

Staff Report



Development Services Department

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REPORT TO: Community and Infrastructure Services Committee

DATE OF MEETING: March 25, 2024

SUBMITTED BY: Cory Bluhm, Executive Director, Economic Development, 519-741-2200 ext. 7065

PREPARED BY: Eric Rumble, Arts & Creative Industries Coordinator, 519-741-2200 ext. 7424

WARD(S) INVOLVED: All ward(s)

DATE OF REPORT: February 23, 2024

REPORT NO.: DSD-2024-065

SUBJECT: Creative Hub rent schedule, skills trades and signing authority

RECOMMENDATION:

That Council endorse the tenant rate schedule and skills trade protocols developed to fit within the Creative Hub's post-pilot operations and budget as outlined within staff report DSD-2024-065; and,

That the Director of Culture & Entertainment, or delegate, be authorized to execute licence agreements for a term of two years or less with tenants of the Creative Hub, to the satisfaction of the City Solicitor.

REPORT HIGHLIGHTS:

- The purpose of this report is to affirm the rental rate schedule and reduction options available to tenants of the Creative Hub project.
- The key finding of this report is alignment between the experiences of the pilot period and opportunities to continue providing below-market-rate workspace to the arts sector.
- The financial implications are accounted for by operational funds that were requested and approved during the 2024 budget cycle.
- This report supports the delivery of core services.

BACKGROUND:

During the 2019-2023 pilot period of the Creative Hub project at 44 Gaukel, City staff used a rental rate schedule aimed at understanding the affordability thresholds of arts sector workers and small cultural organizations. The rates also helped determine the cost recovery potential and suitability of the 22,000 square feet available on the facility's 1st and 2nd floors.

A flexible rent schedule was developed, which considered other commercial rates and artists' workspaces, potential tenancy scenarios and the varied semi-private space options

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at 44 Gaukel. Lockdowns and the gradual rebound from Covid-19 challenged the project's progress; but for a few months before March 2020 and since early 2022, staff have been able to gauge the viability of those rates and an increasing interest and utility of the space.

As the project has evolved, multiple approaches to amenities such as internet services or custodial support have been attempted. Moving into the post-pilot period, a mix of internal and external services are coordinated to keep 44 Gaukel clean, connected and accessible.

Annual operating funding for the Creative Hub in the 2024 budget is aligned with expenses and revenues analyzed during the pilot period (see DSD-2023-143).

Selected tenancy arrangements during the pilot also led to the development of a skills trade program that staff will continue to facilitate. Skills trades are in-kind contributions from tenants that can include, but are not limited to, photography, design, video and music productions, art exhibits, facility features, broadcasts or free community events and experiences. Services provided in exchange for rent reductions during the pilot resulted in approximately \$100,000 of in-kind value that has benefited the Creative Hub brand, its tenants and many citizens who have engaged with it.

Report DSD-19-273 delegates authority to sign Creative Hub licences to the Executive Director of Economic Development. As Arts & Creative Industries moves to the Culture & Entertainment subdivision within Economic Development, staff advise transferring signing authority to this new unit's director or delegate.

REPORT:

Creative Hub tenancies provide below-market rate workspace to arts sector workers and organizations. As the Creative Hub is no longer in its pilot phase and has been integrated into the City's annual operating budget, it is appropriate at this time to establish updated rates and integrate them into the 2025 Fees and Charges schedule.

New tenancy rates are being updated in 2024 with a 4% increase. The base rental rate for all spaces 180 sq. ft. or larger will increase from \$24 per sq. ft. to \$25 sq. ft., inclusive of utility costs, property tax and internet, security and custodial services. Tenants must also purchase insurance and pay HST on monthly rent.

Current CBRE data informs the \$25 sq. ft. as below market rate. Office space, inclusive of net rent, property taxes, maintenance, insurance and utilities, is estimated to cost \$29.73 sq. ft. downtown and \$24.96 sq. ft. in suburban areas of Kitchener. Retail space downtown is estimated at \$37.25 sq. ft. and industrial area space is estimated at \$25.54 sq. ft. Typically, spaces smaller than 800 sq. ft., such as those available to 44 Gaukel tenants, may be priced higher by commercial landlords.

Established rates for existing tenants who have transitioned to a month-to-month phase of their licence agreements will be maintained, with an annual inflationary increase applied. During 2024, that will amount to a 3.9% increase, implemented on a case-by-case basis following an in-person discussion of the tenancy rate changes contained in this report.

Reductions to the new base rate will be available in these circumstances and increments:

- \$2.50 sq. ft. rate reduction for registered not-for-profit or charitable organizations.
- \$2.50 sq. ft. rate reduction for no windows in a tenant space.
- \$2.50 sq. ft. rate reduction for mutually beneficial skills trades.

Skills Trade Opportunities

Incoming tenants may be considered for a skills trade rent reduction of \$2.50 sq. ft. by negotiating an in-kind arrangement based on the size of space they plan to licence. For example, a \$2.50 sq. ft. rate reduction for 400 sq. ft. would equal a \$1,000 reduction, so skills trade services valued at \$1,000 may be proposed and fulfilled during a one-year term.

Acceptable skills trades are determined at the sole discretion of City staff. General criteria include:

- Skills trades are available to artists and arts organizations from Waterloo Region. This means artists who are current residents of Kitchener, Waterloo, Cambridge or townships in the region, or arts organizations registered to an address in the region.
- Any skill trade contribution should have clear benefit to the Creative Hub, not just the tenant's business model (for example, a relevant event or activity that is free and open to the public could be an option, but not one that charges an entry fee or solely focuses on vendor sales).
- Skills trades services are formulated around a contribution that is likely to improve the facility experience for all tenants (and their audiences), such as creating artwork for a shared area or providing specialized production support or capacity to achieve an established programming goal of the Creative Hub project.
- Where appropriate, City staff may consider other locations for skills trade delivery.

Skills trades at the Creative Hub are accessed as follows:

- Incoming tenants seeking a 12-month licence agreement can propose to reduce their rent by \$2.50 sq. ft. if the quoted cost of available space is a barrier to entry.
- Skills trade options are negotiated in person with the Coordinator of Arts & Creative Industries, endorsed for inclusion in a tenancy licence offer by the Manager of Arts & Creative Industries, and approved by their director's signature on the licence.
- All skills trades for space arrangements are articulated as a customized schedule attached to Creative Hub licence agreements.
- After successful completion of one licence term, tenants or City staff can propose a deeper rate reduction based on higher-value skills trades to achieve additional project programming or promotional goals. Deeper skills trades are defined as more than one \$2.50 sq. ft. rate reduction, combined to create a larger reduction in exchange for a more valuable in-kind contribution.
- Deeper skills trade reductions are negotiated on a case-by-case basis that considers the proposed services' alignment with Creative Hub, local community and/or arts sector development priorities, as described in the bulleted list below.

Deeper skills trades following a tenant's first term are evaluated against the criteria below. For each criteria met by the proposed in-kind services that is accepted by the director overseeing Creative Hub activities, a \$2.50 sq. ft. rate reduction may be applied:

- Provision of arts-based social services provided to racialized, marginalized and/or other underserved or equity-deserving communities.

- Specialized production capacity (high-value equipment, technical skills or aesthetic innovation) to support staff-directed programming objectives.
- Operational and/or organizational support of 10 or more regional arts workers and/or organizations.
- Provision of arts sector development or support capabilities that can directly help to fulfill goals stated in City strategic plans, such as “Creating an economically thriving city together” or the ambition to create a vibrant, active city from MIK 2.0: “Launch platforms and enable opportunities throughout the city for difference makers to bring our city to life. Work with key stakeholders, business areas and cultural producers to build and promote inspiring and impactful experiences.”

Forecasted Rates & Reductions

The maximum rate reduction available to any tenancy is \$10 per sq. ft. Reductions can be achieved through any combination of conditions noted above – a tenant providing proof of its not-for-profit or charitable status; a tenant space without windows; a new tenancy skills trade or a deeper skills trade that meets multiple criteria following a successful first term.

Annual inflationary increases of 1 to 5% (determined by consumer price index data) are anticipated to be applied during subsequent years of the Creative Hub project. This table forecasts inflationary increases at 2% for various rate reduction scenarios:

	2024	2025*	2026*	2027*	2028*
Below-market rate (BMR)	\$25.00	\$25.50	\$26.01	\$26.53	\$27.06
BMR -1 reduction criteria	\$22.50	\$23.00	\$23.51	\$24.03	\$24.56
BMR -2 reduction criteria	\$20.00	\$20.50	\$21.01	\$21.53	\$22.06
BMR -3 reduction criteria	\$17.50	\$18.00	\$18.51	\$19.03	\$19.56
BMR -4 reduction criteria	\$15.00	\$15.50	\$16.01	\$16.53	\$17.06

**actual rate will be subject to Council approval on an annual basis.*

One area of the 44 Gaukel facility contains tenant spaces smaller than 180 sq. ft. These units are subject to a rate above \$25 sq. ft., determined at the discretion of the Director responsible for approving licence agreements at 44 Gaukel.

STRATEGIC PLAN ALIGNMENT:

This report supports the delivery of core services.

FINANCIAL IMPLICATIONS:

The recommendations have no impact on the Capital or Operating Budget, as the noted rates were contemplated as part of the financial projections associated with the 2024 Budget.

COMMUNITY ENGAGEMENT:

INFORM – This report has been posted to the City’s website with the agenda in advance of the council / committee meeting.

PREVIOUS REPORTS/AUTHORITIES:

- DSD-2023-143 Creative Hub at 44 Gaukel Pilot Report
- DSD-19-273 Delegated Signing Authority for 44 Gaukel Licence Agreements

APPROVED BY: Dan Chapman, CAO