creative tenants, commercial tenants and established cultural institutions is reaffirming the unique attributes of the area as both a creative and improving retail precinct.

7. Tenants provide a quarterly report measuring the Program's economic and cultural impact. Key outcomes since the initiative commenced are summarised below:
 - (a) \$1,200,000 injected into the local economy (tenant spend on local goods and services);
 - (b) an average of 160 workers in 18 spaces per quarter;
 - (c) approximately 60,000 visitors to the office spaces; and
 - (d) tenants have moved into residential accommodation in the City of Sydney Local Government Area (LGA) to be closer to their office/retail space.
8. Under the terms of their licences, tenants also deliver against key performance indicators (including, for example, participation in 'Open Studio' days and public programs for the community, as well as adhering to minimum hours of operation). As part of the regular review process, all tenants have reported positive outcomes from participating in the program including:
 - (a) raising the profile, status and credibility of their enterprises;
 - (b) increasing their accessibility (to clients, colleagues and consumers) by operating from a professional office or retail space; and
 - (c) new professional opportunities, new networks and collaboration.
9. In addition, of the original 18 tenants, five tenants have experienced such success that they have 'graduated' from the Program. Three have moved to other properties in the City LGA paying full commercial rents, one (a music industry body) has moved to a co-share space with like organisations and the other has expanded her business and now has two other sites.
10. In keeping with the original objectives of the Lower Oxford Street Activation Project to ensure a commercially sustainable and diverse tenancy mix across City-owned properties, commercial tenants are being secured for all Oxford Street retail spaces. Final negotiations are now underway with Woolworths (for a multi-level space across four retail shop fronts), one of which is part of the Oxford Street Creative Spaces Program. It is anticipated that in 2016, commercial tenants will be sought for the remaining three retail spaces on Oxford Street that are part of this Program, at which point the creative tenancies would cease.
11. To ensure that the original objectives are maintained long term and that creative retail still contributes to the diversification of the retail mix in the area, five shopfronts on Foley Street will be activated under the Oxford Street Creative Spaces Program. Currently, some of these spaces are underutilised, empty or used for storage for example, and creative retail provides a low impact, but highly visible and appropriate activation for Foley Street.
12. Additional detail of the current and future mix of commercial and creative tenants across City-owned properties in Oxford Street can be found in Attachment B to the subject report.

13. It is therefore recommended that:
- (a) as commercial tenants are secured for the three (formerly four) retail premises on Oxford Street, that the creative tenants will be replaced with commercial tenants on commercial lease terms (as per Council’s resolution of 3 November 2014 and lease terms held with current creative tenants);
 - (b) five creative retail tenants be sought for the Foley Street properties as part of the same Expression of Interest for the 14 office tenants in Oxford Street (above ground offices) in mid-2015 for tenancies commencing after 1 January 2016 and concluding on 31 December 2018; and
 - (c) the management model below paragraph 13 be applied to the five creative retail tenants in Foley Street with:
 - (i) rental amounts being dependent on the category and mix of program tenants, and scaled up in accordance with the management model during the term of the tenancy; and
 - (ii) the maximum tenancy length being three years from 1 January 2016 to 31 December 2018.
14. As previously reported to the Cultural and Community Committee on 27 October 2014, the Oxford Street Creative Spaces management model complements the type and nature of support provided by the City through other accommodation programs. In addition, key activation/revitalisation objectives specific to Oxford Street have been considered in the management model shown in the table below:

Management Model		
Tenant Category	Tenancy Mix Structure	Rental Rates (Year 1 + 5% year on year increases)
Experimenters	Micro and small start up businesses requiring space to develop their ideas from conceptual stage to prototype/ testing.	25% of market rental
Growing Creative Companies	Freelancers, entrepreneurs, tech start ups and small companies with new product/service ideas requiring development. With an already comprehensive business plan, this group requires professional space to ensure growth.	40% of market rental
Precinct Enhancers / Cross Industry Groups	Highly visible tenants (e.g education groups; well known companies, industry groups/ associations and makers who rely on high levels of engagement and who are customer facing).	50% of market rental

15. The management model that has been developed will inform:
- (a) tenant selection criteria, rental rates and tenure length (maximum of three years);

- (b) business mix, including consideration of street level activation and precinct enhancers;
 - (c) support mechanisms that will maximise potential success of participating tenants and ensure financially viable options for City-owned properties; and
 - (d) planned transition from the properties in the final year of tenancies.
16. It is noted, that the market rental valuations included in Attachment A are determined by an independent, external, expert valuer, as is standard practice for property valuations across all City-owned investment properties.
17. The Oxford Street Creative Spaces Program meets the overarching objectives of both the Creative City Cultural Policy and the Economic Development Strategy.

KEY IMPLICATIONS

Strategic Alignment - Sustainable Sydney 2030

18. *Sustainable Sydney 2030* is a vision for the sustainable development of the city to 2030 and beyond. It includes 10 strategic directions to guide the future of the city, as well as 10 targets against which to measure progress. The Oxford Street Creative Spaces Program is aligned with the following strategic directions and objectives:
- (a) Direction 1 - A Globally Competitive and Innovative City – the creative industries directly employ almost 150,000 people in NSW. In the five years to 2012, employment in the creative industries in the City LGA realised the second highest growth rate of the counted industries at 22.2 per cent, and the combined cultural and creative industries make up 9 per cent of the city's workforce. To ensure continued and sustained growth in the sector and of industries in the City LGA, it is critical that opportunities to grow and support this sector are fostered.
 - (b) Direction 6 - Vibrant Local Communities and Economies – creating opportunities to ensure a dynamic business mix in local precincts, as well as attracting new visitors and money to the area, supports vibrant and resilient local communities and economies. Embedding cultural and creative workers and practice in local precincts also works to foster collaboration and engagement.
 - (c) Direction 7 - A Cultural and Creative City – the lack of affordable space to live, work, rehearse and exhibit work was reinforced during the consultation period of the Creative City Cultural Policy. A key goal under Strategic Priority 3: Sector Sustainability - Surviving and Thriving is the delivery of an increased number of affordable, accessible creative work spaces throughout the City LGA. Meeting this major goal contributes to sector sustainability and precinct distinctiveness, improving access and sharing knowledge.

Organisational Impact

19. Tenancies will continue to be managed by City Property and Projects, supported by Creative City to undertake the Expression of Interest, support tenant delivery of key performance indicators, coordinate and evaluate quarterly reporting and annual reviews.

Social / Cultural / Community

20. *Sustainable Sydney 2030* identifies the value of culture and the arts to the social and economic well-being of the community. Reaffirmed through the development of the recently endorsed Creative City Cultural Policy, the provision of creative work space remains in high demand and initiatives such as this provide opportunities for cultural, creative and commercial activity that may otherwise not be viable or possible in this area at this scale.

Economic

21. Council's commitment to the ongoing, successful activation and occupation of its properties demonstrates its support of and ongoing contribution to the revitalisation of the Oxford Street precinct.
22. Priority one of the City's Economic Development Strategy is to strengthen Sydney's competitiveness. It commits the City to using its portfolio of community and commercial properties productively by achieving a balance between financial returns and the broader economic and social outcomes achieved through making spaces available for social and creative enterprise.
23. The creative industries make up nearly 10 per cent of the city's total workforce and, as highlighted in the City's Economic Development Strategy, the local village economies play a fundamental role in the city's economic output (approximately \$25 billion per annum).
24. Creative tenants living and working in the area assists in revitalisation through the enhancement of local commercial and retail economies; creating opportunities that develop knowledge, skills and organisational capacity; and offers opportunities for learning and collaboration that enhances sustainable economic practices.

BUDGET IMPLICATIONS

25. As outlined in Attachment A, over the three years, the rental income will be between \$49,325 and \$118,860 depending on the tenant mix. These figures are based on 100 per cent occupancy.
26. The rental income outlined in paragraph 24 is higher than the current projected rental income for these properties.
27. Provision for the ongoing operational costs to manage these properties will be made as part of the normal operational budget process each year.

RELEVANT LEGISLATION

28. Any approvals or consents (e.g. change of use development application or minor works) required for this project will be sought.
29. Section 356 of the Local Government Act 1993.

CRITICAL DATES / TIME FRAMES

30. To ensure tenancies can commence as early as 1 January 2016, approval is sought as soon as possible to allow time for an Expression of Interest to be undertaken and tenants secured.

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