power to change | business in community hands

BIG LOTTERY FUND

NATIONAL LOTTERY FUNDED

The community business success guide to lettings

Contents

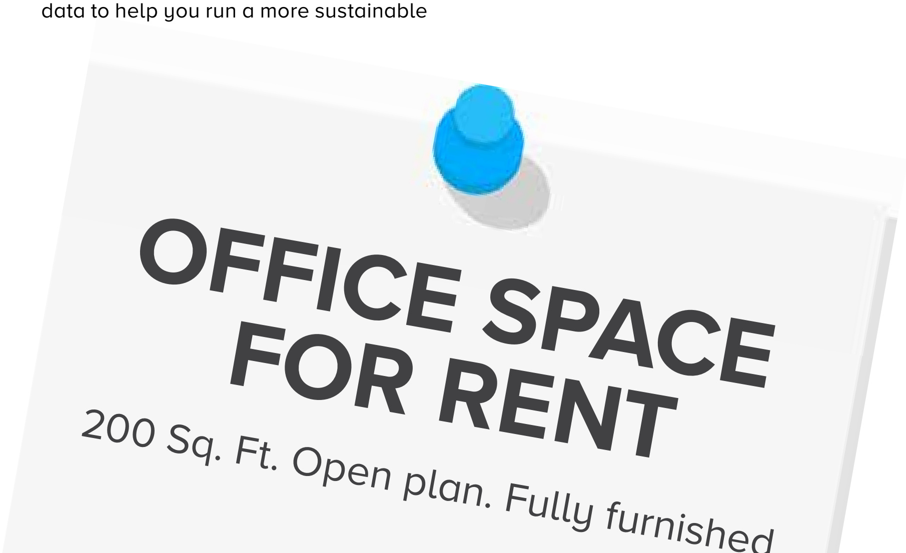
Introduction

Community businesses are run by local people and reinvest profits to benefit their local area. There are many types of community businesses. They can be shops, farm, pubs or leisure centres, among many other types of business.

It's not always easy for community businesses to get their hands on the kind of detailed financial data that helps build a business case, and get an important local service up and running. Unlike businesses in the private sector, local groups often only have minimal access to information, advice and inaccurate financial data on income generation to support their planning and goal setting. This often means starting from scratch, using good judgment, and peer advice where they can get it.

This set of Success Guides intends to support that hard work with some concrete data to help you run a more sustainable community business. This doesn't replace peer advice, good local knowledge, or community engagement, but it does give a bit of useful scaffolding for the development and growth of trading income.

This guide explores how community businesses earn money from letting. The guide is based on a benchmark analysis of the Profit & Loss data of 59 community businesses across England. These businesses either received grant funding from Power to Change, the independent trust supporting community businesses in England, or have applied to one of their grant making programmes.



Eight things you can learn from this guide

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Why and how is letting a common source of earned income?
See pages 6, 10, 11

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What are the key business models of organisations that lease space?
See page 6

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What does the data indicate to us?

Looking at the financial data in the benchmark we've built for Power to Change we can see that letting of space is a common business model in several community business sectors, albeit for very different reasons. Two key approaches to the business model are:

1. organisations whose core purpose is the building and letting of affordable space they have, have worked out a business model which makes sufficient profit on the letting to fund the development of new properties.

2. organisations who have taken on the running of a large, often historic, sometimes iconic building, and need to find sufficient income to keep the building in good condition. Commonly the building is no longer needed (in whole or in part) for the purpose for which it was built, and new purposes and business models need to be found.

How can we learn from those organisations where letting is part of core purpose and from those organisations who have successfully taken on the liability that is a large building and found a new and sustainable business model for it?

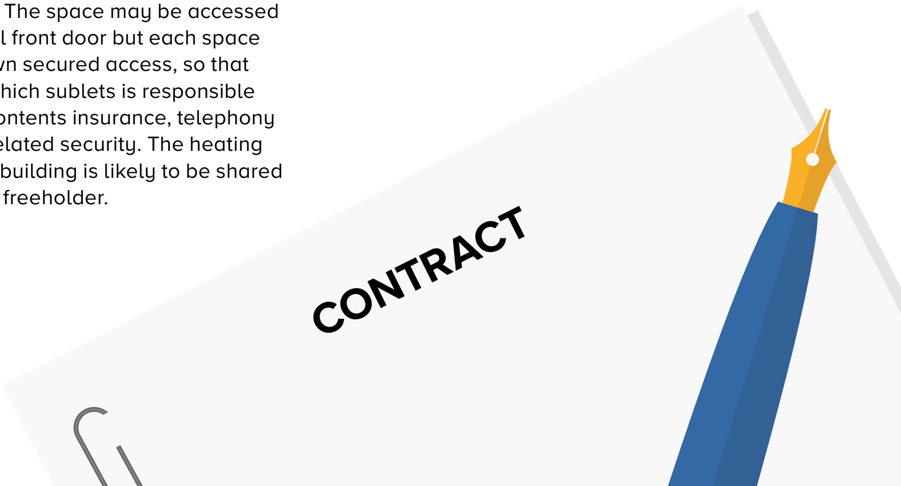
What do we mean by letting?
By letting we mean the long term leasing of space to businesses, usually with a minimum term. The space may be accessed by a communal front door but each space will have its own secured access, so that the business which sublets is responsible for their own contents insurance, telephony services and related security. The heating system for the building is likely to be shared and run by the freeholder.

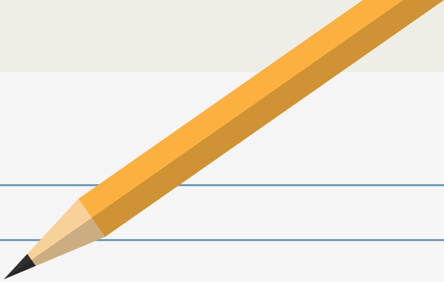
Having looked at the data, we have chosen not to include organisations whose core purpose is the building and/or letting of housing as we think there will not be enough transferable learning for other sectors. We have also excluded the following from this dataset:

– organisations with lettings income of less than 1% of turnover.
– three very large organisations with a turnover which is dramatically higher than others in the set
– organisations whose annual accounts state 'letting' but on further investigation this would be more accurately described as 'room hire'

The dataset of 63 organisations contains businesses in the following sectors:

Arts Centre	3%
Business or Workspace	3%
Community Café	2%
Community shop	2%
Community Hub or Centre	44%
Conservation of the Environment	3%
Employment training or Support	10%
Food catering or production	2%
Leisure Facility	2%
Physical Health or Wellbeing	5%
Sports Facility	6%
Unknown	14%



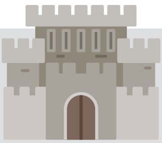


Three different types of organisations that let space

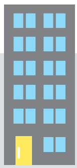
Amongst the cohort of community businesses who have either applied to Power to Change for funding, or have received it, there are quite a number who rent out space on a long-term basis. This dataset doesn't constitute a managed or representative sample of all non-profits but even so, we think the data is robust enough to be able to offer some insights into how letting contributes valuable income to community businesses across England.

The data comes from sets of annual accounts. The line on 'letting' or 'rental income' is based on a self-definition of this type of income on the part of each organisation and their accountant and is seen in the descriptions of income in the annual report and accounts submitted to the Charity Commission.

On the basis of the data sourced, and our experience in working with community businesses, we suggest that there are three key strands in terms of income levels and two types of building.



Iconic building which matters to brand/ purpose e.g. The Florence Institute Trust



The building does not necessarily matter' in and of itself e.g. Bootstrap

Mixed Income Model

Vs.

Letting is primary purpose or core income generating activity

Small turnover <£250k
Vs.
Larger turnover >£250k

NB – Excludes provision of housing as a sector

The Limehouse Project lets their many buildings to run services like education and training, a nursery, and advice centres across Tower Hamlets.

The analysis which follows focuses on a review of the income and expenditure data for these three groups, which we've given names to help you recognise yourself:

– **Community Hub Plus:** small organisations where letting is worth <30% of turnover

– **Big Old Buildings:** larger organisations where letting is worth <30% of turnover and

– **Mainly Lettings:** where >30% of turnover is from letting.

We are looking to see whether there are any significant differences in business model between those organisations where letting is the largest source of earned income vs. those operating a more mixed-income model.

Within the mixed-income model, we are looking to see what the significant differences in business models are between the larger (>£250k) and the smaller (<£250k) organisations who undertake the letting of property.

It is worth noting that out of the overall Power to Change dataset of some 286 community businesses there are 99 businesses in the community hubs sector, which is more than any other sector, including employment support and training or community café sectors. Within the 63 community businesses where more than 1% of turnover comes from letting, the community hubs are split as follows:

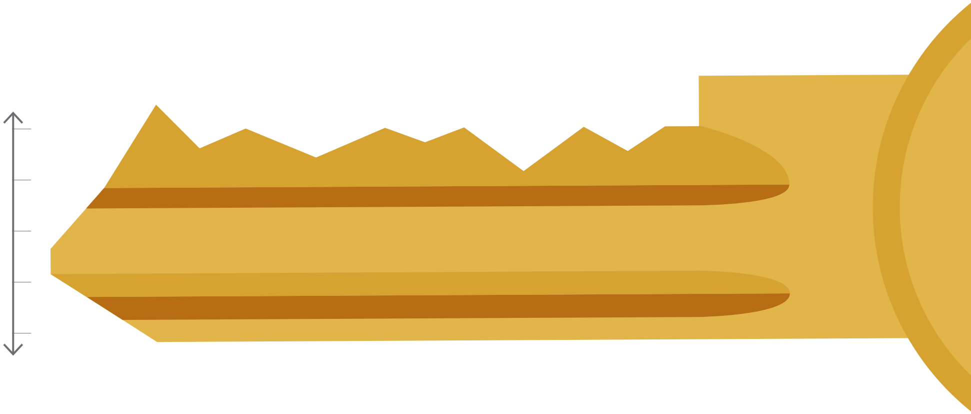
– 33% of the Community Hub Plus group
– 22% of the Big Old Buildings group
– 45% of the Mainly Lettings group

Looking at income and expenditure data

The median annual turnover for organisations with lettings income of > 1% is £360k. Across the whole Power to Change dataset the median annual turnover for community-led businesses in 2015 was £230k i.e. much the same. On that basis, we don't think that community businesses with letting income are very different from all the other community businesses that Power to Change supports.

As a side note, we use the median (which is the middle point of a dataset, when placed in order) and not the average throughout this guide, as medians are less effected by extremely high or low values than averages are. So, the medians is more 'typical' of a dataset than the average is.

Oxford House occupies a Grade II listed building that runs a multipurpose arts centre, volunteering opportunities and also provides affordable office spaces to let to charities and social businesses.



Paddington Development Trust lets out their building for skills training, vocational qualifications, that in turn fund cultural and creative regeneration projects and volunteering opportunities for the local community.

	2015 All orgs with letting income	2015 Full data set	2015 Community Hub Plus	2015 Big Old Buildings	2015 Mainly Lettings
Sample Details: Sample size Average turnover	63 £360k	286 £230k	14 £130k	19 £621k	129 £311k
Income by type as a median % of turnover					
Grant Income:					
Trusts & foundations	13.8	20.0	*	18.7	*
Local authorities	8.1	11.3	*	*	*
Lottery funds	11.4	12.5	*	*	*
Other gov't grants	4.6	4.3	*	*	*
Other revenue grants	17.7	12.9	27.4	6.8	25.4
Total grant funding	**25.5**	**41.5**	**63.3**	**16.9**	22.0

The first thing we notice here is just how different the three sub sets of data in the third to fifth column above. We would therefore suggest that whilst the first column may have some value the aggregated figure is masking the heterogeneity of the dataset. Our focus in the analysis which follows will therefore be the three subsets.

There is a distinct difference between Community Hub Plus and both of the other subsets. Community Hub Plus are more dependent on grant sources than the other two clusters. Community Hub Plus are also more grant dependent than the wider Power to Change community with a median value of 63.3% vs 41.5% for the full Power to Change dataset.

"Whether you are letting space in order to diversify your income stream, or whether having let space has led to lower grant income due to less space to fulfil grant aims, having multiple income streams makes you more resilient as an organisation."

The Big Old Buildings group are considerably less grant dependent than the Community Hub Plus group and vs. the median across the wider dataset – 16.9% vs. 41.5%. Is this because grant funding at scale is not feasible?

	2015 All orgs with letting income	2015 Full data set	2015 Community Hub Plus	2015 Big Old Buildings	2015 Mainly Lettings
Sample Details: Sample size Average turnover	63 £360k	286 £230k	14 £130k	19 £621k	129 £311k
Venue based income:					
One off service purchase e.g. cinema ticket	20.5	21.9	*	*	*
Ongoing service purchase e.g. series of workshops	10.0	18.1	*	11.2	*
Shop & retail	2.1	10.5	*	*	*
Café	8.9	9.1	*	*	*
Space hire – letting	22.9	17.5	9.2	5.7	56.9
Space Hire – room hire	4.0	7.0	*	*	*
Total Venue based income	**49.2**	**42.7**	**22.9**	**12.8**	69.4

We classify non-revenue based income as income from both businesses selling services to other businesses, and the income from contracts delivered to either the public or private sector. These revenue types don't usually need a building in order to undertake them.

However, organisations involved in letting do obviously have a building and may well wish to spread the risk of covering the costs of this built infrastructure across long term contracts to provide services. So, in that sense we need to look at these income streams alongside the venue based income.

Pre-school pupils take part in a painting activity at Limehouse Project.

Kiveton Park and Wales Community Development Trust lets out space in the former colliery building it owns.

	2015 All orgs with letting income	**2015 Full data set**	**2015 Community Hub Plus**	**2015 Big Old Buildings**	**2015 Mainly Lettings**
Sample Details: Sample size Average turnover	63 £360k	286 £230k	14 £130k	19 £621k	129 £311k
Non-venue based income:					
Total Donations & sponsorship	3.5	3.7	5.4	4.2	2.2
Corporate sponsorship	*	3.2	*	*	*
Private donations	2.4	2.4	5.3	2.8	*
Gift aid	*	1.0	*	*	*
Legacies	*	2.5	*	*	*
Other sponsorship & donations	4.5	4.5	*	*	2.9
Business-to-business product sales	*	3.8	*	*	*
Business-to-business services & consultancy	12.0	17.2	*	30.2	11.3
Business-to-consumer events	3.1	2.4	*	*	*
Business-to-consumer subscriptions & membership	*	1.8	*	*	*
Business-to-business delivery contracts	18.3	13.4	*	15.4	*
Total non-Venue based income	**15.1**	**19.1**	**15.3**	**44.6**	**9.9**

What we see in the data is that Mainly Lettings group also generate just over 12% of their revenue from services, for example photocopying, reception service, in-house catering. These are services for their tenants. What services can you provide for your tenants?

By contrast, the Big Old Buildings group are often heavily engaged in service provision and contract delivery at 30.2% median revenue. This makes sense as they are lowering the risk of not generating enough income by diversifying their income streams and having committed long-term income sources.

Community Hub Plus by contrast have a similar level of donations (around 4% -5%) to Big Old Buildings but haven't developed income from services or contracts. We suggest that the data indicates that Community Hub Plus organisations have not yet grown to a point where they either have sufficient staff to create an offer for public sector contracts, or their staff don't have enough time to develop the relationships with public sector staff which could then lead to being invited to tender.

Another key finding from the data is that there are two types of organisations who get involved in the long-term letting of space – those for whom it is core purpose versus those for whom it is income diversification or another strategy.

Amongst those who let space as part of their core strategy, there is a definite difference between the larger and the smaller organisations. The smaller community businesses are more grant dependent and show a diversity of earned income generation approaches, as we can see in the data with the wide disparity between the median of total venue based income 22.9% and the other median value shown, 9.2% for letting. The difference is made up of all the different types of venue based income. Community Hub Plus organisations derive very little income from either services or delivery contracts. We wonder whether developing Community Hub Pluses to a point where they could successfully offer services and respond to contracts would enable them to grow their turnover and reduce their grant dependency? We wonder whether this would be a more valuable and robust approach than focussing on further development of letting?

We note that Mainly Lettings organisations tend to do less well when it comes to donations and sponsorship than those where letting is not the primary income source. Is this because the latter have a more public facing offer which is better suited to raising funds from donations?

Costs:					
Production Costs & Materials	4.1	7.9	*	4.0	5.3
Education & Participation	17.9	12.1	*	*	4.7
Project Staff Costs	10.5	8.5	*	*	*
Freelancers	*	8.6	*	0	*
Café, shop & similar	15.5	10.7	17.1	2.8	*
Retail stock	10.5	15.7	*	0	*
Total Direct Costs	17.2	22.2	26.5	12.8	10.7
Total Salaries Costs (ex NIC & Pensions)	42.5	47.1	52.8	44.1	31.7
Pensions (ex NIC)	1.1	1.5	0.7	1.2	*
Rent & Rates	11.6	7.1	8.5	4.7	22.6
Marketing	2.1	1.6	0.7	1.9	*
Professional fees	5.5	4.7	3.7	3.9	9.2
Depreciation	7.2	4.9	5.1	7.1	7.5
Buildings maintenance	7.9	5.6	6.2	4.6	16.8
Total Revenue Expenditure	**972**	**95.8**	**101.6**	**95.1**	**87.7**

When we start looking at the cost base we see that Community Hub Plus have the highest level of direct cost (median 20.6%) and the lowest spend on rent and rates (2.4%). Given that grants form over 60% of turnover we can reasonably expect that much of this is the expenditure of restricted income on the projects that have been grant funded.

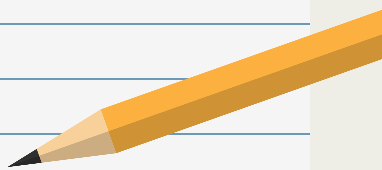
Mainly Lettings organisations have a notably lower spend on salaries – some ten percent below the average for the whole dataset and some eight percent below the median of all organisations involved in letting space (38.7% vs. 47.8% and 48.7% respectively). We suggest that this is because the day-to-day running of this earned income activity simply requires fewer staff than the delivery of services to individuals e.g. workshops, courses, ticketed events etc.

Given Mainly Lettings focus on lettings, it is not surprising that this cluster has the highest spend of the three on rent and rates. This suggests that whilst this cohort is focussed on lettings they do have a significant risk exposure to not maintaining high levels of occupancy. This risk is exacerbated by the levels of spend on buildings maintenance (5.6% of turnover in 2015).

Whilst levels of marketing spend are low across the sector, we'd suggest that a figure close to 3% of turnover is worth considering in terms of how this could increase revenues together with proactive social media.

We would however ask what difference might be made to Community Hub Plus if they could afford to increase their marketing spend? What level of extra revenue might be achieved? What would the return on the investment be on such a marketing spend?

We can see that all types of organisations involved with letting operate with smaller financial surpluses than the general pool of Power to Change supported organisations. How much is letting space an indication of needing to run a tighter ship than others in the sector? For smaller organisations who spend about 99.5% of their income, this is undoubtedly because they only spend the money they have. But for larger organisations, who have the 'luxury' of being able to plan their expenditure, their 96.9% of spend represents financial resilience from multiple revenue streams.



What did we learn from organisations who let space?

We spoke to over half of the organisations in the dataset covering a good mix of all three subsets and discussed in depth why they let space, what works for them and what doesn't.

In terms of key themes that emerged from these conversations we'd highlight the following:

It's hard to be a small organisation[1] AND be multi-faceted - in terms of your income streams, because there just aren't enough staff to do multiple things really well. That said, as you grow it is risky to put too many eggs in one income stream basket, so it is worth working out firstly what your first income stream (after grants) should be based on your skills and market need. Once that's up and running, consider how to build on this place in a market with complementary income streams

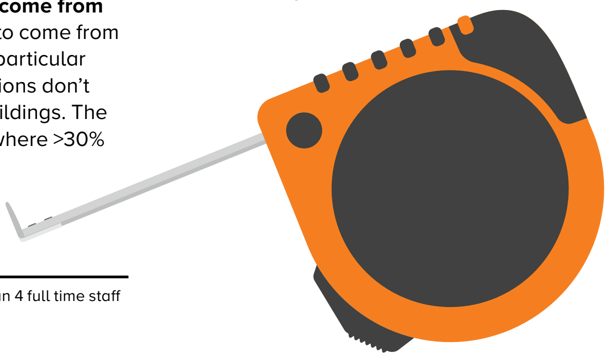
Smaller organisations have turned to letting as a response to reductions in grants but it does limit their own ability to deliver core services/activities

BUT Long term letting doesn't really work in small buildings or with small organisations – it is too much of a reduction in flexibility of your spaces and in all likelihood, you'd need to give up space you need for the delivery of your core purpose

Small and large organisations come from different contexts – small tend to come from grass roots, specific services or particular locations. The smaller organisations don't tend to have iconic or historic buildings. The larger organisations and those where >30% of turnover comes from letting are more likely be found in buildings which have had connections to education, health, military or social services in the public sector.

Large organisations may have multiple sites – in this case it's not uncommon to see only one site letting space whilst all deliver services. We see this as connected to the savings in indirect costs that can be achieved by combining the back-office operation of multiple buildings.

There is a tendency to under-price space with the rationale that this supports start-ups or third sector – as organisations become more experienced in letting space, they realise that they need to put their prices up in order to be sustainable themselves. Several of the organisations experienced in letting commented that they were in the process of putting up their prices to new clients or seeking more commercial (as opposed to charity) clients who could afford higher rents. Those who still wanted to support start-ups changed their approach, so that they gave discounts on the first year of a letting contract but after that charged a fee closer to market rate. In this way, they could give support to early stage companies whilst moving them on to a sustainable lease on an ongoing basis. This prevented their spaces from being occupied by organisations who simply never managed to get to a sustainable level of delivery.



[1] i.e. under £250k turnover and/or fewer than 4 full time staff

Who could you learn from?

Burton Street Foundation
Set in five Victorian school buildings, The Burton Street Foundation provides services to around 250 adults and children with learning and physical difficulties/ disabilities in Hillsborough, Sheffield. As well as running countless events in the area's largest community space, the community hub employs around 140 people. Around 35 charities and community groups use its facilities each week. And 14 local businesses are based here.

Woodhouse Community Centre - Oblong
Oblong is a Leeds based community business whose purpose is to help people and communities flourish. One of its biggest projects is the Woodhouse Community Centre, a Victorian building which has served as a library, a church, a school and is now a community centre which was transferred to Oblong by a Community Asset Transfer in 2011. As well as three larger rooms for hire together with a kitchen space, Oblong has four offices for long-term letting.

Bradnet
Bradnet is a charity which provides support, advice and assistance to all people with disabilities to enable them to lead as full a life as possible. They recently bought the Grade II listed ex-Registry office from the Council and now let space out to the NHS.

Bootstrap
Set across two former Victorian printwork factories, Bootstrap develops and manages workspaces for enterprise, creativity and culture. Bootstrap is a home to a buzzing and diverse community of over 300 creative businesses, social enterprises and charities. It offers 'support to employment' and business start-up for long-term unemployed people.

Three (fictional) model businesses who let space

To help organisations consider where letting might fit into their business model, we've prepared an income & cost structure based on the benchmark data for a fictional but typical organisation in each of our three types discussed above.

Stringhurst Community Hall & Gardens – a Community Hub Plus organisation

You don't need to know whether this hall is in a rural village or a set of suburbs. What you do need to know is that it is comprised of one large space and a couple of smaller ones. As access to grant funding has become harder since the recession the voluntary trustees have researched a variety of sources of additional income from fundraising events to renting the space to community groups; from café to subletting. Total turnover is <£100k per annum. The challenge is that whilst the building isn't listed, it isn't designed to allow a chunk of it to be sublet easily. The organisation doesn't have the capital funds to pay for the structural alterations they'd need, if they were to commit to letting space. Any long-term letting of main spaces would reduce their ability to deliver services themselves or hire rooms hourly to local groups. They considered looking for a tenant to run the café but feel they'd be better served if they developed this further themselves and proved the demand. They would however benefit from some steady income that pays the utility bills and isn't subject to the seasonal variations, which make quite a difference to their room hire bookings. Their approach therefore has been to discuss the potential for letting amongst their regular room hire customers. They've found one client who'd value the security of being a long-term tenant in one of their smaller spaces and use the larger hall on a room hire basis for some of the larger group activities the client delivers.

"The challenge is that whilst the building isn't listed, it isn't designed to allow a chunk of it to be sublet easily. The organisation doesn't have the capital funds to pay for the structural alterations they'd need, if they were to commit to letting space."

Grand Brick Edifice – a Big Old Buildings organisation

Grand Brick Edifice (GBE) has a permanent place in local history. It's a substantial building that was built as a school but is now surplus to requirements so the Council passed the ownership to a separate new charity about five years ago. The trustees negotiated the transfer of the building to the new charity for the nominal sum of £1. The Council was willing to buy services and space from them for the delivery of an assortment of activities which, broadly speaking, come from the social services budget. This allowed them to initially thrive rather than just survive. There are times when the GBE team have to tender competitively and the cost of heating the building affects the price they tender at, but the low cost of their spaces definitely helps them remain competitive in their pricing.

Because they've become a hub for service provision it works well to let out some of their rooms to local businesses and non-profits who share their client group, as it means they become a hub for public service provision locally. Their tenants range from physiotherapists to counsellors and a football club that works with homeless people. The one key thing they've learnt about letting space is that they're financially more sustainable when they offer discounts on the first year of a lease, rather than offer peppercorn rents forever. They found that initially the low rents and preference for letting to third sector and start-ups meant that their tenants were organisations that were themselves pretty precarious financially. Sometimes this meant that rent didn't get paid on time or (amongst the ones that did survive) that organisations never moved on once they'd become established and successful because their business and pricing models were predicated on paying below-market rent levels.

Hello Creative! – A Mainly Lettings organisation

Hello Creative! runs a series of buildings across Birmingham. Over the years they've scaled up their offer of 'easy in, easy out' lettings to firstly the creative and cultural industries and more recently a wider set of non-profit businesses and social enterprises. They've become a preferred partner for both the council and commercial property developers as they are adept at adapting buildings for small square footage lettings and can work with relatively short leases.

In order to support their tenants, they also deliver a series of workshops and mentoring. These services focus on entrepreneurship and related business growth activities. Some of these services are paid for by grants rather than by the end user. Space is priced at 75% of the market value vs. other rental properties in the area. The brand of Hello Creative! is sufficiently well-known that they no longer need to work with an agency and thus all the management of clients, contracting and building management is carried out by Hello Creative! staff. The staffing bill shows that they run it efficiently. The team have learnt to manage their overall capacity and are careful about how and when they take on additional buildings. Where possible, they'll negotiate a rent-free period that covers the time taken to complete renovations and allows for lower occupancy levels in the first year.

2015 figures in £	**Stringhurst Hall & Gardens**	**Grand Brick Edifice**	**Hello Creative!**
Grant Income	97,000	164,000	87,400
Workshops & Courses	15,743	41,000	43,200
Café	13,215	60,000	
Lettings	8,400	87,000	208,000
Room Hire	1,475	5,400	4,300
Donations, Events & Sponsorship	12,350		
Services	0	189,000	
Public Sector Contracts	0	410,000	
Total Revenue Income:	**147,183**	**956,400**	**342,900**
Direct Costs – Services & Projects	35,111	97,000	46,000
Direct Costs - Cafe	13,000	57,000	
Staffing	67,200	453,000	104,110
Rent, Rates & Buildings Maintenance	22,077	102,000	78,000
Utilities, insurance, telephony etc.	8,830	65,000	34,000
Marketing	1,030	8,400	6,000
Other		84,370	
Total Costs:	**147,248**	**866,770**	**268,110**
Contribution to Reserves:	65	29,630	74,790

Top Six Tips for Successful Letting

1. Tell people that you let space to business in the same way that you let people know about your other facilities and services that you provide e.g. across all your communications including your website, newsletters, social media, EVEN IF you are currently fully let.

2. Use old fashioned advertising too if you have a community-based building e.g. cards in newsagents' windows, local newsletters, village magazines

3. «Encourage tenants to bring in other tenants: tell tenants if there is room available or soon to be available. Most space for mixed revenue organisations is let through word of mouth or local drop-in enquiries.

4. «Use commercial letting agents where appropriate, but remember that your space needs to be the right fit for tenants (space, rent, location) and that you will not be a priority for commercial agents

5. Having a café is a positive for business tenants and other service users.

6. Charge a commercial rate for the space. If supporting local services and start-up businesses remember to put a value on the rental price reduction. This value may be better received as advice or other start-up support services.

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