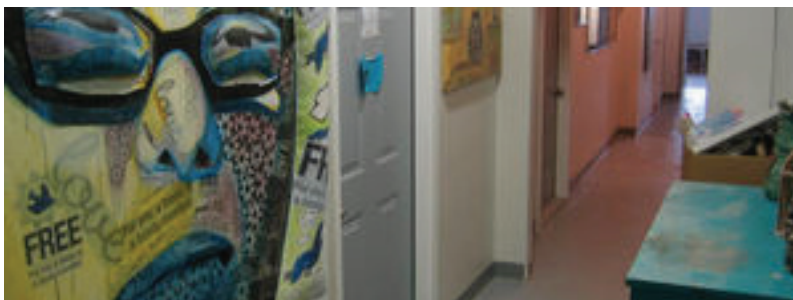
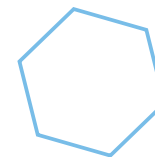


Artist Space Development: Financing



Chris Walker, Urban Institute, 2007 Leveraging Investments In Creativity

Funded by the Rockefeller Foundation with additional support
from the Ford Foundation and the Paul G. Allen Family Foundation

THE ROCKEFELLER FOUNDATION™ THE PAUL G. ALLEN
FAMILY foundation

Artist Space Development: Financing

Chris Walker, Urban Institute

Acknowledgements

The authors wish to thank the many people we interviewed around the country who are involved in the development of spaces for artists. Many people we visited took time out of their schedules and went out of their way to accommodate our research. Without their important work and generosity this report would not be possible. We would like to thank Sam Miller and Adele Fleet Bacow at Leveraging Investments in Creativity for their thoughtful comments on the research at every stage. Holly Sidford was instrumental in launching this research at LINC. We would also like to thank Jeff Armistead, Jennie Bartlett, Barbara Burnham, Bert Crenca, Nick Francis, Mosi Harrington, Toni Hsu, Tim Jones, Kelley Lindquist, Jason Schupbach, Ellen Seidman, and Cathryn Vandenbrink for their feedback on the material during our final stage in writing. Chris Walker was key in the research design process and conducted extensive field research contributing to this report. Joaquin Herranz also conducted field research contributing to this report. We are indebted to Barika Williams and William Bradbury for their research and production assistance, as well.

Cover photography credits
top row: Grand River, Detroit,
MI; middle row: Art Egg
Studios, New Orleans, LA;
bottom row: Dreyfus Hotel,
Providence, RI; Brookside
Avenue, Boston, MA; Art Egg
Studios, New Orleans, LA

*All photos except Dreyfus
Hotel and Brookside Avenue
courtesy of the Urban
Institute. Dreyfus Hotel
courtesy of www.ArtInRuins.com. Brookside Avenue
courtesy of the Boston
Redevelopment Authority.*

Introduction from LINC—05

I. Executive Summary—08

II. Introduction—22

III. Artist Space Projects and Developers—24

Project Types—24

Project Developers—32

Nonprofit Developers—32

For-Profit Developers—35

IV. Project Process—41

Project Planning and Community Acceptance—41

Developer and Developer Team—44

Project Timing—45

Zoning and Building Codes—46

Design—50

Forms of Tenure—52

Affordability and Occupancy—55

Management—58

V. Financing—60

Costs and Factors that Influence Costs—60

Cost Profiles of Artist Space Development Projects—61

Acquisition Cost Factors—62

Construction Cost Factors—64

Operating Costs—66

Financing Gaps and the Need for Subsidy—66

Revenues, Costs and Financing Gaps—69

VI. Financing Sources and Investor Perspectives—72

Developers' Cash—73

Philanthropic Sources—76

Low-Income Housing and Historic Preservation Tax Credits—77

Local and State Government Housing and Economic Development Support—83

State and Local Government Arts-Related Support—89

The Role of Community Lenders—90

Market Rate Debt—92

VII. The Role of Markets and Supports within Local Systems—97

Markets' Effects on Costs and Risks—97

The Effects of Local Systems—101

Developers—102

Lenders—104

Agencies—105

Civic and Political Support—107

VIII. Conclusion and Recommendations—111

Introduction from LINC

Leveraging Investments in Creativity (LINC) is a ten-year national initiative to improve conditions for artists in all disciplines which will enable them in their creative work and contribute to community life. With leadership support from the Ford Foundation, Paul G. Allen Family Foundation, John S. and James L. Knight Foundation, Nathan Cummings Foundation, Rockefeller Foundation, and Surdna Foundation, LINC focuses on three strategic goals:

- Expanding financial supports for artists' work;
- Improving artists' access to essential material supports such as live/work space, insurance, equipment and professional development; and
- Bolstering knowledge, networks and public policies that enhance artists' work and their contributions to communities.

LINC commissioned this research by the Urban Institute to identify key lessons from a review of artist space projects in seven cities across the United States: Detroit, New Orleans, Philadelphia, Pittsburgh, Providence, Seattle, and Tucson. This work is presented in two companion reports:

[Artists Space Development: Making the Case and Assessing Impacts](#)

This report explains how advocacy for artist space development is carried out in different realms, the impacts of artist space development, and how to make it a priority within the context of community development and public policy. Based on case studies of 23 projects around the country, this report focuses on how artist space developments are positioned to garner support, the advocacy strategies pursued, and the impacts they claim or anticipate.

Artists in Community Revitalization: Artists Space Development and Financing

This report explores the elements of development and finance of artist space projects, including the types of players, the steps in the development and finance process, including sources and uses of cash, finance subsidies, regulations, and zoning and building codes. The different types of developments are reviewed, including the role of real estate markets and local systems on artist space developments, special risks and challenges faced, and how they were resolved.

This research is part of a broader effort by LINC's National Artists Space Initiative working to identify and create new ideas, strategies, and support for artists, community developers, public agencies, and others to increase the supply of affordable space for artists while helping to revitalize the community around them. This initiative is based on the following efforts:

- Building a clearinghouse of information on models, policies and information related to artist space available at LINC's web site at www.lincnet.net.
- Sponsoring research to identify successful models and avenues of learning to share with others. A broad database of artist space projects is available on LINC's website.
- Supporting the early stage of development by working to establish a predevelopment loan fund for artist space projects.
- Identifying stellar projects, programs, or initiatives resulting in affordable space for artists to work and/or live by sponsoring an awards and recognition program that uncovers worthy initiatives.
- Creating a national network of innovators who can help LINC identify new ideas, share lessons learned, and work to develop new solutions to perplexing problems.

We welcome your reactions to this report, your suggestions of ways LINC can assist you in meeting the needs of artists and neighborhoods, and your ideas of successful strategies for finding affordable space for artists to live and work in in the context of community revitalization.

— Sam Miller, President
Leveraging Investments in Creativity

— Adele Fleet Bacow, President
Community Partners Consultants, Inc.
Coordinator of LINC Artists Space Initiative

I. Executive Summary

Throughout American communities, there is growing recognition that the well-being of artists may be an important contributor to community well-being. This awareness has several sources, among them the popularization of the “creative class” and the “creative economy” that artists are a part of. In 2003, several national foundations joined to create Leveraging Investments in Creativity (LINC), a new national initiative dedicated to support for artists. As one aspect of this support, LINC invests in research to examine the challenges artists face and the role of public policy in helping overcome these challenges. This research is one of several efforts to analyze practices, strategies, and policies to further artists’ space development.

In 2003, the Urban Institute published its *Investing in Creativity*, an examination of the social contributions of artists, the challenges they faced, and how these could be met. From its examination of these questions in a dozen cities across the country, the report concluded that space issues were a critical constraint in artists’ ability to pursue their work effectively. In many cities, especially in the over-heated real estate markets of the East and West Coast, artists were finding once-affordable spaces disappear from reach. This not only made it difficult for individual artists to pursue their work, but also disrupted entire communities of artists who depended on each other for ideas, material supports, and other resources critical to productive work. In other, less robust economies, artists often found it difficult to find good quality space in a safe community.

To discover ways in which affordable artists’ space could be created more widely, LINC commissioned the Urban Institute to explore how these spaces have been created in cities around the country:

- Who develops artists’ spaces and how do they do it?
- What are the sources of finance and how are they used to fund development and operation of affordable spaces?

- What are the system supports that make active creation of artists' spaces possible, and
- What appears to have been the impacts on community well-being as a result?

This last question is explored in a companion research paper.

To find out answers to these questions, researchers visited seven different cities in the Spring and Summer of 2005 to interview developers, lenders, artists, government officials, elected leaders, representatives of the arts community, and others involved in developing, financing and otherwise supporting artist' space development. All told, researchers examined aspects of 29 projects in Detroit, New Orleans, Philadelphia, Pittsburgh, Providence, Seattle, and Tucson. Researchers also conducted extensive bibliographic research, and solicited documentary evidence from a large number of projects identified through bibliographic and internet searches, and personal interviews.

Artist Space Projects

Most of the spaces we examined fell into two categories: live-work and studio space. (See a complete listing of projects in the first section of the report.) Live-work spaces are those in which artists make art and reside in the same unit, often in an older industrial or commercial building. As an example, Monahasset Mills in Providence Rhode Island is a former large mill building converted in lofts for live-work and primarily occupied by visual artists. Work spaces are those in which artists only carry out art-making. In Philadelphia, an old plumbing warehouse has been converted into studio and gallery space, occupied by visual artists, urban design firms, and other creative occupations. Both of these projects are located in largely industrial areas.

There are many variations on this typical pattern. In Providence, the Dreyfus Hotel will be converted into live and work space, in which studio units will be available to artists who reside in separate living spaces in the same building. AS220, developers of the Dreyfus Hotel, is a live, work, and performance space in which one floor is devoted to group residential living, another to studios, and another to gallery, café, and performance space. In Pittsburgh, a nonprofit-sponsored program encourages and supports individual artists' purchase and

Table 1. Artist Space Projects Reviewed

City	Live-Work	Studio	Single-Family/ Residential Only
Philadelphia	Coral Arts	Eastern Lofts Crane Co. Spring Garden Mills at East Falls	–
Seattle	Toshiro-Kaplan Cooper School	Sunny Arts Union Arts	–
Pittsburgh	Spinning Plate	Ice House	Penn. Ave. Arts
Providence	Westfield Lofts Monahasset Mills Hive Archive Dreyfus Hotel AS220	–	–
Detroit	4884 Russell	4731 Grand Pioneer Building Atlas Building	–
New Orleans	–	City Art ArtEgg Tipitina's LA Art Works	Waiting Room Gallery ASHE Cultural Center
Tucson	–	Toole Shed	Shane House

renovation of older commercial and retail properties along a low-income commercial strip. The ground floor serves as studio and gallery space, the second floor as residence for the artist and her family, and the third floor as a rental unit to generate the income needed to pay back the funds borrowed to finance property acquisition and construction. Artists' live and work spaces can be created in nearly any sort of property – including single family houses, like several we studied in New Orleans, or railroad warehouses, as in Tucson.

Many of these projects are carried out in pursuit of an avowedly public purpose, such as to revitalize a low-income area or create a new center of economic activity. These purposes are reflected in several features that many projects share, especially the multi-unit live-work spaces, such as those in older industrial buildings. Many involved mixed-uses – a blend of live and work, of course, but also commercial facilities, community space, nonprofit organization offices, and others, often devoted to arts purposes. Quite a few also embraced some kind of community programming, such as performances, education programs, and youth development. Although we did not research these, we came across several examples of arts spaces included in spaces otherwise devoted to non-arts uses. In Seattle, a nonprofit developer has made it a policy to include, wherever possible, ground floor studio or gallery

space in projects that are residential on the upper stories. Their goal is to animate street life and to introduce a potential source of community programming.

Developers of Artists' Spaces

Developers of artists' spaces are almost as varied as the projects.

Some were not developers at all, strictly speaking, but rather artists willing to execute master leases on buildings that they subsequently sub-let to artists interested in studio spaces. We also encountered groups that might be considered "accidental developers," which, like Hive Archive in Providence, took on the task of acquiring and renovating artists' spaces to satisfy a one-time need of their individual artist-community. For the most part, such developers do not go on to create other spaces once their own purposes are served, although some, like AS220 in Providence and Karen Guzak, developer of Sunny Arms studios in Seattle, went on to do other projects on the strength of their initial experiences.

Other developers are more conventional businesses or nonprofit organizations, founded specifically to carry out real estate projects. These included small for-profit developers, like Detroit's Ric Geyer or Philadelphia's Rick Gleeson, community-based nonprofits, like Seattle's Delridge Neighborhood Development Corporation, and larger national developers, like ArtSpace Projects in Minneapolis, which developed projects in Seattle and Pittsburgh.

In several respects, typical distinctions among types of developers blur when describing artists' projects. Conventionally, real estate developers divide into for-profit and nonprofit based on their primary motivations; the former to make a profit, the latter to pursue a social mission. But profit motivations don't preempt desires to accomplish community goals: all of the for-profit developers we spoke with recognized some personal connection to the arts or a special affinity for artists as potential occupants of the spaces they developed.

Different kinds of developers bring different incentives, skills and risks to projects they carry out. Classically, for-profits bring a bottom-line orientation, artists an in-depth understanding of the spaces they need and the character of the artist-marketplace, nonprofits a willingness to

carry out developments to accomplish a community purpose, sometimes focused on the arts, other times for the broader community. To achieve an optimal blend of skills, these parties joined in varying combinations, sometimes as formal joint ventures or partnerships, to carry out projects. For-profit developers sometimes had artists as partners; Artspace Projects, a national nonprofit, partners with local nonprofits, including in one instance, a newly formed nonprofit that went on to develop other artists' spaces.

The types of projects and developers involved exert a strong influence over the development process. For example, developments carried out by “accidental developers” are often done in steps, as time, money and the availability of volunteer labor permit. Nonprofits often carry out projects within a community-accepted planning framework that shapes project purposes, financing, and occupancy.

Development Process

Ninety-five percent of the artists' space development process is the same as that for any other real estate development. Buildings must conform to neighborhood standards; be built to local codes governing safety, health, and quality; meet lenders' and insurance companies' standards for quality and market value; and meet the needs of intended occupants. This similarity in the development process is matched by the similarity in dealing with the regulatory process. Regulatory barriers that most afflicted ASD projects are the same ones that stymie other developers: overly rigid application of standards, timeliness of reviews, ambiguity of standards, and overly strict building and fire codes.

Ninety-five percent of the artists' space development process is the same as that for any other real estate development.

Incidence of these problems was less severe for studio projects, which tended to be in industrial areas that have the least restrictive zoning and most liberally applied building standards. Residential projects – live-work, in essence – did bump up against the frequent restriction on residential uses in industrially-zoned districts, particularly in areas where live-work projects were atypical. In Philadelphia, for example,

initial tests of zoning provisions explicitly designed to allow live-work in industrial areas uncovered significant problems in the application of the rules by those responsible for approving different aspects of the projects. This means that the first projects through the regulatory system required strenuous efforts and some political pull to get the required approvals. In Providence and Seattle, cities with greater familiarity with live-work spaces, these approvals were not, in themselves, problematic.

In terms of the design of the buildings themselves, both studio and live-work spaces required special adaptations to artists' uses, such as the size of door openings to accommodate large art pieces, or retention of building characteristics suited for industrial uses, such as freight elevators and loading docks. Many of the projects we reviewed included artists at the design stage, or used architects with previous experience in the design of artists' spaces, to ensure that artists could work in these spaces effectively.

Project Occupancy | Affordability

The most compelling motivation for the creation of artists' spaces is the shortage of appropriate spaces that are both affordable and available on the market. Artists and their supporters have, therefore, a strong interest in ensuring that projects remain affordable, and occupied by artists, for as long as possible.

Different forms of project ownership meet these objectives to varying degrees. As artists who have been renters can attest, for-profit landlords are generally free to raise rents as overall housing prices rise, displacing artists who can no longer afford their units. If artists own their units, their mortgage payments are typically fixed, thereby shielding them from most serious effects of rising prices. So long as artists can afford the initial cost of ownership, their units remain affordable over the long term. However, there are no guarantees that subsequent buyers will be artists, meaning that over time, units once affordable to and occupied by an artist may be lost from the artist-occupied stock.

Another way of solving the affordability problem is to develop units owned by nonprofits committed to keeping units affordable. As overall rents rise, these owners will keep rents down to only those amounts needed to cover costs. If nonprofit owners are committed to keeping

units in artist' occupancy, as organizations with arts missions are, then long-term occupancy by artists can be assured. Another solution to long-term artists' occupancy is cooperative ownership, whereby the members of the cooperative have the right to decide who units can be sold to if a current resident chooses to do so. If affordability is a further goal, so-called limited-equity cooperatives can limit the price of for-sale units.

In sum: for long-term affordability, artists are best off as renters in properties owned by nonprofits or as owners. For long-term occupancy as artists, they are best off as occupants of cooperatives or of rental projects owned by nonprofits dedicated to artists support.



The Tashiro Kaplan Artist Live/work Lofts were developed by Artspace Projects using tax credits.

Photo courtesy of Artspace Projects.

Project Financing

Financing of artist space projects is much like financing other types of projects in terms of the calculus of investors, the drivers of costs and revenues, and the amount and sources of subsidy. That said, live-work and studio projects are regarded very differently, and typically have different cost, revenue, and subsidy profiles, than do live-work projects.

Studio spaces are relatively inexpensive to develop, reflecting the wide range of suitable properties available in the marketplace, which allows better prospecting for good acquisition prices, and the generally lower level of build-out and finishing required, compared to live-work spaces. Regardless of project type, cost-effective development among the projects in our sample depended very much on securing favorable acquisition prices by exploiting market gaps and niches, including artists' own willingness to live in work in neighborhoods that others might find objectionable.

Because of the generally favorable ratio of rents to costs, studio projects usually paid for themselves, but the opposite was true of live-work spaces. Primarily because project developers aimed for affordability, but sometimes because of extraordinary costs or development costs that exceeded market value, live-work spaces required subsidy. In fact, only about 25 percent of the funding needed to

develop live-work spaces came from private sector lenders, which typically supply 60-80 percent of the funding for “market-rate” residential projects.

Amounts required to finance projects come from three basic sources: investor equity and grants, below-market loans, and private bank financing. Developer and investor cash was an important source of financial support for studio projects, less so for others. Most of these private investments were motivated by the desire to take advantage of the tax credits available to investors in affordable housing or historic preservation projects. But some developers funded projects without external subsidy at all, motivated by a combination of property appreciation and community-mindedness.

The most lucrative source of public support is the low-income housing tax credit. These housing credits are complicated to use, even more so when used in combination with historic preservation credits. Even experienced developers find it tricky, and expensive, to work with these credits, which helps explain why many local developers, foundations, and government have sometimes carried out developments with Artspace Projects, which has developed considerable expertise in blending the housing and preservation credits. In addition to the basic complexity of these financing sources, certain provisions of their use are disadvantageous to arts-related projects. These include limitations on commercial space, required interior partitions, state policies that accord preferences to larger bedroom sizes, and for historic credits, the sometimes substantial amounts required to ensure that renovation meets preservation standards.

One of the more surprising findings from this research is the prevalence of foundation funding in artist space projects (in places where foundations are active) prompted mainly by a desire to further community development goals. The same was true of donations by individuals and corporations to capital campaigns sponsored by nonprofit developers. Their motivations dovetail with those of public agencies, primarily interested in community economic development. Local support for live-work projects was nearly always justified in terms of affordable housing goals; support for studio projects in terms of

community economic development. Because arts agencies rarely invested in capital projects, financial support for artist space projects also was rare in our project sample.

Although private sector lenders do not usually provide the greater part of financial support to artist space projects, their participation is important to other investors because they bring a market test to project financing. Even the nonprofit community lenders do this, for although they are willing to lend in neighborhoods, or at project stages, that market-rate lenders are not, they nonetheless require recovery of their capital. Community lenders have been important allies in artist space project development because they tend to have strong ties to both private sector lenders on the one hand, and public agency providers of subsidy on the other. They also shield market-rate lenders from a portion of the risk they might otherwise face.

For their part, profit-motivated financial institutions acknowledge the community value of the artist space projects they invest in, but only after assuring themselves that their loans will be repaid. Lenders on live-work projects do this based on whether the market justifies the rents that project owners plan to charge. Lenders on home purchase projects underwrite the market value of the property and the ability of buyers to repay their loans. Lenders on commercial projects underwrite the ability of businesses to pay the rents that are charged. Generally speaking, lenders prefer the predictability of housing projects and the relatively straightforward means of estimating ability to repay.

Regardless of the type of project, or for that matter, whether a banker or subsidy provider is doing the underwriting, artist space project developers need to demonstrate the potential market for their projects; surveys of artists are sometimes used to do this. These surveys can establish both artists' willingness to rent or own space in the project, which is useful to financial supporters, and their interest and willingness to participate in the community, which is valuable to community supporters. Project developers also need to supply evidence of their own ability to carry out projects; in other words, investors underwrite both the project and the developer. This underwriting is especially important where developers, especially nonprofit ones, do not bring substantial amounts of their own cash to projects.

Effects of Markets and Systems

Developments of artists' spaces do not occur in a vacuum: the willingness and ability of various parties to invest is linked to aspects of the market, community, and political environment that raise or lower the overall payoffs and risks. It has become conventional to distinguish between strong markets and weak markets, each of which poses its own challenges. In strong markets, demand for land and buildings threatens the affordability of artist space projects, drives up the amounts of public subsidy required, but reduces risks to private investors because prospective cash flow is easy to demonstrate. In weak markets, softer demand makes property acquisition more affordable, and leads to cheaper overall development costs, but also produces correspondingly higher risks to investors because prospective cash flow is uncertain.

Short of providing larger amounts of subsidy and creating organizational mechanisms for channeling it to projects, there are few options available to artist space development supporters in strong market cities to preserve and develop affordable artists' spaces. Because the principal problem is cost, the principal solution is more money, although selective easing of restrictions on live-work space in non-residential areas can help create a sheltered market for artist space development.

In weak market cities, where the problem is less one of cost and more one of anemic demand for inner city locations, artists may represent an area of market strength in neighborhoods that lack appeal to other types of households. Reliance on artists as drivers of neighborhood revitalization may pay off where community developers actively strive to create a critical mass of arts-related activity and complement these efforts with real estate development and community-building activities. Lenders and other investors view these efforts as a hedge against financial risk.

The costs and risks of individual developments are affected not only by the strength of the overall markets within which they are carried out, but also by the strength of community and economic development systems. These systems are comprised of the relationships among

developers, lenders, government agencies, foundations, and political and civic leaders that mobilize capital, technical expertise, and political clout to accomplish community development purposes.

Strong ties among multiple representatives of each type of actor are earmarks of effective systems, as is a shared understanding of the multiple ways artists' space developments can serve public policy goals. Another, related feature is the emergence of different types of developers devoted to creation of artists' spaces, including community development corporations. In fact, cities that have invested heavily in creating supportive systems for nonprofit developers also contain all of the building blocks for effective support of artist space development. This includes lenders that have discovered profit potential in low-income neighborhoods, which appears to translate into their increased willingness to support artist space projects. Similarly, the general availability of streamlined and accessible housing and commercial development programs aimed at low-income area revitalization also leads to stronger public support for artist space projects.

It would appear that the inclusion of arts and cultural uses in community development plans has much more practical value as a stimulant to artists' space development than inclusion of artists' space development in cultural plans.

One of the more important supportive elements for artist space development is the availability of agency financing of community plans and a commitment to honoring the content of these plans in subsequent funding decisions. Many of the projects we reviewed proceeded with community support as enshrined in neighborhood land use and development plans. In other words, given a chance, community residents can be expected to give priority to arts and cultural uses. It would appear that the inclusion of arts and cultural uses in community development plans has much more practical value as a stimulant to artists' space development than inclusion of artists' space development in cultural plans. This may be especially important in stronger markets, where competing claims on available properties are most severe.

Despite the fact that some systems have not become all that supportive of artist space development, at least some civic and political leaders in every system recognize the value of artist space to community and economic development. At a minimum, interest in attracting and retaining members of the creative class appears widespread, though not always translated into acknowledgement of artists as important members of the class or recognition that specific policies to support artists can further creative class formation. Again, there appears to be a rough correspondence between the sophistication of the community development system and the breadth and depth of understanding among political, civic, and governmental elites of the value of artists, and artists' spaces, to the overall well-being of the community.

Recommendations

The most important steps public funders, foundations, intermediaries, and other supporters of artists can take to increase support for artists spaces is to play a more active role in the community and economic development systems within which they work. These systems consist of the relationships among developers, lenders, community development agencies, foundations and others who work together to mobilize and allocate resources to accomplish community revitalization goals.

At all levels of these systems, participants have discovered and acted upon the deep connections between artists' work and residence and the strength of local communities. Specific recommendations include:

- *Appeal to developers* - Supporters of artist space development would do well to recognize, and appeal to, the arts-related motivations of many nonprofit and for-profit developers and lenders, many of which seem to recognize the value of artists as project residents and community activists.
- *Introduction of mixed-use project elements* – Commercial and nonprofit space, for example – as well as community programming, like youth arts education, are good ways to reinforce and demonstrate the community value of artists' spaces. These spaces should become standard practice in artist space development.

- *Include artist studios in mixed-use projects* -Development of scattered-site, mixed-use properties is an interesting and promising new strategy for revitalization of older commercial corridors, a growing focus of community economic development practitioners. Artists' studios and living spaces along these corridors represent one of the few suitable uses for spaces no longer appropriate for most modern retail.
- *Form co-ops* - Artist space development supporters should encourage formation of limited-equity cooperatives as a way to promote both long-term affordability and continuing occupancy by artists in the projects they develop. Cooperatives retain some important advantages over rental properties on the one hand (even nonprofit-owned ones) and condominiums on the other.
- *Encourage the arts in community plans* - One of the most concrete strategies for longer-term support of artist space development is to encourage inclusion of arts and cultural elements in community plans, and government agency observance of the priorities outlined in the plans.
- *Tailor public subsidies for artists* - Public subsidy programs should be tailored to the various types of artists' spaces and the different ways these get created; e.g., a menu of financing options should match the different types of subsidies that live-work and studio projects require.
- *Studio space = economic development* - Promotion of concentrations of studio spaces would appear to be a low-cost way to promote creation of new clusters of economic activity. In weak market cities, where other prospects for economic growth are few, artist space creation may be an important springboard for both economic and residential market strengthening.
- *Work with CDCs* - Because the strength of the nonprofit development system seems to be an important contributor to the likelihood that affordable artists' spaces will be developed, cities with a strong community-based nonprofit sector would appear to be fertile ground for national promotion of artist space development as a revitalization strategy.

It seems clear from this research that many different types of developers, investors, agency officials, civic and political leaders and others can be potential supporters of artists' space development. This potential may be most easily harnessed at the community level, among non-profit development organizations, which have been broadening their agendas to include many diverse types of housing, commercial, and community-building activities

II. Introduction

This report is the result of research conducted in 2004 and 2005 for Leveraging Investments in Creativity (LINC), a national initiative dedicated to increasing support for individual artists. An Urban Institute study published in 2003 had identified the need for artists' spaces as one of critical challenges facing individual artists. In many cities and neighborhoods, affordable spaces once occupied by artists had given way to a rising tide of gentrification and escalating rents. In other places, the low-incomes earned by artists put good-quality spaces in which to live and work out of reach. Yet in some communities, efforts by the private and public sector had helped artists find and renovate spaces, sometimes on their own and sometimes aided by the work of nonprofit and other developers.

Methodology

To find out more about how these projects were carried out and the kinds of support various actors need to implement them effectively, LINC commissioned the Urban Institute to survey artists' spaces around the country and to visit seven communities in which spaces had been developed. During these visits, researchers interviewed those most involved with project design, development, and financing, as well as individual artists and well-placed people throughout the community who could provide informed opinions on how artists spaces had been, and were being, created. The team talked with people affiliated with 29 artists' space projects, including studios and live-work spaces developed in a variety of buildings and neighborhoods.

This Report

In the report to follow, we discuss various aspects of artists' space development:

In the first section, we outline the different types of artists' spaces we reviewed, including live-work and studio spaces, primarily, but also variations on these two basic types. We also examine the different types of developers of artist space development projects, showing points of overlap and correspondence in their motivations and the types of projects they develop.

In the second section, we examine project process: how artist space projects are developed, the effect of local regulation, features of design that project developers and occupants find important, and the different types of ownership and occupancy arrangements that projects have adopted.

In the third section, we discuss artist space project financing, including projects costs and how these are influenced by various factors during acquisition and construction, project financing and the need for subsidies from public and philanthropic sources, and how different investors' interests influence their willingness to supply the funding needed to get projects built.

In the fourth section, we examine how the strength of local real estate markets and local systems for the mobilization of capital, expertise, and political clout for development of low-income communities affects the overall costs and risks of investing in artists' spaces.

In the fifth and final section, we outline some recommendations for artists' space development supporters as they consider actions to promote due consideration of artists space needs in the communities where they operate.

III. Artist Space Projects and Developers



Originally a furniture warehouse, 4731 Grand has studios on the second and third floors, and gallery and office space on the ground floor. Part of the space has evolved as an arts incubator with ties to fashion-related businesses.

Photo courtesy of the Urban Institute.

Like those in any other occupation, artists need places to work, and like any other household, artists need places to live. But unlike most others, artists have found it uniquely beneficial to work and live in the same spaces. About half of all the projects we reviewed can be considered live-work spaces of one kind or another – there are interesting variations on the traditional conception of live-work space as converted industrial or warehouse spaces. (See complete list of projects and cities in Table 1.) Artists’ work often benefits from close and continual exchange with other artists, which places a premium on the creation of work spaces that allow this to take place. We examined a number of studio development projects that created multiple work units for visual artists, in particular. Within each of these basic types, there is considerable variation in the types of buildings, sizes of units, neighborhood locations, and other aspects of projects.

The wide range of spaces is matched by the diverse types of developers who create them. Most of these – especially the creators of studio spaces – are small businesses, including self-employed individual artists, small for-profit real estate developers, and nonprofit community development corporations. However, others are larger developers that claim substantial numbers of previously built units, and including developers dedicated solely to building or renovating artists’ spaces. It turns out that many aspects of artist spaces and the process for creating them are shaped by the types of developers who do the work.

Project Types

From one perspective, there were only two types of projects included in our sample – live-work projects and studio projects. Live-work projects, as the name implies, pertain to buildings that are used both as residences and as studio or rehearsal spaces for residential unit occupants. Studio spaces are work spaces only. In practice, there are several important variations within these categories.

i. Technically, the US Department of Housing and Urban Development and the US Census define multi-family properties as those with five or more units. In this research, the smallest properties we encountered contained two or fewer.

Live-work spaces can be thought of as single-family or multi-family developments, depending on whether a single building or project provides space for one- or two-families or for three or more.ⁱ (See complete list and short description of live-work spaces reviewed in Table 2.) We encountered single-family detached houses or duplexes in use as live-work spaces, as well as live-work spaces in commercial properties that included ground-floor studio or gallery space and upper-story residential. On the multi-family side, we found two basic types of developments: those with a number of self-contained units with both work space and full residential facilities, such as baths and kitchens, and those with studios and separate living units that share bath and kitchen facilities, akin to a single-room-occupancy building.

These projects were housed within a variety of building types. The most prevalent previous use was as warehouse and manufacturing, although these uses may have been many years prior to their conversion to artists' studios or live work spaces. Nearly all of the studio projects were in converted industrial facilities. (See complete list and short description of studio projects in Table 3.) Live-work spaces displayed more variety – typically industrial or manufacturing, but also a school, hotel, an auto dealership, commercial and retail buildings, and single family houses.

The use programs for these projects are displayed in the three exhibits following. We have distinguished between studio projects, multi-family live-work projects, and “scattered-site” single-family projects. (Scattered site and residential-only projects are in Table 4.) The latter refers to development of single-family houses or single commercial properties.

Table 2. Live-Work Spaces in Analysis Sample

Project Name	Units	Description
Spinning Plate Artist Lofts, Pittsburgh, PA Artspace Projects Artists And Cities	37	The Spinning Plate Artist Lofts is a 37-unit live/work adaptation of a 55,000 square foot former automobile showroom in the Friendship/East Liberty section of Pittsburgh. Developed by Artspace Projects and Artists and Cities, the Spinning Plate provides rental units for visual and performing artists, as well as ground floor gallery space.
Monahasset Mills, Providence, RI Monahasset Mills LLP	39	Former home of Armington & Sims, engine manufacturers, this large mill building was acquired and renovated by four artists-developers for live-work condominiums and subsidized live-work rental units. The project incorporates the Steelyard, which offers common work space/facilities, youth programming, and job and volunteer opportunities to resident artists.
Empire Street/AS220 Providence RI AS220	19	Several commercial buildings on Empire Street in downtown Providence house performance space, galleries, studios, office spaces, and single-room occupancy-style residential units. AS220 itself is a community of artists that embraces innovation and non-juried exhibitions and events and commitment to community programming.
Dreyfus Hotel, Providence, RI AS220	14 / 10	The Dreyfus was built as a small hotel in the late 1890's, but more recently used as dormitory space. Sponsored by AS220, the project will create a mixed use restaurant, 16 small residential units, and 9 work studios. Elegant ground floor and lower-level space will be restored for a restaurant and bar.
Westfield Lofts (Rau Fastener), Providence, RI West Elmwood HDC	69	The West Elmwood Housing Development Corporation purchased the three-story brick Rau Fastener mill complex in west Providence. The project involves a \$15 million rehabilitation to turn the 1890 facility into 69 one- and two-bedroom lofts available to artists and other low-to moderate-income renters.
Cooper School Seattle, WA Delridge NDO	37	A former elementary school building, the Cooper School is being redeveloped by the Delridge Neighborhood Development Organization into 37 affordable live/work housing units and an arts and cultural center.
The Hive Archive Providence RI Hive Collective	6	In 2000, a group of six women artists and musicians in Providence set out to educate, invigorate, and strengthen the community of women in the arts by creating the Hive Archive.
Toshiro-Kaplan, Seattle, WA	50	The \$16.5 million Toshiro-Kaplan Artist Lofts added 104,000 square feet of newly constructed and renovated affordable space for the arts to Pioneer Square in Seattle. The three-story project includes 50 live/work units in one, two, and three bedroom apartments, as well as ground floor gallery space and a coffee shop serving the building and neighborhood.
Coral Steet Arts House Philadelphia, PA New Kensington CDC	27	Coral Street Arts is a CDC-developed live-work project in the mixed use industrial-residential neighborhood of New Kensington. The project will cost \$7.5 million to transform the 34,000 square-foot five-story brick building into 27 live-work units.
4884 Russell Detroit, MI Robert Heide	30/6	This former warehouse building located in the city's Eastern Market is being renovated as 30 for-rent live-work units and 6 studio spaces. The \$3 million, market-rate project will be offered to artists and other "creative class" members interested in living and working in an up-and-coming neighborhood.

Table 3. Workspace Projects in Analysis Sample

Project Name	Units	Description
Ice House Artist Studios Pittsburgh, PA Artists And Cities	32	Located in Lawrenceville, the Ice House Studios was built originally in 1907 as Factory No. 2 of the Consolidated Ice Company. Renovated by Artists and Cities, the \$2.6 million project provides basic, affordable rental studios, group workshops and rehearsal spaces, and office spaces for artists, arts organizations and arts and design related businesses.
4731 Grand River Detroit, MI Ric Geyer	14	Originally a furniture warehouse, 4731 Grand has studios on the second and third floors, and gallery and office space on the ground floor. Part of the space has evolved as an arts incubator with ties to fashion-related businesses, and it will anchor a complex of buildings devoted to arts and arts-related businesses.
Crane Arts Building Philadelphia, PA Gleeson, Kripal, Hricko	25	The Crane Arts building is a 90,000 square foot two-story cast concrete building located in the American Street industrial corridor of Philadelphia. The building contains 25 units of studio space on the upper floor, and large ground floor spaces, including a white, unbroken interior space, once a freezer, that serves as stunning gallery space.
Sunny Arms Seattle, WA Karen Guzak	18	Sunny Arms is an 35,000 square foot former industrial building in a commercial area south of downtown Seattle. It contains 18 units (serving approximately 25 artists at any one time). The project was built as a cooperative – unit owners own shares reflected the size and value of their own units, many of which were custom-designed to accommodate their needs and interests.
Union Arts Seattle, WA Karen Guzak	12	Union arts cooperative is a 32,000 square foot building located on Capitol Hill, a now-gentrifying Seattle neighborhood. It contains 12 units serving 14 artists. Union Art was developed by the same person as Sunny Arms.
Eastern Lofts Philadelphia, PA Tatiana Gallegos	20	Eastern Lofts is located just north of the upscale Brewerytown mixed use development. This old warehouse building located just off a struggling commercial district will be developed into studio and gallery space for artists' occupancy.
The Mills at East Falls Philadelphia PA Mark Sherman	40	An early phase of a large mixed-use residential, retail, and entertainment development housed in a sprawling yarn mill complex, this building has been developed into affordable studio spaces available for accomplished and emerging artists/ craftsmen. Studios are open year-round, and the complex includes educational and youth programming.
Atlas Building Detroit, MI Robert Heide	22	This six-story building near the city's Eastern Market has long been occupied by visual artists and others in arts-related occupations. Occupied by artists since the mid-1970s, the building is one of the first in Detroit to become generally recognized as a center of local art-making. The current owner has had the building since the mid-1980s. Only minor renovations have been made since that time.
Pioneer Building Detroit, MI Paul and Elena Fracassa	30	The Pioneer is a 1915 Fisher Body factory converted to artists' spaces over a ten year period beginning in 1992. An artist and her family bought the building and carried out the renovation. The building now houses 30 visual artists and hosts an annual open-studio event. The privately-owned building rents for about 50 percent of market-rate.
915 Spring Garden Studios Philadelphia, PA	120	The four-story 1909 Reading Railroad warehouse building at the Spring Garden Street train station contains 120 studio units for rent. This building has evolved over time to serve as artists' spaces, with artists gradually occupying more and more of the building as commercial tenants depart. The building runs an annual open studio event.
Tipitinas New Orleans, LA	–	Tipitinas Club is a 1,000 seat performance venue located within the French Quarter of New Orleans (at the corner of Napoleon and Tchoupitoulas). After Hurricane Katrina, Tipitnas became home to music co-op offices providing recording studio space, equipment rental and professional development services to New Orleans musicians.

Table 3. Workspace Projects in Analysis Sample (continued)

Project Name	Units	Description
Louisiana Artworks New Orleans, LA	24	Louisiana Art Works is a 93,000 square foot arts facility developed by the Arts Council of New Orleans. The project seeks to serve artists and small arts businesses by providing affordable space and equipment for artists, arts education for artists and the public, as well as retail, exhibition and special events space. The project includes 19 individual studios for emerging and established artists (3 year maximum occupancy) and 5 private studios (not part of public tour). The project is near completion and is slated to open its doors in early 2006.
City Art Studios New Orleans, LA Luis Culminares	25	City Art Studios are located in a 14,000 square foot building (at 555 Galvez, in New Orleans), and includes a metal shop, kiln yard, blacksmith shop, dark room and individual studio spaces which were built to suit artists' specific needs. The project was conceived by artist Luis Culminares and developed in partnership with a private investor.
Art Egg Studios New Orleans, LA Esther Dyer	45	Art Egg Studios is a 50,000 square foot former warehouse building renovated by Arbor Development Company, solely owned and operated by artist Esther Dyer. It has 45 tenants including artist studios, gallery space, non-profit space, and storage space. The storage space helps defray operating costs and can provide some subsidy for artists' rent (when necessary).
Toole Shed Studios Tuscon, AZ Tuscon Arts Council	21	Toole Shed Studios include 3 buildings and approximately 15,000 square feet. Initial renovation at 197 East Toole for 15 studio spaces in 1992, followed by development of the Museum of Contemporary Art at 191 E. Toole (in 1997) and 6 artists studios at 174 E. Toole (2002). The Toole Shed Studios is one of the oldest artists' occupied warehouses within the Tucson Warehouse Arts District. They were renovated under the leadership of the Tucson Art Council which sub-leases the property from the Arizona Department of Transportation (ADOT).

Table 4. Scattered Site/ Single-Family Live-Work Projects in Sample Analysis

Project Name	Description
Penn Avenue Arts District Pittsburgh PA Friendship Development Corporation	This effort is part of an overall commercial revitalization of a blighted commercial corridor. Individual projects consist of two and three-story storefronts acquired and rehabilitated by individual artists with support from the Friendship Development Corporation. A typical project involves creation of ground floor studio space, with second floor artists' residence and third floor rental unit.
Waiting Room Gallery New Orleans, LA William and Pati Warren	The Waiting Room Gallery and adjacent double shotgun live-work space is owned by artists William and Pati Warren (originally from Providence RI, where they had a similar gallery space). The property is located in the Marigny/Bywater neighborhood of New Orleans, home to an increasing number of artists and artists focused organizations.
ASHE Cultural Center New Orleans ASHE	ASHE Cultural Center (ASHE) is an anchor tenant in a building that includes ground floor community space and second floor living spaces. ASHE has recently undertaken purchase and planned construction on two sites within an historically significant corridor of New Orleans' Central City community. The first, across the street from their current site, will house a small community theatre and gathering place. The second site consists of a single family dwelling and several rear cottages to be converted into artists' work space.
Shane House Tuscon, AZ TAC	Shane House was developed by the Tucson Artists Coalition as affordable rental housing in 1990. It is primarily rented to artists who meet affordable housing guidelines. It includes 15 units as well as an artist exhibit space.

Mixed Uses and Community Programming

Two aspects of these developments are particularly noteworthy: the prevalence of mixed uses and, related, the frequency of some form of community programming. These are especially true of live-work projects.

Mixed Use

Mixed uses in artist space projects typically are also arts-related uses, but these take on different forms; they include gallery and other commercial space, performance spaces, community rooms, spaces for public programs, and others. All told, about three-quarters of the projects we reviewed included some mix of uses (not including the mix of live and work in the live-work projects). Noteworthy examples include:

- The Crane Co. Building in Philadelphia contains some magnificent gallery space in an old refrigerated section of the building. The Temple MFA show was being installed at the time of researchers' visit. It's a unique space, and in itself is a city amenity. Other projects containing commercial or other gallery space include Spinning Plate in Pittsburgh, Cooper School in Seattle, AS220 in Providence, Toole Shed Studios in Tuscon, the Waiting Room Gallery in New Orleans, and others.
- Several projects have emphasized the presence of community and performance uses in addition to live-work space for artists. Seattle's Tashiro Kaplan has a number of commercial gallery spaces on the ground floor, as well as restaurant space occupied by a coffee shop important to the building community and those from surrounding residential units.
- Cooper School in Seattle has set aside ground floor space for a neighborhood cultural center, including a gallery, performing arts space, and other spaces to support programming for traditional arts uses as well as youth programs and other community initiatives. One reason why the space is affordable to artists is the small size of the units -- basically converted classrooms.

- Providence’s AS220 has the most complete mix of spaces, including three commercial tenants (two of them bars), ground floor performance, gallery, and café space, second floor studio, AS220 offices, and gallery space, and third floor living space. Some of the gallery space is integrated into other building uses, including the second floor corridor and the ground floor performance space, all making for different uses (performance, office, residential and studio), disciplines (visual and performing) and technologies (darkrooms, print-making, and recording).
- In Seattle, one developer of studio and live-work space reported that if she were to do another space, she would try, if at all possible, to include space for an arts organization or commercial space to diversify the building uses and create potential opportunities for artists.

In Seattle...a recent city zoning change to encourage artist live-work on the ground floor of residential properties [was enacted].

Interestingly, several projects have reversed this formula, in which buildings for occupancy by low-income residents who are not artists have dedicated ground floor spaces for arts uses. In Seattle, these have been supported by a recent city zoning change to encourage artist live-work on the ground floor of residential properties. The Low-income Housing Corporation, which develops properties for very-low-income families and special needs populations, has created artists’ gallery / studio spaces to animate street life and encourage arts-related community programming. In Pennsylvania, a new state program to encourage rehabilitation of mixed-use properties may have this same effect.

Community Programming

A related feature of these developments is the presence of community programming, intended to benefit the artists who occupy the space, the community nearby, or both. Interesting examples include:



Monohasset Mills in Providence mixes live/work with other arts activities, including a strong community youth component.

Photo courtesy of the Urban Institute.

- The Steelyard in the Monohasset Mills project in Providence, a former industrial space used for metal sculpture and other large arts activities, and including a strong community arts / youth development component.
- Cooper School in Seattle contains a mix of spaces available for flexible use by other organizations and community groups, and includes a performing arts theater that can also be used for receptions and other functions, and several classrooms that may be used for arts training and education workshops -- a cultural resource to the community.
- Spinning Plate in Pittsburgh hosts exhibitions and shows in the gallery space, which also has been used by community groups to hold meetings, presentations, and celebrations.
- The AS220 gallery, performance, and café space, is a popular entertainment destination for younger people in Providence, but the space also serves as home to several programs intended to help at-risk youth.

Deserving extensive mention are the several spaces intended as incubator space. Louisiana Artworks in New Orleans is one of the largest of these in the country, containing shared infrastructure for artists, business development and marketing programs, a gallery outlet, and national exposure.

ii. Worth noting is one current occupant of this space – Gallery 555 – an alternative artists cooperative gallery, studio, and performance space very much on the AS220 model.

Another innovative project is Detroit’s 4731 Grand – an incubator that emerged by degrees as several arts-related enterprises began to occupy the facility based on referrals. The developer and owner of the building embraced this emergence of fashion design as one (but not the sole) building focus as a way of incubating a competitive economic activity. He built out the final elements of the project to meet storage, runway and other fashion-related needs, aiming also to create a “virtual” enterprise among start-up companies with shared infrastructure and web presence. He’s gone on to acquire and begin rehabilitation of a set of buildings nearby, which he hopes to develop as “themed” spaces to focus on specific creative industries; film and furniture are several.ⁱⁱ

Project Developers

Projects get built because developers invest the imagination, money, and perseverance required to bring them from conception to occupancy. These developers are as likely to be for-profit, as non-profit, although they are not solely profit-motivated. (See list of projects by developer type in Table 5.) And although all of these spaces are occupied by artists, developers often took on these projects for reasons other than furthering the arts community.

Table 5. Developer Types of Projects Reviewed

Project Type	Non-Profit	For-Profit
Live Work	Coral Arts – Philadelphia Tashiro Kaplan – Seattle Cooper School – Seattle Spinning Plate – Pittsburgh Westfield Lofts – Providence Dreyfus Hotel – Providence AS220 – Providence	Monahasset Mills – Providence Hive Archive - Providence 4884 Russell – Detroit
Studio	Ice House – Pittsburgh Louisiana Art Works – New Orleans	Sunny Arms – Seattle Union Arts – Seattle Crane Co. – Philadelphia Eastern Lofts Philadelphia Spring Garden – Philadelphia Mills at East Falls - Philadelphia 4731 Grand – Detroit Pioneer Building – Detroit Atlas Building – Detroit City Art – New Orleans Toole Shed – Tucson ArtEgg – New Orleans Tipitina’s – New Orleans
Scattered Site / Single family	Penn Ave Arts – Pittsburgh ASHE Cultural Center – New Orleans Shane House - Tucson	Waiting Room – New Orleans

Nonprofit Developers

Nonprofit developers are motivated by pursuit of the missions declared in their founding documents. Half-a-dozen nonprofit developers in our project sample embraced advancement of arts and artists as a primary mission. That said, there were some marked differences among them, tied principally to the character of their community ties.

Artspace Projects of Minneapolis has developed over a dozen affordable live-work projects around the country. Within our project sample, Artspace developed Seattle’s Tashiro Kaplan and Pittsburgh’s Spinning Plate Lofts, and during the time of this research, was also involved in pre-development stages of another Seattle project – the Hiawatha, a live-work development. In carrying out these projects, Artspace estab-

lished, for the first time, a local presence by creating a regional office in Seattle. Hitherto, Artspace carried out developments in partnership with other nonprofit organizations, such as the Pioneer Square Development Corporation, which collaborated on Tashiro Kaplan. In Pittsburgh, Artspace developed Spinning Plate Lofts through a partnership with Artists and Cities, one of the few nonprofits in any city established for the express purpose of developing artists' spaces. After gaining experience with Spinning Plate, the group went on to develop Ice House, and at the time of our visit, was in the pre-development phases of an artists' residential condominium building. In New Orleans, Louisiana Art Works developed its incubator space, and clearly has the charge of serving artists and the arts community as a primary constituency, but it is not an ongoing developer of projects.

Other developers of artists' spaces have approached its development as a later stage in activities otherwise focused on creating and sustaining a community of artists. Although now an experienced developer of artists' space, AS220 began as a group of Providence artists that embraced a conception of art making and presentation that prized innovation, work in multiple disciplines, and cross-pollination of forms and styles. The organization emphasizes its primary accountability to other artists and its community supporters. AS220's initial project in early 1990s on Empire Street followed by current expansion into adjacent space, a joint venture with a theater group that embraces AS220's values, and plans for conversion of vacant historic hotel into residential, studio, and restaurant spaces.

A similarly conceived group – Hive Archive in Providence – is a development in progress, going in fits and starts. Developed by a group of young women artists and arts enthusiasts, the space serves as artists' work space primarily, with some room for arts-based community programming. All staff are volunteers.

CDCs

The second class of nonprofit developers are community development corporations (CDCs), including Seattle's Delridge CDC, Philadelphia's New Kensington CDC, and Providence's West Elmwood CDC. These nonprofits are dedicated to the revitalization of the neighborhoods within which they work, typically involving community planning, affordable housing development, and increasingly, development of

neighborhood commercial and retail spaces. As a group, these CDCs have produced artists' spaces primarily as a way to foster more general revitalization goals, and not because they have a specific commitment to the arts or artists. Specifically:

- In Seattle, Delridge CDC developed the Cooper School in conformance with a community plan that specified cultural uses as an important ingredient in neighborhood quality of life. In the Delridge case, their ability to carry out a mixed-use studio, live-work, and cultural center project was enhanced by previous experience in developing a mixed use affordable housing - public library project.
- New Kensington CDC sponsored Philadelphia's Coral Arts project as an effort to encourage in-migration of artists who will make a positive contribution to the neighborhood and reinforce an emerging arts cluster. New Kensington is the only CDC active in this type of project in Philadelphia, and the city ED department has asked them to take a look at several other projects in nearby neighborhoods.
- In Providence, West Elmwood CDC was interested in creating a mixed income neighborhood / mixed use / income housing as alternative to continuing concentration of low-income households in already-poor neighborhood. They redeveloped the old Rau Fastener building for artists' loft spaces, aiming to use artists and those in creative occupations as a draw for moderate-income renters who otherwise might avoid a low-income neighborhood, and to create a community of people likely to become active in civic life.
- Pittsburgh's Friendship Development Corporation sponsors the Penn Avenue Arts Initiative (PAAI) as an effort to revitalize a commercial corridor through increases in occupancy rates of retail storefronts, animation of a moribund street life, and engagement of artists in community festivals and youth programming.

Nonprofit developers have also been involved in artists' space projects as makers of supporting investments not directly linked to

the arts project itself. In Pittsburgh, for example, East Liberty CDC and Bloomfield-Garfield CDC are working in the East Liberty and Bloomfield-Garfield neighborhoods, which supports the PAAI efforts to encourage individual artists to occupy vacant commercial spaces.

Also in Pittsburgh, Lawrenceville Development Corporation's involvement in artists' space development is more indirect, but nonetheless likely to be consequential. They are the managers of the 16:62 Design Zone, which is the planning and marketing framework for the Penn Avenue corridor from the 16th to the 62nd Street bridges, running through the heart of Lawrenceville. The marketing of property within the zone to creative industries and occupations should support demand for the products of artists within the zone.

For-Profit Developers

Technically speaking, the developers included in this grouping are profit-making, if only because as individual artists, they are taxed on the incomes they earn from art. In several instances, however, motivations for development, and as we will see later, the process they use to develop spaces, are very similar to small artists-led nonprofit groups like AS220 and Hive Archive in Providence. In other instances, developers are as interested in earning fees from development and returns from project ownership of artists' projects as they are from other types of development.

Our research turned up three basic types of for-profit developers:

- individual artist-developers,
- small single-structure or property developers, and
- larger mixed-use project developers.

This last category did not receive much attention in our research on individual projects because they aimed to produce units that were available to artists, but were marketed more broadly to those interested in loft-style living. These projects were included as contrast to the projects and developers we did review. It should be noted that within all of these types, developers were willing to accept less-than-market rates of return, at least temporarily, because of special motivations to

do artist / creative cluster spaces. (Nonprofit and for-profit developers both were primarily motivated by arts or non-arts purposes; see Table 6 for a complete list, by project.) That said, the discussion below comes roughly ordered by the level of pecuniary motivation.

Table 6. Mission of Project Developers

Developer Type	Arts-Focus	Non-Arts Focus
Nonprofit	Tashiro Kaplan, Seattle, Artspace Spinning Plate, Pittsburgh, Artspace / Artists in Cities Dreyfus Hotel, Providence, AS220 AS220 / Empire, Providence, AS220 Ice House, Pittsburgh, Artists in Cities ASHE Cultural, New Orleans, ASHE LA Art Works, New Orleans, NO Arts Council Shane House, Tucson, Tucson Arts Coal.	Cooper School, Seattle, Delridge CDC Westfield Lofts, Providence, West Elmwood, CDC Coral Arts, Philadelphia, New Kensington, CDC Penn Ave Arts, Pittsburgh, Friendship Development
For-Profit	Monahasset Mills, Providence, MM Partners Sunny Arms, Seattle, Karen Guzak Union Arts, Seattle, Karen Guzak Pioneer Building, Detroit, Paul Fracassa Hive Archive, Providence, Hive Collective Eastern Lofts, Philadelphia, Garcia-Granados CityArt, New Orleans, Luis Colminares Toole Shed, Tucson, David Aguire Art Egg, New Orleans, Arbor Devel't Co. Waiting Room, New Orleans, Wm & Pati Warren Tipitina's, New Orleans, Tipitina's Inc.	Mills at East Falls, Philadelphia, Mark Sherman 4884 Russell, Detroit, Bob Heide Atlas Building, Detroit, Bob Heide Crane Co., Philadelphia, Gleason, Hricko, Kripal Spring Garden, Philadelphia, Individual owner 4731 Grand, Detroit, Ric Geyer

It should be noted that within all of these types, developers were willing to accept less-than-market rates of return, at least temporarily, because of special motivations to do artist / creative cluster spaces.

Artist-Developers

Artist-developers create spaces in response to immediate needs, almost always for studio space for themselves and their own communities of artists. Sometimes, these developments were structured to provide supports for artists, similar to services offered by some non-profit-sponsored projects. Examples include Waiting Room Gallery and Art Egg Studios in New Orleans, and 4731 Grand in Detroit.

In Seattle, Sunny Arms was developed by a partnership of artists, in which each of three members contributed \$10,000 to improve an industrial building for artists' studio use. They executed a master lease for the property, and sublet the premises to nine artists. The same artist-developer went on to develop another building on the strength of that experience. In Detroit, the Pioneer Arts studio building was done by a family partnership, of which several of the members are artists.

Dirt Palace in Providence is an offshoot from that city's Hive Archive, and is also owned and run by young women artists. It provides "live work" space to artist owners and several artist tenants. The effort ini-

tially was to be a non-profit venture, but some artists involved didn't want to deal with the hassle of fundraising and the strings that often come with grants. The development process has been "baptism by fire," to some extent.

Monahasset Mills LLC is a for-profit development created to carry out one of the most prominent mill conversions in Providence. They also provided the development expertise for creation of a metalworking studio adjacent to the building to provide shared space for artists and a site for carrying out community programs. This developer shares elements of the AS220 embrace of the importance of artist engagement in the community. This developer has gone on to acquire other properties within the same industrial neighborhood through execution of master leases. Spaces are then sublet to other artists at affordable rates. This same model is followed by the master-lease holder of Toole Shed studios in Tucson; another artist-developer.

Small Property Developers

Throughout most urban neighborhoods are developers who only do one or two projects at a time, often acquiring properties, rehabilitating them, and moving on to the next property. Some of these developers have done arts buildings, as well, often because they have some special connection to the arts themselves.

In Philadelphia, the Crane Co. building is a studio project being done by a small-scale developer with previous experience doing single-property acquisition-rehabilitation projects. His partners are two artists / arts educators from Temple University. They are jointly motivated by the desire to support the community of artists, of which two of them are members, and to make money. (All of the partners have investments in the project.) As well, 4731 Grand in Detroit was done by a partnership between a corporate executive and a metal sculptor.

In both instances, the developers themselves have civic motivations that partly explain their interest in developing artists' spaces and how they've carried out the developments. In Detroit, the developer of 4731 Grand is active in community improvement efforts, most prominently in serving on the Michigan governor's task force to promote the economic development of the state's cities through attraction, retention and incubation of creative industries. In Philadelphia, the developer

in this instance has strong civic ties to a nearby neighborhood – he is active on a planning committee to redesign the commercial corridor – and he is on the board of the American Street empowerment zone, where the studio project is located.



In Philadelphia, the Crane Co. building is a studio project being done by a small-scale developer with previous experience doing single-property acquisition-rehabilitation projects.

Photo courtesy of the Urban Institute.

Most of the studio projects we reviewed were carried out by small-scale for-profit developers. In Philadelphia, done by small owners or developers, usually having previous ties to the arts community, include Garden Loom in Northern Liberties, and several projects in South Philadelphia. Among projects we reviewed, Eastern Lofts is a warehouse building in a low-income neighborhood, which has been acquired by a neighborhood activist and arts-educator partner involved in a vacant lot clean up initiative. The Spring Garden building is an arts-minded, long-term owner that encouraged the building's slow transition from warehouse and commercial uses to artists' studios. The building manager is an artist with a wide network of contacts throughout the Philadelphia arts community. This project seems prototypical of buildings that undergo similar transitions as commercial uses decline, like the Pioneer Building in Detroit. And most of the studio buildings in Tucson and Detroit over the years have been carried out by individual developers like these.

Other small-scale developers developed suitable spaces and marketed to artists to increase the value of their developments. For example, the Atlas Building in Detroit is owned by a developer who believes that artists make for good communities and therefore stable properties; and his new project to come on line – 2884 Russell – wants to take advantage of the cool creative class image of industrial loft space. In this instance, building spaces are not being set-aside for artists, only. Rather, the projects seek out artists as tenants, and in the Atlas Building, at least, the project remains populated by artists primarily because of the referral networks by which new artists – tenants are recruited.

Large-scale “Creative Class” Developers

Although we did not set out to investigate projects that were not specifically designed and built for artists and restricted, at least initially, to them, we came across several large scale projects containing live-work

spaces for artists that were built as a draw to others. We explored these briefly because they are known locally as “artist live-work” spaces, even though not restricted to this use.

Developers of these spaces, like Northern Liberties and the Mills at East Falls in Philadelphia, a downtown complex of buildings in Providence, and a large mixed use project in Seattle, are interested in building “creative class” projects that may contain artists spaces within an overall mixed use development. These are very profit-motivated developers who see the commercial advantages of building projects with a live-work cachet. This category of developer has deep pockets, broad financial backing from established lender relationships, and an interest in artists as one among several target markets for retail and residential space.

These developments are of a size that could transform whole neighborhoods, at the same time creating new spaces for artists, but in one instance, threatening displacement of more organically grown enclaves. At the same time, the broadening public embraces arts (or seeming-arts) activities and types of spaces may reinforce public recognition of the value of arts, and artists, in the community. In Providence, the project developer of a group of five buildings in downtown for mixed use commercial and high end residential is building loft style units. He and his company are sympathetic to the need for artists’ spaces, but can’t make the project economics work in downtown. But this same developer actively supported the Monahasset Mills project, offering financial backing and technical support. In the case of the Mills at East Falls in Philadelphia, the developer created affordable studio space as loss leader to attract residents to the rest of mixed-use development.

Joint Ventures

As occasionally noted above, developers often did not act alone, but created joint ventures or other, less formal, partnerships to develop space and manage it. These include:

Joint ventures are noteworthy for their efforts to bring together skills from multiple and disparate parities, and especially between entities with development expertise and those with an arts and cultural focus. As seen in the next section, this combination is a fruitful one in the planning and development of artists' spaces.

- Partnerships between development entities to carry out projects, including the several efforts by Artspace in cooperation with local development companies, including Artists and Cities in Pittsburgh and Pioneer Square Development Corporation in Seattle;
- Partnerships between artists and non-artists to develop spaces, including the Crane Company in Philadelphia and 4731 Grand in Detroit;
- Collaborations between different types of arts organizations, including AS220 in Providence and its subsequent expansion, developed in collaboration with the Perishable Theater;
- Collaborations between developers and arts groups responsible for programming the spaces, including 4731 Grand in Detroit, in which for-profit studio and gallery space is acting as a sponsor of nonprofit activities tied to business enterprise development and youth leadership.

IV. Project Process

Carrying out development of artists' spaces requires much the same process as development of any other type of space: assembly of the development team, acquisition of sites, building and unit design, satisfaction of building code, zoning, occupancy requirements, and property management. In this section we examine these stages of the development process. In addition, we discuss an issue of considerable importance to long-term availability of affordable spaces for artists – the type of ownership.

Project Planning and Community Acceptance

Sponsorship by nonprofit development organizations usually requires that projects demonstrate their conformance to the mission and specific community development goals of the organization. Sometimes, this involves a look at how projects fit within an existing planning framework. These cases indicate that having arts and cultural uses enshrined in neighborhood plans -- where the political contest will be carried out -- might well be more important than any artist space component included in cultural plans.

In Pittsburgh's Penn Avenue Arts Initiative (PAAI), scattered site artists spaces are developed within a context of community organizing, commercial district promotion, business technical assistance, and youth programming, all of which have an arts component. Individual projects are cosseted within a bundle of program strategies -- physical revitalization, encouragement of mixed use development, business development assistance, marketing and promotion -- as well as more specific blends of financing tools; e.g., building frontage improvement grants, down payment assistance, rehabilitation financing, and others.

Also in Pittsburgh, Ice House Studios is tied loosely to the 16:62 Design Zone, a planning and district promotion effort to encourage formation of a cluster of arts and design related industries and occupations in other older industrial and commercial districts. Sponsors of both initiatives intend to energize real estate markets in these areas,

as well as increase commercial and retail sales and employment. The PAAI has a very specific arts focus; the 16:62 is broader in scope, but arts uses are an expected component of the whole.

These cases indicate that having arts and cultural uses enshrined in neighborhood plans—where the political contest will be carried out—might well be more important than any artist space component included in cultural plans.

Conformance to a planning framework is most important where there are competing claims on uses of properties. Because Tashiro Kaplan was public property and the bid process was publicly run, Seattle advocacy groups brought pressure to bear on senior political leadership and executive agency staff to dedicate the property for affordable housing for very-low-income households. However, because the Pioneer Square neighborhood planning process had already established a priority to arts and cultural uses, and the local neighborhood development organization was committed to carrying out this element of the plan, the backing of civic and political leaders for artist live-work space was easier to obtain. A similar fight, on a smaller scale, in the Delridge neighborhood was resolved much the same way, in favor of Cooper School use for artist spaces, and the same is true for the proposed Hiawatha live-work space project in still another Seattle neighborhood.

As Tashiro Kaplan exemplifies, attention to public strategies for land use is especially important when public properties are involved. In Tucson, many existing and potential artist space sites are located on land and warehouse buildings owned by the Arizona Department of Transportation. Continued use for artists' studios was uncertain, however: although the once-planned highway route had nearly certainly been scrapped, keeping properties in their existing artists' use was by no means guaranteed.

Several projects in the sample – all sponsored by nonprofit development corporations – were explicitly intended to create nodes of arts activities to attract more artists to the neighborhood. In Philadelphia, the Coral Arts building is an attempt to capture a share of artists in

migration from areas of rising rents. Participation by individual artists in the New Kensington CDC purchase-rehab homeownership program is indicative of the neighborhood's promise. The developer of Eastern Lofts shares this ambition of "artist capture" as an element of a commercial revitalization strategy. Both projects obtained loans from socially motivated lenders alert to the community development value of an artist attraction strategy.

Important Lessons from Project Planning

Despite the sponsorship of a community-based organization, artists' space projects are not always easily welcomed by these organizations' constituents. The projects we reviewed offered important lessons in this regard:

- In Seattle's Cooper School, the participatory community planning process provided strong support for artist live-work spaces when bundled with a community cultural center, thereby tying cultural resources explicitly to neighborhood benefits. Rather than simply counter posing cultural uses to other low-income uses, the Delridge NDC packaged Cooper together with a food bank and community resource center and an affordable housing project to create a neighborhood center. They raised funds for all three under its "Three Projects | One Community" capital campaign.
- In Cooper School, Coral Arts, and Westfield Lofts, affordable live-work spaces were presented to community residents as an alternative to low-income housing for non-artists. In the Delridge neighborhood where Cooper is located, about 30 percent of the housing stock is low-income, with the housing authority owning about 12 percent.
- Many projects are able to turn eyesores—abandoned or grossly underutilized buildings—into community assets, as was true in all three of these projects.

- Another lesson is the value of doing survey of artists and prospective live-work residents to find out the size of the market for different kinds of spaces and the income, family composition, and neighborhood preferences of artist-inmigrants. These have been helpful in paving the way for community acceptance of artists' in-migration, because the surveys showed that artists were likely to have families, and care a lot about the quality of the community.

All of these features were at work in the Providence Westfield Lofts project, developed in response to blighting conditions of the property, including trash and prostitution. The large mill building was across the street from a parcel owned by West Elmwood, and therefore a drag on the value of a CDC asset. The project was sold to the CDC board on strength of its mixed-income character, since they were not interested in adding to an already sizeable pool of low-income persons in neighborhood. The director's personal interest is in using arts as an agent of community cohesion, as well as more direct benefits to the organizations' youth mentorship program.

Developer & Development Team

Developer capacity is the single-most important contributor to efficient project completion, which explains why the developers' previous track record is so important to others' willingness to participate in the development process. In carrying out the Cooper School project, the Seattle developer did not encounter any significant challenges; successful previous successful experience made the problems any development project encounters seem like ordinary ones. In Providence, the developer of AS220 found the subsequent financing for the Dreyfuss so much easier to arrange with a now-proven track record.

One sign of experience is the ability to assemble a good development team, a fact stressed by the Pittsburgh developer of Ice House. The team formed to carry out the Spinning Plate project re-formed to carry out the Ice House, which contributed to efficient project development. In Providence, the architect for the Dreyfus project is the same as for Westfield Lofts. Some projects were, in fact, carried out by artists without development experience. It was sometimes remarkable what they were able to accomplish, although in each case, they benefitted

greatly from technical help provided by those in the system. In fact, our review argues strongly for the inclusion of professional developers or contractors as partners. Other insights include:

- Use of special consultants to handle zoning and building code issues, such as Art Egg’s use of a former New Orleans fire marshall as consultant and a top real estate attorney to secure the appropriate tax designation, and AS220’s reliance on a Providence financial consultant to package a complex financing deal.
- The value of developer relationships with stakeholders in the system. In the Ice House project, the developer’s previous relationships with Pennsylvania economic development officials helped move the project forward, financially. A persistent advocate, such as the Artspace project developer in Seattle, who helped sustain the project and manage the complex web of institutional interests and financing mechanisms that were part of Tashiro Kaplan. AS220 would never have been built were it not for the personal and political relationships the developer had forged throughout Providence.
- Institutional leadership was helpful. In Tucson, the Tuscon Arts Coalition supported the individual tenant efforts, giving artists an “official” identity in their negotiations with Arizona Department of Transportation and other agencies in securing warehouse spaces.

Project Timing

In many respects, carrying out an artist space project is little different from carrying out any other development project: the sequence of land acquisition, architectural and engineering work, financial packaging and agreements, construction and occupancy are relatively fixed. That said, the various projects we reviewed offered some helpful reminders concerning timing of the development process, including:

- The need to seize unique opportunities. When the Providence developers of Monahasset Mills bought the property, a nasty land use fight in the neighborhood had placed the city on the defensive, which was an important aspect in springing loose funding for acquisition. The urgency of circumstances may have led othersto extend support, as well. Obviously, timing can't always be of a developer's choosing, but the lesson is that one should act if and when the politics is right.
- The value of doing demolition and debris removal before putting construction out to bid. In Providence, demolition for Westfield Lofts and AS220 exposed the structural elements of buildings, and made clear where defects were, the special problems in laying cable or running plumbing lines, and other otherwise-hidden aspects of buildings. By taking as much risk out of the process as possible, contractors feel less need to pad bids to cover them for unknown risks.
- The special care needed in staging project steps to minimize risk, including assurances that the project will qualify for historic tax credits before making decisions about project scope, that good environmental testing is done before a decision to proceed with financing, and the problems tied to layered financing, in which approvals at one level of government are required before other levels will consider applications.
- Incremental or "rolling" rehabilitation, in which development of early units are used to generate cash for development of later units, or development is stretched out to match anticipated or actual receipt of financial support. (Table 7 presents the development sequence for 4731 Grand, another incremental project.) In Providence's Monahasset Mills, early unit sales were used to pay for development of later units, although in retrospect, project developers wish they had done all of the units at once to avoid creating a separate legal entity at each stage.

Zoning and Building Codes

The cities in our study spanned the range of regulatory regimes, from those that take no explicit account of artists' spaces – like Detroit and

Table 7. Development Sequence: 4731 Grand

1.	Purchase the facility	Aug. 2000
2.	Purchase land for parking lot	
3.	Stabilize the building Repaired the roof, removed non-working elevators and electrical equipment, and secured the entrances.	Aug, 2000
4.	1st floor studios Built 3 studios, a new stairway to the 3rd floor and a furnace.	Jan, 2001
5.	1st floor gallery space and infrastructure Designed and built the gallery, the gallery offices, 2 new bathrooms, a new building entrance, lobby and the first floor stairwell. Modified the internal vault, added a second furnace for the front of the building. Grand opening of the 4731 gallery.	Sep, 2002
6.	Build out 2nd floor Added 10 new artist studios, a common area, and 2 bathrooms.	Nov, 2002
7.	Upgrade electrical service – add parking lot Upgraded to a 1000 amp service and added a parking lot.	Sep, 2004
8.	Build out 3rd floor Added 11 new artist studios and 1 bathroom.	Nov, 2004
9.	Temporary build out 4th floor Add temporary gallery space for community use, etc. (pre-elevator). Also built a new entrance and 2 new studios	Mar, 2005
10.	Renovate one story adjacent to 4731 Renovate the one story building adjacent to 4731. Incorporate a cyber café or small gallery and rent to outside artists. A new furnace has already been installed.	July, 2005
11.	Install elevator and renovate lobbies Remove the existing 2 story freight elevator and replace it with a smaller passenger elevator to allow easier access to the upper levels. Add a new entrance in the rear of the building and design and build the lobbies on each floor for the elevator.	Nov, 2005
12.	Add landscaping, outdoor sculpture garden Add landscaping and fencing to the 4731 grounds and construct a sculpture garden on the corner of 15th St and Grand River. Also, develop and implement a distinctive theme for the exterior of the building that visually provides a linkage from the building to the surrounding Woodbridge neighborhood.	July, 2005
13.	Complete Build out 4th floor After the elevator is in, build out offices for design and graphics businesses, additional 11 studios and a bathroom.	Feb, 2006

Source: Provided by Ric Geyer,
4731 Grand

New Orleans – to those that have been tailored specifically to promote artists’ spaces of various kinds, like Seattle, which reputedly has the most artist-space-friendly regulations in the country.

That said, one strong conclusion from this work was that the regulatory barriers that most afflicted artist space development projects were those common to all development projects in cities: the length of time to get approvals from agencies, the ambiguity of regulations as they apply in specific circumstances, the stringency of local building and fire codes, and others. In Providence, for example, the Westfield Lofts development came up against what the developer perceived as unreasonable parking requirements, height limitations that prevent higher density development, and a lengthy process of securing zoning and approvals.

Nevertheless some comments on artist space development regulatory issues are worth making in terms of zoning – which restricts the kinds of development and building uses that different areas may support – and building codes, which set standards for design, materials, installation, and other site and building characteristics.

Zoning

Zoning seemed not to be an issue at all in projects that did not include residential uses. In Detroit, Pittsburgh, Philadelphia, and Providence, all of the studio projects were in areas zoned for industrial uses.

Developers of artists work spaces indicated that these uses were permitted under the industrial zoning classification. Seattle studio spaces are explicitly referenced as permitted in industrial areas.

In the case of live-work spaces, the use of industrial buildings is more problematic. In Seattle, since the late 1980s, artists have been granted conditional use permits for residential uses in industrial areas. Recently, the Seattle city council passed a new ordinance to encourage ground-floor live-work uses in residential properties. In Providence, mixed uses are encouraged in most industrial areas, although pending revisions to the code to prohibit residential uses in heavy manufacturing areas are intended to preserve manufacturing space in the face of strong demand for residential uses.

In Detroit, the developer of Russell Street live-work spaces needed a variance because of the industrial/commercial zoning in an area dominated by wholesale food markets. City planners wanted to retain the designation to encourage wholesale use, but buildings are vacant and wholesale uses are declining in the area, in any case. The developer argued that the market dictated alternative, residential, uses, and that planners were holding properties off the market in anticipation of non-existent demand. This being Detroit, it almost goes without saying that some political leverage was needed to get a variance for the Russell Street live-work space, which is located in a wholesale food and warehouse district. The same was true in Philadelphia. There is a live-work zoning ordinance on the books, but it went unused for several years until the powerful developer of Northern Liberties forced through an approval based on the visibility of the project and his clout at city hall. Ordinarily, the city administrative division makes approvals difficult,

as the housing staff don't understand what the commercial and industrial code allows, and the commercial staff doesn't understand the housing provisions.

This type of ambiguity afflicts other applications of local regulatory provisions. In New Orleans, building tax designations can have huge financial impact on property economics. For example, a warehouse has to pay municipal warehouse tax, a retailer pays a retail tax, and so on. Studio projects do well to avoid the latter by refraining from the sale of art directly from the studio.

Building Codes

In terms of building codes, artists' spaces face many of the usual problems in responding to local provisions, and some which are not so local, as in federal and state regulations pertaining to site contamination. Among the issues surfacing during our interviews:

- Westfield Lofts, on the site of a former Providence jewelry and clothing fastener manufacturer, encountered soil contaminants on a portion of the site slated for demolition; it cost \$1 million to clean, following an initial \$75,000 needed to assess the nature and extent of contaminants.
- Developments in Providence must be built to new state fire codes enacted after a horrific club fire. These codes have been described as draconian. Even less onerous codes can be difficult to comply with. In Tuscon, one artist who uses fire as a creative medium reported that he frequently asks the marshal and people from the fire department to come witness his events work and provide advice.

- In Pittsburgh’s Penn Avenue Arts Initiative’s mixed use projects, involving ground floor studios and upper story residential, there were issues tied to inspection of adequacy of fire walls between first floor studio and second floor residential, ground floor sprinkler systems, and fire escapes for upper floors, none of which would be required for residential-only. In Monahasset Mills in Providence, the staging of the project meant that for each phase to be insurable, firewalls would have to be created to separate each phase, which also required its own legal specification.

- Handicapped accessibility requirements pertain to newly created spaces in commercial or retail use, except for older building, under certain circumstances that need not be retrofitted. In New Orleans, Art Egg was able to avoid falling under the provisions, but will invest in accessibility prior to offering artists’ business training courses.

- Historic preservation is an important regulatory issue, depending on the city and financial context. Many of the Providence projects were funded with historic preservation tax credits, which impose quality standards on renovation and limit developers’ ability to re-configure spaces. Zoning and regulatory hurdles were a big issue in New Orleans given the historic nature of the city as well as a vocal historic preservation community.

Navigating the zoning and building code labyrinth in each community required perseverance, and connections. In Tuscon, several of those affiliated with the Tooledshed studios reported that establishing positive relationship with code/zoning departments and fire marshals was essential to maintaining occupancy while undertaking renovation on the property. The master leaseholder has forged good working relationships throughout the municipal infrastructure.

Design

It is well known that many artists do not want the same kinds of spaces that others do, and several of the spaces we examined made special accommodations for artists’ preferences. In a number of instances, these design features were integrated into developments because artists were involved in the process. Most often, this occurred in devel-

opments sponsored by artists-developers, like AS220 in Providence or Sunny Arms in Seattle, and sometimes involved the contribution of sweat equity by artists, themselves. Among the lessons from the group of projects we examined:

- Sweat equity – It can be valuable, but it probably works best where there is a substantial community of existing supporters to be mobilized, and developers should expect that this form of labor contribution will extend development timelines. In AS220, Tooled Studios, Sunny Arms, the Pioneer Building, and others, artists were inventive and entrepreneurial in making modifications to the buildings that both satisfied code requirements and satisfied their particular space configuration needs.
- Include artists in the design process - In Seattle’s Sunny Arms, the particular challenges of rehabilitating an industrial building into artists’ spaces were better addressed because most everyone involved in the project, including development consultants and construction contractors, were sympathetic to artists’ need or were creative workers in their own right.
- 220 volts - Several projects refrained from installation of 220 volt electrical circuits, which meant that welders, glass artists, and ceramicists, would not find the space useful; in another project – Crane Co, the developer would install 220 lines if the studio occupant paid the extra cost.
- Designing Galleries - Many buildings are prized for their high ceilings and plentiful windows, but gallery spaces are best made in rooms with ample wall space. Two walls of the ground floor gallery in Pittsburgh’s Spinning Plate consist of windows, which mean you can’t hang paintings on them. In Philadelphia’s Coral Arts, a magnificent interior space with high ceilings, two doors, and no windows, makes perfect gallery space.
- Flooring - Dancers don’t like concrete floors, painters do, illustrating at least one issue in mixing disciplines.

Other design issues included the fact that:

- special venting is required for woodworking as well as metal work;
- industrial size elevators and loading docks are useful for handling large pieces; for the same reason,
- door sizes should be larger than standard residential sizes;
- storage space is useful to include and helps defray operating costs if rented at market rates;
- 24-hour security entry systems and cameras are useful, given artists' sometimes unusual work hours;
- several projects have included internet access, and
- shared kitchen and lounge spaces.

Forms of Tenure

There are two basic forms of tenure – rental and owner – but several variations within each, which have implications for security of tenure, short- and long-term affordability, and longer-term occupancy by artists. In brief: long-term affordability is best assured by nonprofit ownership or limited equity cooperatives; security of tenure is best assured by ownership, either individual, cooperative, or condominium; and long-term occupancy by artists is best assured by cooperative or rental projects owned by nonprofits dedicated to artists' support. Most of the projects we reviewed were rental projects, developed and owned by arts-specific non-profits, community development corporations, public agencies, or individuals.

Many of the artists-developed studio projects are rented out at market rates to artists on one-year leases. These projects will remain in artist occupancy for as long as the owner chooses to do so, but in view of the fact that owners are artists and they maintain strong ties to the arts community, the properties are likely to remain available to artists.



Spinning Plate Studios in Pittsburgh can expect to remain affordable to artists for as long as the projects are financially sound and remain in nonprofit ownership.

Photo courtesy of the Urban Institute.

Less secure are properties that are sub-let to artists under a master lease executed with an artist. Buildings housing the Toole Shed Studios in Tucson, including artists' studios and the Museum of Contemporary Art (MOCA) are owned by the Arizona Department of Transportation (ADOT) and managed by the City of Tucson. The Tucson Arts Council and MOCA rents the properties from ADOT under a 30 day month to month agreement. At any time ADOT can decide that it does not want to continue this arrangement, and artists would lose whatever tenant improvements they have made.

Most of the live-work spaces we reviewed and one of the studio projects were owned by nonprofit organizations, which then rents spaces to individual artists. Most of these spaces were financed through various tax credit arrangements and are, technically speaking, owned by limited partnerships until investors exhaust the tax benefits to which they are entitled. Practically speaking, however, the nonprofit developer, as the general partner, exercises management responsibility for the properties.

The art-specific nonprofits are committed both to providing affordable space and to ensuring that projects are in long-term occupancy by artists. Spinning Plate in Pittsburgh, AS220 and Dreyfus Hotel in Providence, and Tashiro Kaplan in Seattle all can expect to remain affordable to artists for as long as the projects are financially sound and remain in nonprofit ownership. Non-arts specific nonprofits can similarly guarantee long-term affordability, but not long-term occupancy by artists. For example, Seattle's Cooper School has been developed as live-work spaces, and there is no thought to an eventual marketing of vacant units to those who are not artists, but should the CDC board demand a more relaxed policy, these units could, at some point in the future, be made available to non-artists. Similarly, some Penn Avenue Arts Initiative (PAAI) space is owned by the local CDC and leased to the occupants. Because properties are owned by nonprofits, they are likely to remain in low-income occupancy for an extended period of time. However, because the nonprofits are dedicated to overall community revitalization and not artists space per se, the length of time in low-income arts occupancy will depend on the commitment of these organizations to promoting artists' uses.

The most straightforward type of ownership tenure is individual fee-simple ownership. Several of the New Orleans projects were single-family or duplexes purchased and occupied by individual households. These units may be sold at some point, possibly to a non-artist, which would mean their loss to the arts community, although the seller would benefit from any gain in the value of the property over the years. Some of the units supported by the PAAI in Pittsburgh are individual, artist-owned, units containing studio and live-work space, as well as a rental units. These are less straightforward because of the public interest in long-term affordability. Public funding of purchase and rehabilitation may carry re-sale restrictions, which means that the properties must be sold to persons with lower incomes, or that the sellers not benefit from property appreciation

Similarly, condominium projects are owned by unit residents, which protects them from increases in rents in Providence's Monahasset Mills, individual unit sales are in accordance with artists' selection criteria established by the developer. Subsequent resales of the subsidized units in the development will be in accordance with these criteria, as implemented by the resale restriction agreement that comes along with the use of federal HOME funds in this project. But subsequent resales of the market rate unit cannot be so constrained; perpetuation of the project as an artists' community will depend on the willingness of current and future owners to limit their unit sales only to other artists.

Note that cooperative ownership does not necessarily mean affordability to those who purchase units in the future, unless it is structured as a limited equity building.

Cooperative housing projects avoid the unit re-sale problem by incorporating unit restrictions in the incorporation documents. The traditional advantage of the cooperative form is control over the disposition of units as they become available, since the cooperative's members have the right to restrict building entry. (Condominium associations have no such right.) Legally, the cooperative can choose to alter its documents to allow unit sales to non-artists, although only if the majority of residents, presumed to be artists, vote to do so.

Parenthetically, an advantage of the cooperative in Washington is a law allowing cooperatives to sell shares on unfinished units, which means that artists can build out their units to suit their own preferences. (Condominium sales must be of finished units.) In one project, this feature allowed artists considerable freedom to design spaces, and in addition, there was widespread consultation with cooperative members on the design of common areas. Another advantage, in a specific situation, is that building owner prior to cooperative conversion agreed to self-finance the development only if he could execute a agreement with a cooperative. He did not want to incur the burden of himself developing and subdividing the building

Note that cooperative ownership does not necessarily mean affordability to those who purchase units in the future, unless it is structured as a limited equity building. In the case of Sunny Arms, several coop owners sold their units at market prices, thereby benefiting from equity increases, but effectively shifting the population of coop residents to higher-income artists.

Affordability and Occupancy

As implied by the foregoing, the best guarantees of long-term affordability are the nonprofit mission of the owner and the requirements of subsidy providers.

In Providence, Monahasset Mills and the Dreyfus Hotel had (or plan to have) units financed under the federal HOME program, which requires that rents be affordable to those who occupy the HOME-funded units, and that further, occupancy be limited to those earning incomes below stipulated percentages of area median incomes. (Depending on the number of units in a building, and whether it is a rental or for-sale project, these income levels are set at 30 percent, 50 percent and 80 percent of median). The number of years property must remain affordable depends on the amounts of federal dollars spent to acquire, renovate, or construct a unit.

In other projects, much of the subsidy comes from the federal Low-Income Housing Tax Credit (LIHTC) program, which requires that rents be affordable to those earning 60 percent of median income, and further, that units must be occupied by those earning this, or a lower,

income. This income test is for initial occupancy, only, and does not mean that as incomes rise, residents must leave their units. (However, when units become vacant, they must be rented to those at 60 percent of median income or below.) Pittsburgh's Artists and Cities encourages Spinning Plate residents to move on to other housing once their income levels exceed the 60 percent limit. Under the LIHTC rules, rents must remain affordable for 30 years, although because of the presence of other funding in the project, Tashiro Kaplan must remain affordable for 50 years.

The studio spaces we reviewed have no affordability restrictions other than those voluntarily imposed by the project owners.

By definition, all of the artists' spaces we reviewed are occupied by artists, but not solely by artists, or by only one kind of artist, or even just as studio versus live-work. Mixed occupancy was not uncommon. Seattle has several examples of projects that are primarily studio buildings, but which have one or two live-work units in the property. It's also worth speculating whether, as is the common pattern, the presence of different sizes of units within studio buildings allows for a mix of artists at different stages in their careers. In one of the Seattle studio buildings, this seemed to be the case, in which smaller units were occupied by artists just starting out -- the larger units by artists further along. This might create opportunities for knowledge transfer from late-career to early-career artists.

Commonly in studio projects, spaces are not limited only to individual artists. At the Ice House, arts organizations can apply for office space, also. At the Crane Co. building in Philadelphia, some studios have been occupied by design firms and others in creative occupations, although most of the units will be occupied by working artists. At the Westfield Lofts in Providence, occupancy targets pertain to artists and non-artists: the goal is to rent-up 50 percent of units to artists, the remainder to other low-income families.

In Tucson, MOCA developed interesting occupancy criteria based on a "1/3 rule of thumb": 1/3 long term tenants; 1/3 tenants for 2-6 years; 1/3 short term artists from outside Tucson. The intent in attracting non-Tucson artists to the development is to create some geographic

diversity and provide artists with a more fertile creative environment. This formula evolved over time and seems to be working--providing some stability, but also some movement and change.

TENANT MIX: ICE HOUSE STUDIOS

- Howard Lieberman, painter
- Elizabeth Sauro, writer
- Carl Cimini, video artist
- Pat Lowry, writer
- Jan Loney, metalsmith
- Bob McDonald, woodworker
- Rita Martin Green, painter
- Karen Antonelli, photographer
- Joan King, ceramist
- Carol Maurin, photographer
- Marcy Franz, painter
- Maria Borrero, painter
- Paul Borrero, designer
- Paul Davis, ceramist
- Steve Friedson, graphic designer
- Artists & Cities
- Chatham Baroque, musical ensemble
- Zaxel, video technology
- Squonk Opera, performance art
- Program Associates, MH/MR program starting an art therapy program

Source: Ice House Studios

In Tashiro Kaplan, the resident selection process attempts to include Seattle artists representing a range of disciplines, career stages (though no full-time students allowed), ages, and household composition. For example, included among the 50 units are approximately eight families and about 16 children. Though there are no criteria regarding the aesthetic quality of an artists' work, there is screening to filter out

those people mostly seeking a bohemian lifestyle or only marginally involved in the arts. Cooper School also will use an artists committee to select people who demonstrate a track record of creative work.

At Providence's Monahasset Mills, selection criteria are extensive, primarily because of the detail supplied in defining who's an artist and who's not. As with nearly every other project, what's important is commitment to art, not the quality of art or whether it generates income. Monahasset Mills criteria require submission of a portfolio, with rules covering recency and other aspects of the work. Criteria emphasize demonstrated community involvement.

Also in Providence, at AS220 applications for residence are chosen by a permanent standing committee of the AS220 Board of Directors. Panels consist of one AS220 board member, three current residents, one staff member, and one professional artist from outside AS220. The artistic director of AS220 and one board member from the selection committee sit in on the panels. Applicants are judged according to their (1) commitment to creative work, (2) genuine need for affordable space, and (3) understanding of, and compatibility with, AS220's communal environment. As with other spaces we've researched, there's no attempt to judge the quality of work; indeed, a founding principal of AS220 is the refusal to jury work.

Management

Most of the projects we reviewed appear to be self-managed. The Tucson warehouse properties are managed by a contractor to the city; Coral Arts by a professional Philadelphia management company. Rules of occupancy in the live-work projects include those pertaining to hours of permitted activities and challenges of having diverse artists in the same space, as when musicians with amplifiers live next to artists who write.

Where there are communal spaces, it is common for the resident association or cooperative to manage these spaces. In Pittsburgh's Spinning Plate, for example, the floor gallery space is cooperatively managed by the artists who reside in the building. One of the most interesting of management arrangements concerns AS220. Residential units share

kitchen and bath facilities, and as part of their obligation to the community, residential and studio unit occupants must donate 5 hours per week to communal chores.

V. Financing

For the most part, financing artist space development projects is very much like financing other projects. Sources of subsidy are the same, investor calculus is, for the most part, the same, and the same costs and revenue factors that drive other projects also drive artist space development projects. But cost and revenue factors tend to be different for studio, scattered site, and multi-family live-work projects, which affects the amounts of project subsidy required. In addition, investors analyze studio projects and live-work projects differently, and they are subject to different types of risk. The fact that artists are intended occupants of the space also affects the way risks are perceived. Finally, certain features of local systems, such as developer capacity and market strength, affect risks and investor responses, and some of these pose complex policy challenges.

In the following pages, we discuss the basic elements of project financing and how these have been handled in various artist space development projects. We first discuss development costs and some of the factors influencing cost. We then discuss how costs, in relation to revenues, influence the types of financing needed in artist space projects. Third and finally, we examine each of the major types of financing required, and how the providers of financing regard artist space projects.

Costs and Factors that Influence Costs

The need for financing is directly related to how much projects cost: all things equal, the cheaper the project, the easier it is to finance. The various project types we reviewed displayed very different cost profiles: generally, the studio projects were cheapest, the artist-developed live-work projects were low-to-moderate cost, and the larger live-work projects, the most expensive. These differences are attributable to features of the projects themselves – size and cost of various building attributes – as well as to aspects of the development process that influence cost of acquisition and cost of renovation or construction. Throughout, project developers used various strategies to keep costs down.

Cost Profiles of Artist Space Projects

The basic drivers of development costs are the cost of acquisition and of construction. On both counts, studio projects often are more cheaply developed than live work projects. This is because a wider range of properties are suitable for development as studios and the amounts needed to make spaces ready for occupancy are usually less. Scattered site, single-family live-work projects may or may not be all that costly depending on property location and condition. In sum:

- Studio projects can be fitted into multiple types of buildings, ranging from small pre-fabricated sheds to large industrial spaces and constructed of a wide variety of materials. Because developers can be selective, they can shop for opportunities to acquire a particular building cheaply. In addition, studio projects often require structural work only, with minimal cosmetic work, installation of fixtures, inexpensive fittings, and avoidance of expensive items, such as kitchens and full bathrooms. Operating costs tend to be quite low, are variable depending on utilities use, and typically are paid by individual unit occupants.
- Scattered site single-family developments varied widely in costs among those projects completed by the Penn Avenue Arts Initiative in Pittsburgh. Some were building shells, containing only walls, roof and floors; others required modest upgrade, but were otherwise structurally sound. These typically needed kitchen and bath installations. As for operating costs, these properties basically are being developed to a customary residential use.
- Live-work projects tended to be more expensive, largely because of the size of the properties acquired and the extensive renovations typically required. Designs are quite different in terms of cost implications, ranging from the dormitory-style AS220 live- and work-space in Providence to the family housing model typical of Artspace developments, like Spinning Plate in Pittsburgh or Tashiro Kaplan in Seattle. Operating costs resemble those of other multi-family buildings, except for projects, like Tashiro Kaplan, with extensive common areas and community space.

This general pattern of development costs across projects is shown in the exhibit. With the single exception of the relatively expensive renovation of Ice House studios in Pittsburgh, per-square-foot development costs of studio projects averaged some \$80, about one-half of the average cost of live-work projects.

Table 8 on this page lays out the unit and per square foot cost of the artist space projects included in this report.

Table 8. Unit and Per Square Costs of ASD Projects

Project Name	Num. of Units	Sq. Footage	Bldg Price	Total Development	Cost Per Sq. Foot	Cost Per Unit
<i>Live-Work Projects</i>						
The Hive Archive	–	5,000	\$100,000	\$200,000	\$40	–
Penn Avenue Arts District	2	2,500	\$28,000	\$171,712	\$69	\$85,856
AS220	19	13,350	\$400,000	\$1,060,000	\$79	\$55,789
Spinning Plate Artist Lofts	37	55,000	–	\$4,500,000	\$82	\$121,622
Toshiro–Kaplan	50	140,000	\$2,580,000	\$16,233,000	\$116	\$324,660
Monohasset Mills	39	50,000	\$650,000	\$6,658,178	\$133	\$170,723
Westfield Lofts	69	65,000	\$30,000	\$12,800,000	\$197	\$185,507
Coral Street Arts House	27	37,050	\$450,000	\$7,405,755	\$200	\$274,287
Dreyfus Building	14	22,000	\$780,000	\$5,500,000	\$250	\$392,857
Cooper School	37	–	–	\$4,500,000	\$256	\$121,622
<i>Live-Work Total / Average</i>	294	389,900		\$59,028,645	\$151	\$200,778
<i>Studio Projects</i>						
Ice House Artist Studios	32	44,000	–	\$2,671,475	\$61	\$83,484
Eastern Lofts	20	60,000	79,000	\$4,000,000	\$67	\$200,000
Louisiana Artworks	24	93,000	–	\$32,800,000	\$353	\$1,366,667
<i>Studio Total / Average</i>	52	104,000		6,671,475	\$64	\$128,298

Acquisition Cost Factors

With several exceptions, the projects in our analysis sample highlighted the importance of acquiring properties cheaply to limit the amounts required to finance projects and therefore, the levels of subsidy required. The financial feasibility of all of the privately-financed studio projects depended on the purchase of properties for less than prevailing market rates. These purchases were made possible by exploiting market opportunities. These opportunities can be thought of as structural or situational.

Structural opportunities refer to those created by the general operation of real estate markets which from time to time or for certain classes of property, produce effective discounts that can be seized by artist space project developers. These opportunities usually are not obvious: they are best understood by developers with experience in particular sub-markets, such as specific low-income neighborhoods, commercial and retail properties, or multi-family housing. However, several of these structural situations are well known. These include:

- Buildings for which the market for their customary use is declining but the market for an alternative re-use has not yet emerged. Acquisition (sometimes following prior occupation) of industrial properties, such as older mill buildings, manufacturing sites, and warehouses, is one common example of this. Examples in our project sample include Monahasset Mills in Providence, Pioneer Building in Detroit, Sunny Arms in Seattle, and Tooleshed Studios in Tucson. In the case of Eastern Lofts and Crane Company in Philadelphia, artist space project developers exploited opportunities unrecognized by other investors, who failed to anticipate increasing market strength created by large mixed use developments nearby.
- Buildings that have limited markets because of their unique building characteristics, including the re-use of old school buildings (Cooper School in Seattle) or hotels (Dreyfus Hotel in Providence). This is particularly important where historic preservation requirements prevent reconfiguration of interior spaces to conform to modern residential standards.
- Buildings located on sites or within areas thought to be contaminated, otherwise known as brownfield sites. Most often, these are properties located in industrial areas, and in some, but certainly not all, cases, the price is appropriately discounted because of the likely high cost of cleaning up the site before re-use. In others, developers acquired properties at substantial discounts because of contamination fears that proved exaggerated. In Russell Street in Detroit, there were no competing bids at a public auction of city surplus property. In Providence, the developer acquired the Rau Fasterner building—renamed Westfield Lofts – from the city for only the cost of tax and utility liens.

Situational factors are those that are potentially short-term and often difficult to anticipate:

- Buildings in neighborhoods deemed blighted by physical deterioration or obvious social disorder. In many cases, artist space development exploits a “tolerance discount” awarded to artists by virtue of their acceptance of building / neighborhood conditions that others find objectionable. This discount was evident in the AS220 project in Providence, 4731 Grand in Detroit, and to a lesser extent, the Tashiro Kaplan project in Seattle.
- Buildings in which transactions are at less-than-arms-length. The Sunny Arms studio acquisition in Seattle, Spring Garden studios in Philadelphia, in which artists took advantage of personal relationships with owners to acquire properties for less than they might have fetched in the broader marketplace.

Construction Cost Factors

Costs of construction typically are the most expensive portion of the projects we reviewed, although this was not always the case. As a rule, the better the condition of the building and its suitability for use as artists’ space, the more expensive the acquisition and the less expensive the costs of construction. As noted at the beginning of this section, studio projects typically require lower construction costs because they avoid such costs as kitchens and bathrooms, which are required in live-work spaces. Generally, cost items include:

- Possible remediation of site and building contamination caused by past industrial and some commercial activities (such as underground gasoline or oil storage tanks), presence of asbestos (typically in insulation) and use of lead-based paint.
- Installation or upgrade of major building systems, including windows, roof, electrical, plumbing, flooring, insulation, and heating and air conditioning, most of which require specialized subcontracts with firms hiring certified carpenters, electricians, and members of other building trades.

- Costs of the preservation of historical elements, including architectural detail and windows, which can be especially costly in older industrial properties.

As a rule, the better the condition of the building and its suitability for use as artists' space, the more expensive the acquisition and the less expensive the costs of construction.

These costs can be incurred in any development project. With the exception of higher voltage electrical lines, sprung floors for performance space, and other specialized features, artist space development projects face the same development cost constraints as do other projects. They also have the same ways of avoiding some portion of these costs, if they can, including:

- Use of sweat equity contributed by the intended occupant or the community of those who will benefit from project development; in effect, shifting expenses from cash to non-cash. Several projects used this strategy, including AS220 in Providence, Cityart in New Orleans, and Tooleshed in Tucson.
- Avoidance of union labor, which would have hiked costs dramatically for all of the privately financed studio projects, such as Crane Company in Philadelphia and all of the Detroit projects. One cost of accepting Federal project funding is the requirement that so-called Davis Bacon prevailing wages be paid – essentially at union scale. These requirements take effect at different project sizes; e.g., if developing more than 11 residential units under the HOME program, or commercial buildings over a certain height.
- Investment of as little as possible in renovation, a move that worked well for AS220's initial development on Providence's Empire Street. They put a lot of sweat equity into the building; e.g., debris removal after work done by demolition contractor. As for the level of rehab, they did the roof, windows, sprinklers, the minimum needed to get a certificate of occupancy.

Operating Costs

Operating costs usually consist of expenses for maintenance, insurance, utilities, project reserves, taxes and insurance for individual units and for common areas. (See Table 9 on the next page for an example of Coral Arts' projected operating costs.) In cooperative and condominium projects – live-work spaces, primarily – these costs are borne by unit owners and building management, separately. Just as development costs for artist space development projects are little-different from those in other types of projects, the same is true for operating costs.

Financing Gaps & the Need for Subsidy

In the real estate development marketplace, almost all projects are built entirely with private funding. Projects that do not generate sufficient revenue to cover development and operating costs, or which cost more to develop than they are worth after the work is finished, simply do not get built or last long when they do. But if public policy declares that projects like these merit public investments, outright subsidies that pay for the uneconomical portions of projects can allow them to go forward.

In fact, most of the studio projects we reviewed were carried out without any subsidy at all, reflecting a generally favorable revenues-to-cost ratio these projects displayed. Live-work projects, on the other hand, usually required extensive subsidies, especially where these were developed as family housing and made affordable to those earning incomes below 60 percent of median income. Overall, financing from market rate lenders – an indicator of project financial strength – averaged about 26 percent of total development costs; but half of projects carried less than 15 percent of bank debt. (See Table 10 for a listing of selected projects and the amount of bank financing they carry.) This compares to lending for typical multi-family properties, in which upwards of 60 – 80 percent of total project financing is supplied by market rate financing.

Table 9. Coral Arts Operating Costs

Coral Street Arts House Operating Income and Expenses		1st Year Annual Total	Annual Per Unit	Percentage of Category	Category as a Percentage of Total
Gross Rental Income	–	176,688	6,544	100.00%	
Commercial Income	–	0	0	0.00%	
Other Rental Income	–	0	0	0.00%	
Total Rental Income	–	176,688	6,544	–	
Residential Vacancies	5.00%	8,834	327	100.00%	
Commercial Vacancy	10.00%	0	0	0.00%	
Total Vacancies	–	8,834	327	–	
Net Rental Income	–	187,864	8,217	–	
Service Income	–	0	0	0.00%	
Miscellaneous Income	–	1,620	60	0.96%	
Effective Gross Income	–	189,474	8,277	–	88.04%
Advertising & Renting	–	942	35	3.55%	
Office & Telephone	–	1,890	70	7.11%	
Management Fee	10.00%	16,947	628	63.80%	
Legal	–	785	29	2.96%	
Audit	–	6,000	222	22.59%	
Misc. Admin.	–	0	0	0.00%	
Total Administration	–	28,684	884	–	18.08%
Fuel Oil	–	0	0	0.00%	
Electric	–	2,826	105	10.82%	
Water	–	5,832	216	22.33%	
Gas	–	11,633	431	44.53%	
Sewer	–	5,832	216	22.33%	
Total Property Paid Utilities	–	28,123	888	–	16.82%
Janitor / Maintenance Supplies	–	1,551	57	3.93%	
Operating / Maintenance Contracts	–	11,614	430	29.45%	
Rubbish Removal	–	1,876	69	4.76%	
Security Payroll / Contract	–	0	0	0.00%	
Repairs Materials	–	6,077	225	15.41%	
Elevator Maintenance	–	5,500	204	13.94%	
HVAC Maintenance	–	4,500	167	11.41%	
Grounds Maintenance / Snow Removal	–	4,804	178	12.18%	
Painting & Decorat. Exp.	–	2,290	85	5.81%	
Vehicle Operation & Repairs	–	248	9	0.63%	
Misc. Operating & Maintenance	–	981	36	2.49%	
Total Oper. & Maint. Expense	–	39,441	1,481	–	23.88%

Table 9. Coral Arts Operating Costs (continued)

Office Salaries	–	3,973	147	13.41%	
Manager Salaries	–	8,000	296	27.01%	
Employee Rent Free Unit	–	0	0	0.00%	
Janitor / Maintenance Salaries	–	11,232	416	37.92%	
Employer Payroll Tax	–	3,041	113	10.27%	
Workman’s Compensation	–	549	20	1.85%	
Employee Benefits	–	2,826	105	9.54%	
Total Payroll Expense	–	29,821	1,087	–	17.84%
Real Estate Taxes	–	1,236	46	6.02%	
Prop. & Liability Ins.	–	18,218	675	88.71%	
Misc. Taxes & Ins., Licenses / Permit	–	1,082	40	5.27%	
Total Taxes & Insurance	–	20,638	781	–	12.44%
Supportive Services	–	8,000	333	43.83%	
Replacement Reserve	–	10,800	400	–	
Investor Service Fee	–	3,000	111	–	
Other	–	0	0	–	
Other	–	0	0	–	
Total Operating Disbursements	–	185,086	8,114	–	88.18%
Net Operating Income (NOI)	–	4,388	–	–	–

Table 10. Bank Financing in Artist Space Projects

Project Name	Total Development Cost	Bank Financing	Bank Percent of Total
Louisiana Artworks	\$32,800,000	\$0	0.0%
The Hive Archive	\$200,000	\$5,000	2.5%
Coral Street Arts House	\$7,405,755	\$199,000	2.7%
Spinning Plate Artist Lofts	\$4,500,000	\$130,000	2.9%
Dreyfus Building	\$5,500,000	\$224,000	4.1%
Tashiro Kaplan	\$16,233,000	\$1,340,000	8.3%
Monohasset Mills	\$6,658,178	\$1,000,000	15.0%
AS220	\$1,060,000	\$200,000	18.9%
Ice House Artist Studios	\$2,671,475	\$650,000	24.3%
4731 Grand	\$500,000	\$200,000	40.0%
Westfield Lofts	\$12,800,000	\$5,300,000	41.4%
Penn Avenue Arts District	\$171,712	\$124,380	72.4%
Totals	\$90,500,120	\$9,372,380	19% Average 15% Median

Revenues, Costs and Financing Gaps

It is helpful to think about project financing as an effort to balance the costs of development against the revenues from project rents or unit sales. Assume for a moment that development costs are fixed at some dollar amount per square foot. If the completed units command rents that are more than sufficient to pay both operating costs and the amounts owed to investors, the project partners earn a profit. If rents are not sufficient to pay operating costs and investors, a capital “gap” is said to exist. This gap is the amount of funds that prospective for-profit investors refuse to provide because project revenues won’t be adequate to reward them for their contribution. The amounts profit-motivated investors expect in return for their investments are determined in the marketplace by the rates of return that investments of similar risk ordinarily produce. If an investment is high risk, investors will expect more in return.

Confronted with a gap, project developers turn to philanthropic sources, government, and community lenders to help fill it. Providers of subsidy expect a social return, but not a financial one, or at least, returns that are lower than profit-motivated investors would expect. In effect, these subsidies absorb all of a project’s unprofitable or high-risk elements, allowing profit-motivated investors to get the returns they need.

Often, a gap arises because of a developers’ interest in keeping rents affordable to the intended occupants. This means that even though market rents might be adequate to repay all of the projects’ investors and cover operating costs, those rents would be unaffordable to those who need good quality studio or live-work space. The lower the rents, the lower the incomes of those who can afford to pay them. (Conventionally, these incomes are expressed in terms of the percent of median income earned by households in the metropolitan area.) Assuming fixed development costs, the lower the rents and the more affordable the project to those of lower incomes, the bigger the financing gap. (See the following page for a graphic depiction of this relationship: the lower the income levels for which rents are affordable, the bigger the “gap,” the higher the income levels, the bigger the profit.)

Many of the projects we reviewed faced financing gaps, especially live-work spaces. These gaps arise for three basic reasons:

- extraordinary costs of property renovation,
- the need to keep rents or unit purchase prices down to levels affordable to the intended occupants, and
- total development costs that exceed the market value of the project after completion.

Cost issues have been discussed in the preceding section, and some of the specific factors that drive up costs have been noted. Several of our projects exemplified the effects of high development costs on the resulting need for subsidy. Seattle’s Tashiro Kaplan was an expensive project to develop, in part because of underground issues – it was built over a mass transit tunnel – and seismic issues.

Financing Gap Related to Live-Work Development Costs and Rents



In many of the historic preservation projects, including Providence mill buildings and the Pittsburgh Ice House, the cost of preservation exceeded the amounts able to be supported by resulting project rents. In contrast, most of the studio projects we reviewed were inexpensively developed.

More consequential are limits on rents. Studio projects usually did not require subsidy because small spaces typically rent for more, per-square foot, than larger (living) spaces, and there were usually no attempts to put a cap on rents – these projects usually charged market rents for studio space. In some instances, the configuration of spaces limited the project revenues: the wide hallways of the Cooper School building subtracted, in effect, considerable amount of square footage that a similarly-sized building would ordinarily put on the market for rent. But most often, rental income constraints were explicit and desirable: Live-work space often was built specifically to house low-income artists; efforts in Providence to keep both AS220 and Dreyfus rents low, for example, means that there's not much supportable debt in these deals. In the Dreyfus, affordability is built into the project because of funding from the HOME program, so the residential unit rents are expected to be affordable at 40-60 percent of median income. So-called “appraisal gaps” are a final reason why subsidies are needed. Lenders and other investors need to ensure that after a project is finished, the market value of the project exceeds the cost to develop it. If it does not, then the owner has “negative equity” in the project, which considerably reduces his or her incentive to repay financial obligations in the event of financial difficulty. Under circumstances of negative equity, an owner literally has nothing to lose by walking away from the property. The appraisal gap phenomenon is best exemplified by the Penn Avenue Arts Initiative, in which some artists acquire building shells and renovate the properties for use as studios, living space, and rental units. Because the buildings are located in a rough neighborhood, the market for commercial and residential property is soft – few buyers would be willing to buy the newly-renovated properties for the amounts it took to develop them. In other words, the artists-buyers, if they did not receive subsidy, would have had negative equity in their buildings. (This is unrelated to the issue of whether they could have afforded the amounts needed to upgrade the buildings in the first place.)

It is up to subsidy providers – federal, state and local governments and philanthropic donors – to supply the amounts needed to fill subsidy gaps. The next section will show how this is done.

VI. Financing Sources & Investor Perspectives

Most projects – whether they are artist space development projects or not – get financed from different sources. In projects that require subsidy, these sources tend to multiply as developers cobble together sometimes small amounts of funding from a variety of investors, including banks, foundation, individuals, community lenders, and others.

These sources of funds can be thought of in terms of the risks each bears in relation to the amounts of cash a project generates. Put simply, the lowest risk investors get paid first; the highest risk investors get paid last. Banks take the least risk when they extend loans to projects: they get paid first, but only the amounts specified in the loan documents. Project owners take the most risk when they put up their own cash: they get paid last, but there is no limit of the amounts they get back once all of the other, lower-risk, investors have been paid. Exhibit 15 depicts this relationship between risk and type of financing.

Components of the Project Layers



Developers' Cash

Almost every project we reviewed contained developers' equity. In some projects, like the studio projects in Detroit, developers' equity is the only form of equity in project financing, and indeed, the only form of project finance other than market rate debt. In other projects, there was no developer cash equity at all – AS220 in Providence was developed without any developer cash (although there was a substantial amount of sweat equity invested).

Where developer cash represented a significant portion of the project, it came either from accumulated earnings from earlier development projects, lines of credit secured by personal assets, such as a home, or family money. In several instances, sufficient cash was not available to fully fund the projects' equity requirements, in which case the project was funded in phases:

- In Detroit, the Pioneer Building was funded through a “rolling rehab” in which income from rental of earlier units was used to cover the development costs of subsequent units. This means that new units could be brought on line only as cash flow permitted.
- In Providence, developers of Monahassett Mills developed the project in three stages. Because this was a condominium project, cash from earlier unit sales was plowed back into subsequent phases.

Use of cash to finance projects isn't always straightforward. In New Orleans, City Arts Studios relied on capital investment from a patron to facilitate property purchase, in which case the “angel” investor assumed a substantial financial liability. In attempting to purchase the Monahassett Mills building, the developers needed to sought a personal guarantee from a local developer who was also a prominent supporter of the arts.

Once invested, cash is often drawn back out of a property once the development costs and risks are better known, and other sources of equity can be secured or the more risk averse sources of debt financing can be obtained. At some point, the Monahassett Mills developers pulled their cash out by obtaining a loan from the Providence Economic Development Corporation.

Equity for condominium and cooperative projects actually comes from two sources. As just noted, the sales of condominium units at Monahassett Mills raised cash needed to develop subsequent phases. This cash came from the amounts paid by unit buyers, which in turn were a combination of personal savings (or family money, or other source of cash) and the loans these buyers were able to obtain from banks. Similarly, the Sunny Arms cooperative units were sold to individual buyers who paid a small amount to “buy in” and obtained the remainder of their financing from the National Cooperative Bank in Washington, D.C.

Most equity investors are motivated by three factors:

- cash flow,
- appreciation, and
- tax benefits.

In many of the artist space development projects, another, fourth, factor, also was important: community-building:

- Cash flow refers to the amounts remaining after all project expenses have been paid. Net cash flow is the amount left over after operating expenses and the mortgage has been paid. Developers get to keep the net cash flow. Of the projects we reviewed, very few produced enough net cash flow for it to be all that important as a source of financial return. One or two of the studio projects done by for-profit developers “cash-flowed” well enough to be a major incentive.

iii. Some cooperatives are "limited equity," meaning that only a portion of the appreciation of their unit can be captured by the resident when sold – a rule intended to ensure that units remain affordable to subsequent buyers.

- Appreciation refers to the increase in the value of the property after development – generally speaking, gains from appreciation are only realized when a property is sold. Appreciation did not appear to figure prominently in the calculus of most developers of artist space projects, primarily because most placed the interests of the community before the potential financial return they might get from sale. That does not mean that appreciation is unimportant to others, like lenders. It also figures into the willingness of cooperative and condominium unit buyers, such as at Monahassett Mills in Providence or Sunny Arms in Seattle, to make investments in their units. (Several of the coop unit owners at Sunny Arms sold their units at a considerable profit.)ⁱⁱⁱ Others, though custom designed the spaces to accommodate their needs and interests, which may affect the resale value, and hence, the gains from appreciation these unit owners can expect.
- Tax benefits in the form of low-income housing tax credits and historic preservation credits were extremely important to many of the live-work projects. These projects cost too much and rented for too little to be attractive on the basis of cash flow, and all were developed by nonprofits that do not intend to sell the property sale to capture appreciation gains.
- As noted in an earlier section, community-building and neighborhood development turned out to be the most important motivation for most of the developments we reviewed, including those carried out by for-profit developers (except for the large-project, "creative-class" developers). Artist-developers, of course, were motivated primarily by the desire to create an arts community, and as noted in the first section, several of the smaller for-profits had artists as partners or close advisors.

In almost every case, the developer retained ownership of the project once it was built. This is by no means always the case. Because most projects pay a developers' fee amounting to 15-20 percent of the total cost of the project, developers are amply rewarded for their project participation. However, in many cases, including several of the artist space projects reviewed, the developers treat the developers' fee as their equity contribution.

Table 11. Common Public Subsidy Programs Used to Fund ASD Projects

Program	Source of Funds	Projects Where Used	Program Purpose
Low-Income Housing Tax Credit	US Department of Treasury /State Housing Finance Agencies	Spinning Plate Lofts Tashiro Kaplan Westfield Lofts Coral Arts, Cooper School	Affordable housing for households earning less than 60 percent of median income or below (about twice poverty level).
Historic Preservation Tax Credit	US Department of Interior	Monahasset Mills Dreyfus Hotel Cooper School Spinning Plate Lofts Ice House Studios Coral Arts	Renovation of historic properties; allocated by US Department of Interior; no income requirements
State Historic Preservation Tax Credits	State Departments of Commerce / Economic Development / Historic Preservation	Monahasset Mills Dreyfus Hotel Coral Arts	Renovation of historic properties; allocated by State historic preservation offices
Affordable Housing Program	Federal Home Loan Banks	AS220 Dreyfus Hotel	Affordable housing for households earning less than 80 percent of median income
Community Development Block Grant Program	Local affordable housing agencies: Pittsburgh URA	Spinning Plate Lofts PAAI	Affordable housing development for those less than 80 percent of median
Community Development Block Grant Program	Local economic development agencies: Pittsburgh URA	Ice House Studios	Economic development to create employment for persons earning less than 80 percent of median
HOME Program	Providence Preservation Society	Monahasset Mills	Rental or homeownership housing development; benefits to various income levels.

Table 11 lays out common subsidy programs used to fund ASD projects; these will be reviewed in the following sections.

Philanthropic Sources

One of the more surprising findings from this research is the prevalence of foundation funding in artist space development projects in places where foundations are active. In Seattle and Pittsburgh – both foundation-rich communities – foundations have invested in live-work and studio spaces as grant-makers. In Pittsburgh, for example, foundation contributions were motivated both the perceived value of the arts investment to community development (McCune Foundation) and the space investment as a contribution to arts (by Heinz Foundation). In the late 1990s, the Heinz Endowment formulated a strategic plan for its cultural investments, and shifted away from its previously single-minded support for cultural organizations. They committed themselves to a broad creative-capital approach aimed to making the city more hospitable to individual artists, which in view of the foundation’s bar to support to individual artists, wound up meaning support for artist live-work space.

Some projects have relied on fund-raising from individual donors, in addition to foundations. In Seattle, the Cooper School fundraising effort illustrated the appeal of artists' spaces to potential donors. The Delridge neighborhood development corporation raised funds for three projects simultaneously –a foodbank, homeless center, and artists' space and cultural center. About one half of the \$3.3 million in non-governmental contributions were designated for a specific project purpose, including about one-third to Cooper School. The director attributed the strength of this support to the fact that the artists' space and a cultural center were integrated into a broader community revitalization initiative.

AS220 had to fundraise for a large portion of the capital cost, which they were able to do because of their extensive ties throughout the Providence community, their local prominence as an incubator of new talent, the director's personal dynamism and other assets that other artists-developers may not have. These forms of financial support may be typical of the "community-building model" embraced by AS220, which sustains extensive ties throughout the community of artists and their supporters. These ties translate into an ability to raise funds from individuals and corporations that is often not available to traditional developers. For example, the Providence Journal donated \$25,000 on the strength of a board members' ties to AS220.

The ability to garner catalytic private resources (mostly wealthy patrons) has been essential to the start-up, completion and daily operation of artists' spaces, especially for the New Orleans Contemporary Arts Center, which benefited from a donated building. Louisiana Art Works which benefited from the catalytic investment by a major corporation (Entergy Corporation).

Low-Income Housing and Historic Preservation Tax Credits

The Low-Income Housing Tax Credit (LIHTC) is a source of financing authorized by the Federal tax code. In exchange for creating housing occupied by persons who earn less than 60 percent of an area's median income, developers of LIHTC-financed housing are able to raise substantial amounts of equity from private investors. The right to issue the credits is awarded by State housing finance agencies, which

have only a limited amount of credits to award in any given year. State officials decide which projects to award credits based on the State's Qualified Allocation Plan (QAP), which sets out funding priorities.

Low-income housing tax credits may be the most complicated single source of housing finance ever devised. Used in combination with historic preservation credits, they are even more difficult to work with. That said, several of the artist space development projects we reviewed, including projects in Providence, Philadelphia, Seattle, and Pittsburgh used low-income housing tax credits; half of these in tandem with preservation credits. These projects included the Westfield Lofts, Coral Arts, Tashiro Kaplan, and Spinning Plate Lofts.

Low-income tax credits are complicated for a variety of reasons, but mostly because they usually involve syndication, in which the tax credits from a single project are sold to multiple investors, who typically are not even known to each other. (In other words, investors are willing to pay for the right to take a credit off their income tax bill every year for a period of years.) These investors are “limited partners,” meaning that they have a limited role in the management of the project and a correspondingly limited claim on the profit potential the project may have.

The “general partners” in these projects are usually the developers. In the projects under review, these general partners included: West Elmwood Development Corporation (Westfield Lofts); New Kensington Development Corporation (Coral Arts); Artspace Projects (Tashiro Kaplan); and Artspace Projects and Artists in Cities (Spinning Plate). Most of these groups have carried out low-income housing tax credit projects in the past, but even still, projects are difficult to structure, and transaction costs are high. Even experienced developers find it tricky, and expensive, to work with the credit.

Where there are low-income housing tax credits, they appear to be carrying about 50 percent of total development costs, as in Spinning Plate. In Spinning Plate, more than one-half of the financing came from low-income housing tax credit equity (\$2.8 million) and the rest from public and private loans and grants. There was \$400,000 in Urban Redevelopment Authority loan funding in the project, less than 10 percent of the total development cost, and \$800,000 in fundraising.

The several artist space development projects we reviewed pointed to several wrinkles involved in using the credits, including:

- The problem of commercial space, which is not permitted to exceed 15 percent of the total project cost. The Tashiro Kaplan building in Seattle created a condominium arrangement, whereby the residential and commercial components of the project were legally separated. The residential portion was funded with LIHTC, the commercial with other sources of equity. The commercial space limitation also means that artists cannot legally sell their work from their units.
- The costs of the credit transaction can be quite high, which places a premium on doing larger projects. Nationwide, for all housing tax credit projects, the average size is about 90 units – for-profit projects are even larger. Because larger projects are typically more expensive and often more complicated to carry out, the LIHTC projects usually are done only by more experienced developers, or less-experienced developers that can rely on support from community development intermediaries. (See community lenders.)
- Tax credit rules were devised with typical affordable housing projects in mind, which sometimes means that artist preferences can be met only with difficulty. For example, artists often prefer that their units come with as few interior partitions as possible, the tax credit rules require that bedrooms and bathrooms be separated from the rest of the unit by wall-to-ceiling partitions.
- Many State allocating agencies adopt Qualified Allocation Plan (QAP) priorities that work against creation of artists' housing using the Low-Income Housing Tax Credit Program. For example, the Rhode Island QAP gives priority to the development of buildings with a large share of 3-4 bedroom units. It would appear that artists would prefer fewer bedrooms, partly because they do not want interior partitions, partly because family sizes are smaller.

It's worth pointing out that not all credits are alike. They come in two forms: the so-called "4-percent" credits and the more lucrative "9-percent" credits. (The percentages refer to the share of eligible costs for development of low-income units that can be taken as a credit against federal taxes.) Most developers like to use the 9-percent credits because more equity can be generated from their sale. The signature Seattle project – Tashiro Kaplan – qualified only for 4 percent credits because State bond funds also are invested in the project. (See Table 12 for a full list of Tashiro Kaplan financing sources, indicating first mortgages from banks, pay in of tax credit equity, and subsidized loans from the State of Washington and City of Seattle.)

Many of the projects use LIHTC credits in combination with Federal Historic Preservation Tax Credits (HPTCs) and State historic credits where these have been enacted. Indeed, most of the Artspace projects around the country are done this way (except for Tashiro Kaplan, which involved new construction and was therefore ineligible for preservation credits.) Historic preservation credits work much the same way as LIHTC credits, financially, insofar as the credits are typically syndicated to multiple investors, who contribute equity in return for the right to benefit financially.

That said, Federal HPTC's are different from LIHTC's in several respects: they are allocated by regional offices of the Department of Interior, not State agencies; they can be used for commercial, residential, institutional, or other projects. Because two different agencies are involved and at different levels of government, packaging HPTCs and LIHTCs in the same project can be tricky, if only because of the timing issues involved in securing approvals. One reason why Artspace Projects has been successful as a developer is because they have become expert in the blending of these two equity sources.

Used in combination with state credit programs, Historic Preservation Tax Credits can deliver impressive amounts of equity. It seems clear from the projects we reviewed that live-work projects are most suited to use of the historic preservation credits. They tend to be larger than studio projects, thereby distributing the transaction costs over a larger rental square footage

Because property uses are not restricted by the program, studio projects can use HPTCs to finance development -- the Ice House in Pittsburgh did so – although most of the projects using HPTCs in our project sample were live-work spaces, including Dreyfus, Monahasset Mills, and Westfield Lofts in Providence, Coral Arts in Philadelphia, and Cooper School in Seattle. (See Table 13 for a listing of Ice House financing sources and uses.) As in other parts of the country, the use of the credits has been an important stimulus to preservation of historic buildings, including many of those that are valued by artists, including industrial properties, hotels and former school buildings and other types of properties that are not particularly well-suited for traditional family housing.

Used in combination with state credit programs, HPTCs can deliver impressive amounts of equity. The State of Rhode Island has the most liberal state preservation tax credit program in the nation, which together with the Federal credits, allows 50 percent of substantial rehabilitation costs to be taken as a credit against investors' tax obligations. In Monahasset Mills, we estimate that the historic tax credits support about 30 percent of the total value of the project.

To be sure, a fair amount of this subsidy is needed to offset the added costs to develop historic properties. As noted above, historic preservation rules require more costly renovations than are necessary just to bring a building up to code. For example, the Coral Arts project in Philadelphia incurred substantial additional costs to replace windows with those comparable in materials and design with the original. In Providence, it seems clear that the tax credits really make these projects work; these buildings are expensive to retrofit, and it's not clear that the market value of the completed units would justify the investment.

It seems clear from the projects we reviewed that live-work projects are most suited to use of the historic preservation credits. They tend to be larger than studio projects, thereby distributing the transaction costs over a larger rental square footage. They also require greater amounts of rehabilitation investment in relation to the cost of property acquisition, which increases the amount of the credits that can be captured relative to total project costs.

Table 12. Sources of Financing Toshiro Kaplan

Total Combined Development Cost	\$16,233,000	
Sources of Funds	Kaplan (\$13,533,000)	Tashiro (\$2,700,000)
<i>First Mortgage</i>		
Tax Exempt	\$4,990,000	\$0
Taxable	\$300,000	\$1,200,000
Total First Mortgage	\$5,290,000	\$1,200,000
Purchase Price Credit (below market lease)	\$0	\$1,500,000
<i>Tax Credit Equity</i>		
Initial Pay In	\$1,775,000	\$0
Equity Bridge Loan 1 (Paramount)	\$1,156,030	\$0
Equity Bridge Loan 2 (Impact Capital)	\$549,207	\$0
Non-bridged Equity	\$79,291	\$0
Total Equity Pay-In	\$3,559,528	\$0
City of Seattle Office of House (50 year, 1%, deferred)	\$2,420,000	\$0
Washington State Housing Trust Fund (40 year, 3%, partially deferred)	\$1,000,000	\$0
Sponsor/City of Seattle Loan (50 year, 8%, deferred)	\$820,000	\$0
Deferred Developer Fee	\$444,000	\$0
Total	\$13,533,528	\$2,700,000
<i>Developer Fee</i>		
Initial (at closing)	\$0	\$100,000
Later (at lease up)	\$481,000	\$75,000
Deferred (over life of project)	\$444,000	\$0
Total Developer Fee	\$925,000	\$175,000

Table 13. Sources and Uses for Ice House

Sources of Funds	Original Budget	Final Project Budget
State Enterprise Zone Competitive Grant	\$250,000	\$250,000
URA – Urban Development Fund	\$400,000	\$400,000
URA – District Improvement Fund	\$20,000	\$20,000
PNC Bank Mortgage	\$650,000	\$650,000
Community Development Investment Fund	\$150,000	\$150,000
Ltd Partner Equity – Historic Tax Credits	\$406,224	\$406,224
General Partner Equity – Foundations	\$306,154	\$306,154
General Partner Loan – Foundations	\$400,000	\$400,000
Tenant Improvements	\$0	\$15,864
Additional Tax Credits	\$0	\$8,447
Utility Refund	\$0	\$1,121
Interest Earned	\$0	\$9,665
Total Sources of Funds	\$2,636,378	\$2,671,475
<i>Uses of Funds</i>		
Land/Building Costs	\$362,000	\$362,000
Construction Costs	\$1,878,000	\$1,909,242
Architectural/Engineering Costs	\$140,899	\$144,350
Marketing Costs	\$6,000	\$3,504
Carrying and Operating Costs	\$55,053	\$51,325
Special Consultant Costs	\$2,500	\$2,500
Fees – Financing Costs	\$26,850	\$25,568
Fees – Titles and Recording Costs	\$11,026	\$16,155
Ownership Costs	\$154,050	\$166,668
Total Uses of Funds	\$2,636,378	\$2,681,312
Balance, surplus (shortfall)	\$0	(\$9,837)

Local & State Government Housing and Economic Development Support (CDBG & HOME)

Although the cash value of low-income housing tax credits and preservation credits tends to substantially exceed the value of grants from State and local agencies, local government remains the linchpin of project financing for those projects needing subsidy. State tax credit agencies typically expect to see local support as part of the LIHTC application, because it signals project conformance with local public policy priorities, basic project financial feasibility, and confidence in the capacity of the project developer to successfully complete it. (This latter is especially important to private sector lenders.)

Most of the funding made available by local governments to artist space development projects comes ultimately from Federal sources. Two sources of funding are most common: the Community Development Block Grant (CDBG) Program and the HOME Program, both funded by the US Department of Housing and Urban Development. Each program gives local governments a fixed amount of money each year, to be spent as local officials see fit, so long as projects fit national criteria for funding eligibility.

The CDBG program can be used for nearly any community development purpose: housing, economic development, public works and facilities, social services or other activities, so long as these efforts benefit poor persons or poor areas. (Most large city governments use most of their CDBG funding for housing.) In practice, both live-work spaces and studio spaces have been funded from this source. The HOME program funds affordable housing projects, only. Several of the Providence live-work projects were recipients of HOME funds.

For the most part, local governments are free to structure their assistance to projects as they see fit – either as loans that must be repaid or grants that count as project equity. Most of the funds invested in the artist space development projects we reviewed came in the form of grants, although some were technically structured as “loans,” which actually were not expected to be repaid. (This happened when loans were forgiven over time or only had to be repaid if the project no longer served low-income persons.)

Local government subsidies are allocated to artist space projects based on specific policy objectives set out by local elected leaders and agency officials. For convenience, it is helpful to think about these objectives as falling into two overlapping domains – affordable housing and economic development. Programs to pursue each of these objectives are usually run out of different government agencies or different departments within the same agency. The programs these departments operate will specify eligible projects, types and amounts of funding available, required beneficiary incomes and other characteristics, and other project requirements. Because housing and economic development projects entail specific kinds of project activities, financial risks and returns, and institutional partners, agency staff tend to be specialized as well.

Nearly all of the projects we reviewed, whether studio or live-work, were leveraged deals, meaning that the public or philanthropic sectors did not pay the full costs of development. Because of the interest in attracting bank financing, public agencies reviewed requests for subsidies from (at least) two points of view: project fit with policy goals and financial feasibility. Put another way, each project's application is subject to "policy underwriting" and "financial underwriting." Financial underwriting criteria, and the differences in these criteria between housing (live-work) and commercial (studio) projects, will be noted in the section on market rate financing. Policy underwriting will be treated here.

Affordable housing policy criteria tend to be beneficiary- and project-centered; economic development programs tend to be business establishment- and spatially-centered. This means that reviews of affordable housing projects tend to focus on the types of households who occupy the housing (families, individuals with special needs) and the characteristics of the project itself (numbers of bedrooms, project location, and design features). Some jurisdictions pay close attention to the possible community development benefits that a housing project might produce – e.g., a project's role in reducing crime or improving the physical appearance of a block – but this attention to spatial effects is not typical. Economic development programs, in contrast, tend to be focused on businesses as economic enterprises and the value of assistance to a particular business to the economic vitality of an industry sector or area.

Nearly all of the live-work spaces in our project sample that received local funding did so primarily from local affordable housing agencies; nearly all of the studio projects with subsidy received it from an economic development agency. As an example, Pittsburgh's Urban Redevelopment Authority (URA) has both housing and economic development divisions, and each local project went into its own separate window. Spinning Plate is a housing project, without a commercial component, and therefore, it was handled by the housing finance staff. The Ice House has no residential component and was financed out of the economic development side of the agency. Each project type gets

underwritten very differently: the housing projects are underwritten based on rents; the economic development based on business cash flow.

Nearly all of the projects we reviewed, whether studio or live-work, were leveraged deals, meaning that the public or philanthropic sectors did not pay the full costs of development.

The live-work spaces demonstrated their fit with traditional housing goals by pointing to the low-income status of the intended occupants, the financial feasibility of the projects, and the potential value of homeownership or mixed use development to agency community revitalization objectives. That said, the Pittsburgh URA had to be convinced that live-work was worth doing: it was a new type of project for them and staff needed to get past a stereotypes of artists' space as somehow "garret-like" and without real estate asset value. (The presence of more informal artists' spaces of suspect conformance to building and occupancy standards contributed to this perception.)

Scattered site housing projects, because they are lightly subsidized, typically intermediated by non-profit third-parties, and similar to classic homeowner renovation and urban homesteading programs in place since the 1970s, are reasonably straightforward from a public agency point of view. (More difficult is private lender involvement.) In the Penn Avenue Arts Initiative program, Pittsburgh URA Home Recovery Program (HRP) offers first-time homeowners a 99-year second mortgage for purchase and renovation that need not be repayed unless the property is sold. The agency also makes five-year forgivable loans for façade improvements. Many of the artists who move to Penn Avenue create a rental unit on one of the floors and collect rental income towards their mortgage. (Table 13 lays out sample development costs and monthly affordability for the Penn Avenue Arts Avenue projects)

This program only works well because of the involvement of a local community development corporation, which intercedes with artist-buyers and the agency to package the financing needed to purchase and renovate properties. This model may be emulated by Philadelphia's

New Kensington CDC, which has begun to take advantage of a new Pennsylvania Housing Finance Agency loan program for mixed use projects. The CDC's goal is to broker the flow of State funding for this program to individual artist-homebuyers, who will use their ground-floor space for studios and art sales, and upper floors for residential, just as in the Penn Avenue Arts Initiative program.

In terms of economic development, Pittsburgh's Ice House project was funded from the economic development division of the Urban Redevelopment Authority and financially underwritten based on the strength of the commercial leases. In addition, the State of Pennsylvania has employment creation funding in the project, as well. In Providence, the Providence Economic Development Partnership (PEDP), the city's nonprofit economic development arm -- has money in the Dreyfus Hotel development as a job creation project. The PEDP is responsive to artists' claims on support based on contribution to economic development and revitalization, but not uncritically so. The Director asserted that "there is no basis for saying that an artist is better than a welder."

Other projects received funding based on their expected economic development value. The largest and most complicated of the arts space projects is Louisiana Art Works, a large studio space and incubator project of statewide significance because of its links to the tourism industry, and with national visibility due to its size and extensive programming. This project depended on large infusions of cash from the State of Louisiana, millions in private contributions, and a large federally-guaranteed loan issued by the City of New Orleans. Louisiana Art Works is thought of as a tourist attraction and showcase for New Orleans and regional artists. This visible contribution to broader economic development was critical to its ability to claim public subsidies in a resource-poor environment.

Closely tied to economic development programs operated by city governments are spatially targeted programs that offer incentives to projects within designated redevelopment areas. These were not a prominent feature of the project financings we reviewed, but in two cities – Philadelphia and Providence – spatial subsidies were avail-

able. In both instances, State sources of funding were involved: in Providence, mill building redevelopment credits, and in Philadelphia, accelerated depreciation allowances and property tax relief.



The largest and most complicated of the arts space projects is Louisiana Art Works, a large studio space and incubator project of statewide significance because of its links to the tourism industry, and with national visibility due to its size and extensive programming. This project depended on large infusions of cash from the State of Louisiana, millions in private contributions, and a large federally-guaranteed loan issued by the City of New Orleans.

Photo courtesy of the Urban Institute.

The most widely known spatially – targeted program is the federal Empowerment Zone Program, which allocated a substantial amount of funding (now fully spent) to a select group of cities nationwide. Tax benefits also were available in the zones. Most cities with zones appear to have retained the designation, even after expiration of the Federal program. The Philadelphia Department of Economic Development made a small grant to the Crane Co. studio development for exterior building improvements, in part because of the building’s location in the Empowerment Zone and justified on the basis of the project’s job creation.

With the phase-out of the federal empowerment zone program, State-designated economic development districts have reassumed their traditional role as the main support for targeted-area business development and job creation. In Philadelphia the Eastern Lofts studio project plans to take advantage of the accelerated depreciation allowances available to projects in Renewal Communities Zones and the property tax relief available in the Keystone Opportunity Zones. These two zone designations are authorized by the State, and the allowances pertain to State tax liabilities, only. However, some cities have similarly targeted incentives: in Providence, the city’s Industrial Commercial Buildings District is scattered site “district” that entitles developers to tax stabilization at pre-improvement value for 10 years.

Together, the many sources of state and local subsidy, in addition to the tax credits available from federal and state sources, substantially drives up the costs of putting project deals together. The private lender to the Ice House project noted the difficulty in financing smaller projects in view of the extensive layering of subsidies required, which drove up transactions costs that are particularly hard for the small projects to support.

Table 13. Penn Avenue Arts Initiative (PAAI) Sample Development Costs and Monthly Affordability

Development Costs		
Sale Price	\$28,000	
Estimated Renovation Costs	\$130,000	
Estimated Soft Costs (Closing, Arch,)	\$13,412	
Total Project Costs	\$171,412	
Sources of Financing		
Estimated Renovation & Soft Costs	\$171,500	
PAAI Artist Grant	\$5,000	
Friendship Design Assoc. Façade grant	\$5,000	
Streetface Grant	\$7,500	
Total Cost Minus Subsidy	\$154,000	
Less 3% downpayment	\$4,620	
Total to be Financed	\$149,380	
Monthly Cost	HRP Deferral 20%	HRP Deferral 40%
Deferred Second Mortgage	\$25,000	\$35,000
First Mortgage	\$124,380	\$114,380
30-yr. Mortgage Payment	\$819	\$753
Taxes (.2944 * \$130,000)	\$319	\$319
Insurance	\$150	\$150
Total Monthly Expenses	\$1,288	\$1,222
Less Rent	\$600	\$600
Total Out-of-pocket expenses	\$688	\$622

Source: Jeffrey Dorsey, Penn Avenue Arts Initiative (PAAI)

State and Local Government Arts-Related Support

Although arts’ agencies tend not to allocate capital to artists’ projects, several of the projects we reviewed received grants for project development. The largest of these – to Seattle’s Tashiro Kaplan – came from 4Culture a new cultural agency formed out of the King County Arts Commission, Public Art Commission, and the Landmarks Commission. Smaller grants have been made available for artists’ studio renovations in Tucson with grants from the Pima County Arts Council. Early on, AS220 received a grant from Rhode Island State Council for the Arts for \$25,000, a departure from the Council’s normal practice. Finally, the Penn Avenue Arts Initiative (PAAI) in Pittsburgh established its own small Artist Loan and Grant Fund, which awards matching grants up to \$5,000 and loans up to \$15,000. The the Penn Avenue Arts Initiative , however, is itself an intermediary body and a recipient of substantial external funding.

The rarity of capital funding for artists projects from arts agencies means, in effect, that artists-specific sources of funding were almost non-existent, since community and economic development funders did not create special programs for this purpose.

The Role of Community Lenders

The distinguishing feature of loans is that they must be repaid. The terms of conditions at which loans are available are strongly influenced by the prevailing cost of capital and the marketplace and the degree of risk each project represents. Moreover, different stages of projects pose different risks to lenders. Early stages are highest risk, including: acquisition, when land and buildings are acquired or options to buy properties are purchased; pre-development, when project designs are drawn-up and financing is arranged; and construction, when the actual building is carried out. Many lenders will refrain from investing at these early acquisition, pre-development and construction stages without strong guarantees that the money will be repaid.

Because smaller projects, those sponsored by nonprofit developers, and those in low-income neighborhoods, are often perceived as having the highest risk, most financial institutions resist lending on these projects. Private developers will often self-finance these stages, drawing on accumulated cash or lines of credit secured by their other properties. Nonprofit and community-based developers, however, rarely have accumulated the assets needed to secure funding from these sources.

Fortunately, over the past 30 years or so, community development intermediaries and community development financial institutions (CDFI's) have emerged to make loans in just these circumstances. Some of these lenders have invested in the artist space projects we reviewed:

- In Philadelphia, The Reinvestment Fund (TRF), a nationally certified community development financial institution made a pre-development loan to Eastern Lofts and a construction loan to Crane Co.

- Another socially motivated lender, the Local Initiatives Support Corporation (LISC), has a predevelopment loan in the Coral Arts building in Philadelphia, a recoverable grant for predevelopment costs in the Dreyfus, and financing at multiple stages in the Tashiro Kaplan project, including predevelopment, acquisition, and construction.
- The Providence Preservation Society (PPS) operates a revolving loan fund capitalized with HOME and other funding. The PPS is heavily involved in Monahasset Mills, AS220, and the Dreyfus.

Intermediaries and CDFI's have both financial and social interests in projects. They want to be repaid, just as market-rate lenders do, so they can make loans to other projects or repay their own investors. Most intermediary and CDFI loans are secured by real estate, so loan officers are sensitive to the value that real estate has. LISC's investment risk in the Dreyfus, for example, was hedged by the expected take-off in downtown retail. Eastern Lofts was secured by anticipated property appreciation in the surrounding neighborhood caused by imminent completion of the large Brewerytown mixed-use project several blocks away. Crane Co. was seen as a sure bet because the developers took advantage of an exceptionally good, below-market-rate acquisition price.

The intermediary and CDFI social mission, however, means that they may accept collateral that others won't. In the AS220 project, the Providence Preservation Society (PPS) was willing to extend a loan secured by value of "art-boxes," which were prints by Rhode Island artists in a box set. But the social mission poses constraints, also. PPS will invest in projects only if they contribute to historic preservation. LISC and TRF will invest only if projects advance community-wide revitalization goals. In the latter cases, this means that intermediary staff must be convinced that artist space projects actually contribute in some way to community change. In LISC's case, this has historically meant that projects must be sponsored by nonprofit community development corporations (a rule that has been relaxed in recent years).

Because intermediaries and CDFI's have both financial and social interests, they tend to have strong connections both to private sector

banks, on the one hand, and public agency providers of subsidy, on the other. As a result, intermediary staff has played important roles as artist space development project financial advisors. For example, the loan fund director at PPS is an indispensable local expert on historic preservation credits. He acted as development consultant to Monohasset Mills, including help with phasing of credits to match MM development program.

Because intermediaries and CDFI's have both financial and social interests, they tend to have strong connections both to private sector banks, on the one hand, and public agency providers of subsidy, on the other. As a result, intermediary staff has played important roles as artist space development project financial advisors.

Market Rate Debt

Market-rate lenders need to be repaid, and they are usually skittish about the likelihood that this will happen. As an old adage has it: “capital is a coward.”

For purposes of this paper, lenders face two types of risk: credit risk and collateral risk. Credit risk refers to the likelihood that the borrower will have insufficient personal income (for individual residential loans) or business income (for multi-family or commercial loans) to repay the amounts owed. To hedge against credit risk, lenders collateralize their loans by placing mortgages on properties. This means that, in the event a borrower fails to repay, a lender can acquire the property and sell it to recover the amounts unpaid. Collateral risk refers to the likelihood that the value of the collateral – the property – will be insufficient to cover this amount.

In discussing residential underwriting, it is important to distinguish between multi-family live-work spaces and the owner-occupied spaces typical of single-family, scattered site, projects. The value of multi-family projects depends on the rent stream: how much cash flow is available to pay back the lender – and the equity investors – after all the operating expenses are paid? The cash flow from rents and any other charges are directly related to the total capital value of the

project, which explains why this method of valuation is called income capitalization. In single-family projects, value is determined by how much the project could be expected to sell for in the market-place: this is a market valuation or direct sales comparison approach.

Typically, individual purchases of homes, even if it's for live-work space, will be financed based on a market valuation. This is true even if the property contains a rental unit that contributes cash flow to the owner, and a studio space from which works are sold. That said, in the Penn Avenue Arts Initiative single-family, scattered-site, model, availability of income from a residential rental unit was important to lenders, especially in view of the perceived uncertainty of artists' incomes, which makes them difficult to underwrite. A steady stream of rental income both augments the artist's ability to pay the mortgage, but also lends predictability to the cash flow, which bankers like.

However, because these properties were financed in a residential area, getting the lenders to underwrite these projects as residential, and not commercial, was very important to getting the private funding into these projects. The biggest concern appeared to be in the appraisal process, where initial values were assigned based on visual identification of properties as in commercial use. This means that they would be valued based on cash flow (which is non-existent, practically speaking, for ground-floor studio space). The Penn Avenue Arts Initiative staff had to work with the banks and appraisers to get these properties classified as residential, and therefore valued on the basis of neighborhood comparables, and underwritten according to purchasers' household incomes. (Table 13 shows an example of project financing, in which grants and other subsidies are used to write down the mortgage amount, and rent covers a large part of the mortgage payment each month.)

In Seattle, Philadelphia, Pittsburgh, and Providence, the most sophisticated of the systems we reviewed, although there are commercial lenders willing to finance artist space development projects, there remains resistance to lending on studio projects and on the arts-related commercial parts of mixed-use residential and commercial projects. In general, lenders prefer the certainty of housing development with relatively predictable sales prices or rents and more certain means of predicting ability to repay.

In commercial projects, loan underwriters like the predictability of traditional retail clients -- like chain drug stores -- and the rent payment guarantees that parent companies are able to provide. Usually, commercial tenants can be assigned a level of risk based on the strength of corporate parents, if any, and the type of business they are in. Unfortunately, gallery spaces and other commercial cultural uses fall into the highest risk class.

Despite this, lenders like US Bank in Seattle, which financed commercial space in Tashiro Kaplan, have been willing to underwrite commercial spaces. According to a representative of the bank, which provided a \$1.5 million commercial loan, other commercial lenders may have been unlikely to loan to the project because its commercial space is at the edge of downtown and in what is perceived to be a tough market. It took a US Bank senior executive familiar with the project to approve the loan. (US Bank also provided a bridge loan until the capital campaign was completed.)

In studio projects, lenders perceive artists as having higher credit risks due to uncertain marketability of their work, resulting unstable incomes, and ultimate difficulty in consistently making rental payments. That said, Pittsburgh's Ice House was underwritten by PNC Bank as a commercial project. Despite the fact that commercial uses are wholly unlike the more traditional retail described above, there are advantages to financing studio projects compared to other mom-and-pop retailers: the multi-unit character of the commercial space. Project cash flow can be underwritten as a bundle of small leases, so unlike lending to a single commercial establishment, the underwritten asset can be thought of as a portfolio, which helps diversify risk.

The perceived risks in lending on commercial-gallery and studio spaces is magnified under certain circumstances, as exemplified by AS220. Projected performance space and gallery cash flow was extremely uncertain for most traditional lenders, and the SRO residential model too unfamiliar to them to allow ready risk analysis and cash flow underwriting. Project staff admitted that cash flows "just weren't there" to trigger private lending.

This general risk aversion points up the value of assembling evidence of potential demand for spaces upon completion. This is important to both studio and live-work projects. In both residential and commercial project, demonstration of potential demand is an important part of reducing lender risk. In a number of projects – Spinning Plate in Pittsburgh, for example – artists surveys carried out prior to project development established the attractiveness of the space and neighborhood to prospective residents. (These surveys also are a form of outreach and project marketing, ensuring adequate demand when the project comes on line.) Related, pre-leasing of residential and commercial spaces prior to project completion substantially reduces lender risks. For example, Crane Co. financing in Philadelphia was assured by the pre-leasing of most of the units prior to even getting construction financing. This pre-leasing was made possible, in part, because the managing partner could rely on his artist-partners’ extensive connections throughout the arts community.

As a further hedge against risk, market-rate lenders do not just underwrite the project – they underwrite the developer. Related to assessing creditworthiness, lenders commonly review the experience and financial backing of developers to ensure that they have the capability and bankroll to complete and successfully manage the projects they undertake.

Most small developers pledge non-project assets as security for their loans. In the New Orleans Art Egg project, the developer easily secured a conventional loan because she pledged other property she owned as repayment. In Detroit, 4731 Grand River was an acquisition and rehabilitation of previously vacant property. Several lenders expressed interest, but would not lend without personal guarantee (and collateral) provided by the developer in view of the uncertainty of the market for studio units. Detroit’s Russell Street is a major project and bank-financed, also with a personal recourse to the developer, who has a strong track record of successful projects.

These developers were able to secure loans based, in part, on their personal assets and track-record. Underwriting the developer becomes all the more important when there are no personal or other assets to pledge, which is typical of non-profit-sponsored projects. Artists and Cities, in Pittsburgh, appeared to have an uphill fight to gain credibility

before involvement of Artspace Projects. This may have something to do with the fact that the nonprofit development industry in Pittsburgh is not strong, overall. The same lender skepticism applied to AS220 in Providence: financing was very difficult to arrange. The reaction by banks was reported to be “incredulous” given that AS220 had not previously owned or managed space.

VII. The Role of Markets & Supports Within Local Systems

The willingness of parties to invest in artist space developments, whether on the part of lenders, local governments, or even developers, is related to several features of community context and the system supports that increase the rewards or reduce the risks. In this section, we note some of the ways in which the strength or weakness of real estate markets affect project development. We also emphasize the importance of the various inter-connections among developers, lenders, foundation staff, public agency officials and others who are involved in mobilizing money, expertise, and political clout to promote affordable housing and community and economic development objectives. These relationships constitute the community development system.

Markets' Effects on Costs & Risks

The problems of artists' space developments in hot markets have been long decried. As demand for spaces suitable for artists' studios and residences rises, artists' ability to afford the prices of these spaces falls. Ironically, the increase in market strength, particularly rising values, means that private lenders are more willing to finance spaces than they might otherwise be, on the strength of perceived increases in market values. The downside, of course, is that increasing values place properties increasingly out of reach, and bump up the amounts of public subsidies required to make units affordable.

According to the developer of Sunny Arms in Seattle, the biggest challenge to developing artist coop projects is availability of affordable property, and that while it remains possible to find under-valued properties, due to their location or building condition, such properties pose risks that may jeopardize the financial feasibility of the project.

The most common strategy to deal with rising rents throughout a marketplace is to try to put as much property as possible in public or nonprofit hands. State and local governments have tried to foster this through creation of housing trust funds and community land trusts, whereby developers of purchased or renovated properties are limited in

their ability to escalate rents or sell above a regulated price. As has been the case through much of this discussion, these mechanisms apply to affordable housing in general, and have rarely been targeted artists' spaces.

In soft markets, artist space projects may have comparative advantages that they would not have in stronger markets. For example, in strong markets, projects financed by Low-Income Housing Tax Credits are very low-risk: program rules peg rents at levels affordable to those earning 60 percent of median income, which is considerably below the market rent in most places. However, in places like Philadelphia, Pittsburgh, and other less active markets, tax credit rents are sometimes not that different from market rents, so there's no guaranteed demand for the newly-built units. In these circumstances, building for an under-served artists' market may make excellent economic sense because of the likely shortage of comparable spaces.

At the same time, there may be a limit on the extent of the artists' marketplace. For example, it's not clear how much of a future live-work space investments have in Pittsburgh. Artists and Cities experienced slow pre-sales for a loft style condominium building they primarily marketed to artists.

Attempts to squeeze risk out of project development, particularly in soft markets, have generally tended to focus on the role of community and economic developers in creating a critical mass of project activity. This activity reinforces each individual investment by creating the perception of rising markets, and in some cases, generating economic activity that directly benefits individual projects. In our group of projects, investors were often sensitive to the performance of surrounding markets, and reacted favorably to signs of a concerted private and public effort to revitalize urban markets.

The Spinning Plate project, involving reuse of an historic auto dealership building in Pittsburgh's East Liberty neighborhood, benefited from the nearby Penn Avenue Arts Initiative, the new location of the Dance Alloy and the glassworks, and therefore, visible emergence of an area of arts activities, most which post-date the Spinning Plate. As well, the area has been undergoing a revitalization plan developed by the East Liberty CDC, which has called for the redesign of the East Liberty circle

and the commercial area, a lamentable failure of 1960s urban design. These activities were all part of the neighborhood and artists' spaces conversation at the time, and encouraged the city, the foundations, and the investors, including banks, to take a close look at the project.

In turn, the Spinning Plate and Dance Alloy have bolstered the marketability of the Penn Avenue Arts Initiative (PAAI) commercial corridor program. These two projects jump started major arts uses in a corridor that had seen a trickling of interest from artists over the years, who were "walk-in" customers of the local CDCs commercial space marketing efforts.

But the groundwork for emergence of an arts district began over 15 years ago, as the local CDC has been slowly acquiring and renovating commercial space and closing nuisance businesses. In the view of the PAAI district manager, artist space development-led economic development can't work in the midst of complete dereliction: the concept of "edge" districts important -- those on the margin between too-good-to-afford and too-bad-to-be-livable. By its efforts to renovate, demolish, or close down the worst blighting influences, the CDC set the stage for catalyzing artist space uses later on. In the words of the district manager, the district went from a "deal-by-deal" community development effort to a market-driven regeneration focus.

These efforts have benefited from continuing support by project managers. The Penn Avenue Arts Initiative provides technical assistance and marketing services in addition to running the loan and grant fund. But in addition, the marketing effort itself appears akin to community organizing. Denoted "Unblurred," PAAI's e-mail circular contains extensive listings of shows, performances, employment opportunities, space listings, event announcements and other news for the arts community located in, or interested in activities taking place in, East Liberty and the Penn Avenue corridor. This circular is a good way to advertise the availability of individual properties, but its real value (it would seem) from a project development standpoint would be to generate demand for Penn Avenue / East Liberty arts offerings, and thereby induce interest in the area as a place to live, work, and participate in cutting-edge arts and cultural activities.

These efforts to encourage the flow of public and private investment into an area is viewed by lenders and other investors as a risk-reduction factor. This is especially true where subsidies are available on a spatially-targeted basis. For example, in Providence, preservation tax credits for investment in the mill district are extremely important to redevelopment. One estimate put the post-incentive project volume at 1 million square feet, and counting. The state preservation office noting a large upswing in the numbers of larger properties coming through the tax credit program since 2001 due to lower interest rates, increased housing demand, and the hip factor. Most of the projects developed in this decade have been for housing because the cash out is quicker, the demand is higher, the risk is lower, and the banks more willing to lend than is true for commercial projects.

But Providence offers an interesting case of what happens when an area moves from a weaker market to a stronger one. Widespread availability of historic preservation credits and other incentives to develop mill properties was intended to spur development of properties that had few productive uses. With the upswing in the overall housing market, these credits have become quite lucrative to residential developers aiming at the higher end of the market. In fact, the credits might be thought to sharpen the relative advantage of this kind of development to artist space.

As a result, proponents of “authentic” live-work wind up trying to remove through zoning restrictions the potential value they’ve created through the tax credits. In other words, the battleground has shifted from: “what kinds of incentives are needed to get mills redeveloped” to “what has to be done to prevent incentives from ‘over-producing’ residential?”

Some have begun to seek zoning laws that restrict residential uses except for live-work spaces, an attempt to create islands of affordability for artists in a sea of rising prices. This way of pulling buildings off the market for eventual use only commercial, arts, and industrial uses is a type of land-banking, without the cash outlays required to purchase property. But system observers point to a real inequity imposed on those whose properties are affected and who are not compensated.

In Pittsburgh's Ice House, location in the planning area of the 16:62 Design Zone, which encourages the location of creative industries tied to building and interior design, coupled with the general reputation of the area as a place where artists can work, has helped prompt both bank and foundation support. That said, simple declaration of a planning framework like the Design Zone does not necessarily translate into concrete financial support. Early on after the development of Providence's AS220, the only support in the system was from the downcity arts and entertainment district, which tried to capitalize on the presence of Trinity Repertory Theater and some downtown galleries to create a cluster of arts and entertainment uses. The resulting district was largely fictional; the few tax incentives available appeared not to attract much concrete investment.

Providence offers an interesting case of what happens when an area moves from a weaker market to a stronger one ... the battleground has shifted from: "what kinds of incentives are needed to get mills redeveloped" to "what has to be done to prevent incentives from 'over-producing' residential?"

The Effects of Local Systems

The cooperation of many parties is required to develop artists' spaces. These parties and their relationships can be thought of in terms of a system, which consists of the relationships among actors and institutions that mobilize money, talent, and political clout for the purpose of promoting the development and operation of artists' spaces. This system is an integral part of the overall community development system, which mobilizes these same assets to promote the community and economic well-being of low-income neighborhoods.

The stronger the parties and closer the ties, the more the system makes possible for its members. The cities in this report can be thought of in terms of the strength of their systems as indicated by their effectiveness in making development of artists' spaces possible. To be sure, there is no neat hierarchy of systems, nor predictable pathways from less effective to more effective systems. That said, the cities in this report can be roughly ordered from those that are only weakly

supportive of artists' space development to those that are more supportive: Detroit, Tucson, New Orleans, Philadelphia, Pittsburgh, Providence, and Seattle.

The more effective systems, generally, are characterized by a variety of different types of artist space developers, multiple project investments by for-profit and community lenders, active foundation support, an informed and engaged civic community, supportive state and local agency programs, and political leadership that understands the value of artist space development to the health of their communities and the types of policies and strategies needed to support it. In this section, we focus less on measuring and ranking these factors to arrive at summary statements of relative system performance, although this could be easily done. Instead we consider differences across systems in how various actors:

- developers,
- lenders,
- foundations,
- civic elites, agencies, and political leaders,

think about, and value, artists' spaces.

Developers

One distinguishing feature of more effective systems is the emergence of nonprofit developers devoted to creation of artists spaces and the embrace of artist space development by community development corporations. There are, of course, differences in the way these actors think about individual projects, and as discussed in the first section of this report, the confidence we can have in the long-term occupancy of projects by artists. But what seems to mark more mature artist space development systems is a general understanding of the multiple objectives that can be achieved by artist space developments, as well as the conflicts among them.

Those cities that have invested heavily in creating supportive systems for nonprofit community development corporations also contain all

of the building blocks for effective support of artist space development, not necessarily just through CDCs, but often in neighborhoods where they have laid the groundwork. In Pittsburgh, creation of Spinning Plate in the East Liberty neighborhood – one of the city’s original urban renewal project areas – is a signature building in a highly visible location with an innovative use, promising that East Liberty might take a new and more productive direction. Nearby, the Penn Avenue Arts Initiative’s interest in promoting the area to artists stems in part from an interest in bridging the divide between a moderate-income neighborhood on one side of the strip and a very low-income neighborhood on the other. Arts and artists’ participation in youth program was seen as a way to do this, and use of properties for arts-related uses (including a range of “creative” occupations) likely to appeal to both richer and poorer was tailor made for this district.

In Pittsburgh’s Ice House, economic development motivations are dominant. The 16:62 Design Zone planning and program framework surrounding this project is sophisticated, involving marketing of a manufacturing district to potential investors, building occupants, and consumers as a creative industry location, and traditional Main Street attention to other retail and commercial business. Taken as a group, the Pittsburgh projects represent a substantial commitment to artists, although this commitment is not made under a citywide framework of policymaking or program design or implementation. In other words, it’s happening because of recognition within a part of the artists’ community, as well as the community development industry, that artists and arts organizations can make important contributions to community and economic development. There’s an obvious need for better system-wide intermediation of arts and artists activities and interests, which the new Greater Pittsburgh Arts Council has been set up to do. Right now, all of the attention to artist space development is coming from the bottom up and through the community and economic development system.

Those cities that have invested heavily in creating supportive systems for nonprofit community development corporations also contain all of the building blocks for effective support of artist space development, not necessarily just through CDCs, but often in neighborhoods where they have laid the groundwork.

The presence of a strong Philadelphia CDC system does not guarantee, of course, strong city support for artist space. In New Kensington, the CDC has solved the several technical barriers to use of low-income housing tax credits to the development of live-work space, with help from Artists in Cities at the other end of the State. The Crane Company building, like the Detroit projects, appears to work economically because the acquisition price was right. Both projects were supported by financial intermediaries – an important step in broadening support for artist space development in Philadelphia, but the city, so far, does not appear to see this as a promising new area of community or economic development investment.

In Seattle, government and foundation players were encouraged to participate in the Cooper project partially because of the community planning process and the way the project was integrated into the overall community revitalization plans.

Lenders

By now, most lenders in the stronger community development systems have become profitably engaged in lending to affordable housing and economic development projects in low-income neighborhoods. This familiarity with community development lending appears to translate into more active involvement in artist space projects as well.

One sign of increasing financial community support within the system is participation of multiple lenders in artist space development projects. In the less well-developed systems, bank participation was almost non-existent except as secured by personal wealth of individual project developers. In Philadelphia, bank involvement is partially supported by community lenders and commercial banks, as well. In Pittsburgh, several banks have made loans to finance purchase and rehabilitation of commercial properties along in the Penn Avenue Arts Initiative. Most of these are mid-sized banks that may be specially motivated by Community Reinvestment Act concerns, partly because they are acquisition targets for larger banks. (Acquisition approvals hinge, in part, on the CRA record of both banks.) The other, larger, projects were supported by a single bank – PNC – and in particular, by a senior bank official with a special interest in artist space projects.

In the most sophisticated systems, both Providence and Seattle, multiple banks and community lenders participated in multiple deals. In Providence, the Bank of Rhode Island appears to have invested in multiple projects, was an early backer of the State's historic credits, and is a buyer of both historic and low-income tax credits. The Bank of Rhode Island, Citizens, Bank of America, and Fleet all have funds committed to projects, and a local community development lender – the Local Initiatives Support Corporation – has predevelopment loans in the Westfield Lofts project.

In Seattle, a large lender -- US Bank – tends to finance the current projects we reviewed, including the commercial portion of Tashiro Kaplan and Cooper School. They are one of the most capable and aggressive community lenders in the country, although the Seattle office doubtless has more artists-space development experience than other offices within the bank. Another lender, Key Bank, has money in Cooper School.

Agencies

In Detroit and New Orleans, public support for artist space development projects was almost non-existent, with the single exception of Louisiana Artworks, built as a major tourist attraction.

There appeared to be rather more support in Tucson, programmatic support remained very small, limited to a Pima Association of Governments \$210,000 no-interest loan to the City of Tucson for building repairs. Tucson did have a well developed master plan for artist space development in the Warehouse District, and stakeholders seemingly committed to moving the plan forward. City officials have been symbolically supportive, but artists cannot rely on financial support to compete with larger commercial and institutional projects. The City of Tucson and Arizona Department of Transportation have stayed involved in master planning process for Warehouse Arts District and have not discouraged artists from renting vacant spaces, but they also have not guaranteed tenancy or ownership. Tucson Pima Arts Council representatives understand artists' needs for affordable space and believe that artists have a contribution to make to community revival, but express skepticism that the city's economic development department shares their view – a disconnect between cultural and economic development staff that is typical of less-well-developed systems.

Pittsburgh has a range of programs that indirectly support artists – the city relies on intermediaries to shape these programs to fit artists’ needs if they choose to do so. The 16-62 Design Zone may be the most directly relevant program, encouraging design-related and other creative industries to occupy business locations in the zone. The program supplies technical assistance to businesses that need help with marketing plans, publicity, and other non-capital needs. The Urban Redevelopment Authority has been important as a source of funding for the larger projects, and their interest in these projects is varied: Spinning Plate was motivated by need to put long-time vacant, but “gateway” property into productive use; other projects were funded through the “CDC” pot and not the affordable housing or economic programs, and therefore, support that’s derivative of a prior commitment to CDCs as neighborhood change agents. As extensively noted elsewhere, the Penn Avenue Arts Initiative offers small business development programs and acquisition-rehabilitation programs to artists who purchase commercial properties.

In Providence, the range of public programs available are weighted heavily toward historic preservation though several State programs that award tax credits for, among other things, mill building conversions. These are supported by city tax relief, which applies in certain designated districts, including the downtown arts and entertainment district. Availability of State commercial tax credits and the corresponding federal credits are vital to the financial viability of projects. City agencies have provided capital funds to projects through programs that generally support community and economic development; as in Pittsburgh, there’s no artists’ program per se, but a willingness at higher levels of city government to invest in artists’ space development as an implicit component of the city’s overall revitalization strategy. The new Office of Cultural Affairs and Tourism was recently established to influence other city agencies to safeguard the interests of arts, culture, and tourism in Providence. The office has a small budget, mostly invested in programming and marketing, with increasing emphasis to “packaging” cultural assets and marketing Providence as cultural destination.

Seattle represents one of the most sophisticated systems in the country for development of artists’ space. Over the past 20 years, the city has developed supportive zoning regulations, published widely available guidance on how to work with the city to get artists spaces built, and

readily financed development of subsidized artists' spaces. Conditional use permits for live-work in industrial areas was important to development of several projects; rules to encourage live-work on ground floor spaces is another. Unlike other places, there are capital funds available from county and state cultural agencies for investment in artists' space development. Several projects relied on the Washington State Building for the Arts program and funding from the King County 4Culture agency (which also agreed to lease up space in Tashiro Kaplan).

One of the more important supportive elements, which may not be found in other places, is city support for the development of neighborhood plans, to which new project proposals are expected to conform. Neighborhoods that accord development of arts and cultural uses, including specifically the development of spaces for artists, can expect to acquire city support for these developments, and proponents of artists' space development can fend off competing claims on properties from those in the neighborhood who argue for other uses. In several instances, these neighborhood plans embraced arts and cultural uses explicitly as a strategy to avoid, or offset, excessive concentrations of low-income individuals and families (similar to the concerns that led to community support for Coral Arts live-work space in Philadelphia).

Civic and Political Support

Throughout the case study sites, civic and political leaders are in a position to contribute substantial amounts of support to artist space projects in the form of public advocacy for the role of the arts in general and support for artists in particular. The value of this support appears to be in direct proportion to the sophistication of the community and economic development systems in place to accomplish neighborhood revitalization objectives.

In Detroit, there has been some movement in the direction of support for arts and culture in general as an economic development strategy, but this is taking place within a system that's rudimentary in other respects. The Michigan governor has embraced the creative class thesis and is attempting to promote a "cool cities" program within the state, which attempts to support local efforts to create urban recreational and cultural amenities important to younger denizens of the creative class. The Wayne County economic development corporation, at the executive level, is interested in helping create creative clusters within the county.

As yet, these haven't translated into county or local programs that are tailored to support for artist space development or any other aspect of the arts economy. In fact, many of the programs intended to support community and economic development generally seem not to be well managed. There are, however, signs of life in the civic community. The Community Foundation of Southeastern Michigan has been a strong local supporter of community cultural projects, which is a step toward encouraging the kind of artists' presence in neighborhoods that can lead to demand and support for artists live-work space. The state has a business development committee that is working on a cultural economic development strategy.

In Tuscon, there is general recognition that artists have brought life back into the Warehouse District which had previously consisted of a collection of abandoned buildings. However, there are mixed opinions about just how much economic revitalization has been affected by artist space development. The Pima Arts Council struggles with providing "proof" to other public sector players that this is the case about the arts in general. In general, the "system" has some elements in place: an active and organized artist community, a few technical assistance providers, and individuals that are serving as intermediaries, to some extent. But as we have noted, it also lacks key elements: strong presence of community development organizations that champion artist spaces, public advocates and public resources designated for or easily adaptable for artist space development, clear access to desirable land/property and relevant legal assistance.

In general, New Orleans respondents felt that city support for artist space was lukewarm at best, unable to provide much leadership or resources in view of the city's poverty and competing claims on scarce public resources. (Since Katrina, this situation could only have gotten worse.) Moreover, a fairly strong and more or less collegial artists' community has not yet become politically mobilized in support of artist space development. Respondents seemed more hopeful about getting political and possibly financial support from the state, insofar as the Lieutenant Governor was seemingly sympathetic and that the arts were officially and explicitly in his purview.

Philadelphia has seen sustained low levels of support from foundations, like the Penn Foundation and Pew Charitable Trusts, which have sup-

ported individual artists, and artists' spaces, over the years. Recently, they have become more proactive in this area, seeking Artspace help to identify artists' space needs and potential development opportunities. Former mayor Rendell was supportive of the creative class as an important contributor to economic development, and supported artists' uses of industrial space and the variances sometimes needed to legalize this use. For years, the city has operated a nationally recognized mural arts program, conceived as an anti-graffiti effort and youth development program. Mayor Street's Neighborhood Transformation Initiative has focused on neighborhood quality issues, including trashed lots, abandoned vehicles, and other blighting influences, and has spent considerable sums to clean up Philadelphia. These efforts have paved the way for Center City expansion, supporting migration of the artists' community northward across Spring Garden Street. But on the whole, there seems not to be much civic recognition of artists and artists' spaces as important to the city's economic future.

In Pittsburgh, Heinz and McCune Foundations were primarily interested in the value of artist space to community development. McCune has put funding into the Penn Avenue Arts Initiative, some for operating support, some for the artists' loan and grant program. The project officer is very much drawn to the youth engagement aspect of the Penn Avenue Arts Initiative, regarding participation in the arts as a proven way to get beyond the "youth-as-deficit" perception. The foundation investment was driven by their continuing interest in the connections between arts and community development, which seems natural in a city that is struggling economically, but which also has many world class cultural organizations that receive a large amount of support from these same foundations.

The city's interest in nurturing its creative economy may play a role here, but that's unclear. The cultural district downtown is meant to appeal to more elite uses. Otherwise, the city has not embraced the creative economy language as completely as some other cities have, although they seem to be willing to fund projects that would fit under that rubric. At political leadership levels, there was reasoned skepticism regarding the value of public investments in creation of artists' spaces as a way to foster formation of "creative clusters," of activity. Their argument is that artists' communities' emerge organically: they don't respond well to the deep subsidy approach practiced in traditional

economic development. The recent Mayor voiced support for the arts as a contributor to the creative economy, but not as aggressively as those in other cities.

In Providence, there's a general view that arts and artists are an important, if not vital, part of the revitalization equation, a view held with increasing commitment and nuance as the Cianci administration gave way to Ciccilini's. Cianci's support went partway: designation of an arts and entertainment district didn't appear to lead anywhere, in the opinion of most local informants, but outside the planning framework useful projects got done. Ciccilini's support seems more thorough-going, intended to lead to a sustainable arts economy. One result was creation of the new Office for Arts and Culture, which is charged with the task of becoming an internal advocate for arts interests across a range of government agency activities. An important question mark for the system is what evolutionary path the Office will take. The creation of the office was an important system milestone, and the system could benefit greatly with some leadership from the city, backed by an unusually supportive mayor. That said, there's a real structural weakness to an office that relies only on moral and political weight to get things accomplished.

But Providence faces daunting problems -- a narrow tax base and very high property values -- which makes the kind of tax incentives common in the system difficult to justify. Add to this the artists' tax exemption working its way through the legislature, and the risk of pitting artists as a special preference against other industries/occupations/residents would appear to be great.

Civic and political leaders in King County and Seattle have an unusually well developed understanding of the value of artists' spaces to community vitality. The county executive expresses the county interest in fostering stronger arts communities in terms of: the need for people to express themselves culturally; the importance of arts and cultural as an essential urban amenity; and the value of cultural uses to increasing urban densities, an important policy objective for the county. In the city of Seattle, the current mayor was previously a city council member active in the promotion of arts and culture as community revitalization efforts. Elsewhere in the civic community funding has been available from the large local foundations for investment in artists' space.

VIII. Conclusion and Recommendations

This research has found considerable diversity in types of newly-developed artists' spaces, as well as in their developers, financing, and community and market circumstances. Comparisons across these projects and conditions have yielded points of commonality and difference that suggest some specific recommendations for action. These recommendations are intended to further support for development of artists' spaces in the context of broader community and economic development activities.

One general recommendation concerns engagement with this broader system of community and economic development. The most important steps public funders, foundations, intermediaries, and other supporters of artists can take to increase support for artists spaces is to play a more active role in the community and economic development systems within which they work. These systems, which consist of the relationships among developers, lenders, community development agencies, foundations and others who work together to mobilize and allocate resources to accomplish community revitalization goals, are very largely the same for both artists' spaces and all other kinds of public purpose real estate development, such as affordable housing. Those systems that have managed to streamline, to some degree, the development of artists' spaces – most notably Seattle and Providence – have exploited the deep connections between artists' spaces and traditional community and economic development objectives.

It seems clear from this research that many different types of developers, investors, agency officials, civic and political leaders and others can be potential supporters of artists' space development. This potential may be most easily harnessed at the community level, among non-profit development organizations, which have been broadening their agendas to include many diverse types of housing, commercial, and community-building activities.

Specific recommendations:

— **Appeal to developers**

Supporters of artist space development would do well to recognize, and appeal to, the arts-related motivations of many nonprofit and for-profit developers and lenders, many of which seem to recognize the value of artists as project residents and community activists.

— **Introduction of mixed-use project elements**

Commercial and nonprofit space, for example – as well as community programming, like youth arts education, are good ways to reinforce and demonstrate the community value of artists' spaces. These spaces should become standard practice in artist space development.

— **Include artist studios in mixed-use projects**

Development of scattered-site, mixed-use properties is an interesting and promising new strategy for revitalization of older commercial corridors, a growing focus of community economic development practitioners. Artists' studios and living spaces along these corridors represent one of the few suitable uses for spaces no longer appropriate for most modern retail.

— **Form co-ops**

Artist space development supporters should encourage formation of limited-equity cooperatives as a way to promote both long-term affordability and continuing occupancy by artists in the projects they develop. Cooperatives retain some important advantages over rental properties on the one hand (even nonprofit-owned ones) and condominiums on the other.

— **Encourage the arts in community plans**

One of the most concrete strategies for longer-term support of artist space development is to encourage inclusion of arts and cultural elements in community plans, and government agency observance of the priorities outlined in the plans.

— **Tailor public subsidies for artists**

Public subsidy programs should be tailored to the various types of artists' spaces and the different ways these get created; e.g., a menu of financing options should match the different types of subsidies that live-work and studio projects require.

— **Studio space = economic development**

Promotion of concentrations of studio spaces would appear to be a low-cost way to promote creation of new clusters of economic activity. In weak market cities, where other prospects for economic growth are few, artist space creation may be an important springboard for both economic and residential market strengthening.

— **Work with CDCs**

Because the strength of the nonprofit development system seems to be an important contributor to the likelihood that affordable artists' spaces will be developed, cities with a strong community-based nonprofit sector would appear to be fertile ground for national promotion of artist space development as a revitalization strategy.