

# Crane Arts

## Financing Artists' Workspaces

When Nicholas Kripal discovered that the artist studio he managed in Roxborough, Philadelphia was going to be turned into an assisted living complex, he decided that it was time to make a change. The artist and professor from the Tyler School of Art at Temple University had watched his last studio space turn into condominiums, and after being moved twice against his will, he knew he needed something more permanent. "I couldn't do it alone," he said, "so I had to do it with a group of people that worked well together." One partner was Richard Hricko, a fellow artist and professor at Tyler; when they contacted David Gleeson, a developer with a particular interest in the arts, he joined their search for the perfect studio and gallery space.

They found it in the form of the Crane Plumbing Company, a former factory and warehouse built in 1905 in Old Kensington, once the manufacturing center of Philadelphia. While American Street was once alive with industry, commerce and jobs, the area fell apart during Philadelphia's deindustrialization and subsequent disinvestment, leaving vacant warehouses and homes. In the increasingly competitive arts market, available and affordable space is a rare asset, an asset that this neighborhood happened to have. Located north of the expensive and expanding Center City, the property values in this area were affordable, since the area had yet to be targeted by developers and investors. With plans to redesign the old warehouse around the needs of artists, the partners – Crane Arts LLC – bought the main building and the two other vacant spaces on site in March 2004.

Crane Arts LLC then faced the challenges familiar to small business entrepreneurs and developers reimagining urban industrial spaces: how do we finance the rehabilitation of a century-old factory? how do we navigate the public system's maze of rules and regulations? how do we generate interest for a new artist space? Over the next two years, the partners poured themselves into the project and have successfully redefined the 1400 block of American Street with four stories of artist work spaces and a gallery now renowned in Philadelphia's art scene.

But almost all this work was initially financed at their own expense: "We had three financiers: Visa, Mastercard and American Express," they joke. With the exception of a small bank loan and help from friends and family, the partners shouldered the financial burden until they could show investors that there was enough demand to keep the project afloat.

Just as the partners were beginning their building search, artists throughout the city – especially in the up-and-coming neighborhood of Northern Liberties – were displaced by developers buying out spaces to create luxury condos. When Richard Hricko and Nicholas Kripal invited their Tyler graduate students to put on an exhibit in the newly purchased Crane Arts, they immediately sparked the interest of local artists in need of work space. "That was probably the smartest thing we ever did," recalled Kripal. "They came, they brought their friends and their friends' friends, and people got to know about us. People would be shocked to know how many artists there are in Philadelphia, and how many need affordable space." Since that point, there has been a waiting list of artists eager to rent studio space at Crane Arts.

Crane Arts LLC came to The Reinvestment Fund (TRF) with this waiting list in hand in November, 2006, a few months after the first tenants set up in their studios. They had heard about TRF's

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Crane Arts Building

lending activities, which include commercial real estate projects in urban neighborhoods. Over the years, TRF’s portfolio has included many loans that support arts organizations, small cultural businesses, arts-related charter schools, and arts-related real estate projects; 5% – or \$30 million – of the portfolio is tied to the creative sector. The Crane Arts project was a perfect fit for TRF, which views the arts as critical to the health of a community and invests in projects that have the potential to catalyze revitalization in various Philadelphia neighborhoods. In fact, the success of the Crane Arts project has encouraged TRF to finance other artist centers throughout Philadelphia.

“They had a great need to borrow from us, it was a viable project, and they couldn’t see just how great the project was,” recalls Don Hinkle-Brown, the head of TRF’s lending and community investment activities. Don was especially impressed by the deposits and reservation agreements that accompanied the list, and felt that the partners’ artistic careers guaranteed the credibility of the demand. Crane Arts’ affordable rental prices and commitment to emerging artists ensured that the audience would remain broad, for the center wouldn’t be limited to established artists. In addition, financing a project in Old Kensington complemented TRF’s community development approach, which focuses on building from strengths. TRF had identified this section of North

## New Markets Tax Credits

The New Markets Tax Credit (NMTC), administered by the United States Treasury’s Community Development Financial Institutions Fund, was created in 2000; it encourages private-sector equity and loan capital investment in low-income areas to stimulate economic opportunity and create jobs in areas that most need it. The NMTC Program permits individual and corporate taxpayers to receive a credit against federal income taxes for making qualified equity investments in investment vehicles such as TRF. The credit provided to the investor totals 39 percent of the initial value of the investment and is claimed over a seven-year credit allowance period. To date, TRF has received two NMTC allocations from the U.S. Department of the Treasury. In 2004, TRF received a \$38.5 million award and in 2006, TRF received a \$75 million award.

Traditionally, NMTC has financed large scale, multi-million dollar projects in low-income communities. Despite high demand, the complex nature of the transactions and expensive legal costs made NMTC loans prohibitive for smaller borrowers. But that has changed with TRF’s innovative NMTC pool. Partnering with TransCapital and Morgan Stanley, TRF has structured a \$40 million NMTC fund that is capable of financing multiple projects with sizes averaging \$5 million. The blanket fund allows TRF to aggregate capital and cap legal costs so that smaller deals can benefit from the combined scale. TRF was able to use this flexibility to invest \$4.2 million in Crane Arts LLC.

## Artist Centers

Ann Markusen, the Director of the Project on Regional and Industrial Economics from University of Minnesota's Hubert H. Humphrey Institute of Public Affairs, has spent a good deal of time researching the effect that artist centers can have on artists, communities and regional economies. The research is based on the proliferation of artist centers in Minneapolis-St. Paul, Minnesota.

The report, *Artists' Centers: Evolution and Impact on Careers, Neighborhoods and Economies*, describes both the synergy created when artists work in the same space, and the cost benefits of sharing equipment and space that otherwise would have been unaffordable. Artist centers have become important fixtures in their communities, for many have arts programming and educational classes for youth, identity groups, and adults. The process of creating studio space frequently involves rehabilitating underused properties and turning them into "unique cultural destinations" that draw tourists and art-lovers from the area. Lastly, the research describes the role artist centers play in a regional economy; it suggests that artistic presence and talent can add economic value to the overall production and distribution of goods and services that ultimately result in a stronger regional economy.

The report includes policy recommendations that would encourage the growth and success of artist centers. One recommendation – echoed by many in the field – is for public and nonprofit policymakers involved in economic development, urban planning and cultural policy to acknowledge the role of arts and artist centers in revitalizing neighborhoods. Research and recommendations like this can help advocate for artist centers such as Philadelphia's Crane Arts.

Philadelphia as an area where targeted investments could make a real difference in reactivating the market. TRF had hoped to finance a project of scale in the neighborhood that would build off other investments in the area; Crane Arts was just that project. When he looked at all the pieces together, "it was an easy decision!" Don shared.



Crane Arts Artists' Workspace

Using its New Markets Tax Credit (NMTC) program, TRF was able to continue financing projects that enhance the arts' ability to impact communities. In 2006, TRF invested \$4.2 million in Crane Arts LLC, money that helped the partners pay back existing loans. The size of the loan guaranteed that the partners could pay off all outstanding debts, continue their renovations, and plan construction on the factory's old stables. "TRF is more of a patient investor, not as skittish or jittery, and not subject to the whims of the market," remarked Gleason.

And with this loan, Crane Arts LLC has been able to continue pursuing its vision of having Crane Arts become a hub of the Philadelphia arts scene. The building buzzes with activity: the new website advertises various, year-round exhibits; visitors traipse through the center on North Philadelphia's "Second Thursdays" gallery nights; the Philadelphia Fringe Festival puts on performances there every fall; and the list goes on. The partners have rehabbed the space to fit 37 studios for different artistic mediums, rooms for three arts organizations, and space for community events. Crane Arts LLC sponsors emerging artists and graduate art students through fellowships, which helps generate even more energy at the center. Drawing arts enthusiasts from across the city, Crane Arts has become a beacon of activity in an area that has battled decline for decades.

## Social Impact of the Arts

SIAP's research explains why local cultural spaces like Crane Arts are so critical to urban neighborhoods. By combining evidence on a neighborhood's cultural assets with other types of neighborhood data, SIAP has discovered a strong and durable relationship between cultural engagement, poverty decline, and population growth in Philadelphia. According to data developed by TRF, the Philadelphia housing market experienced a marked improvement between 2001 and 2003. Using a six-category scale, TRF estimated that 13 percent of block groups improved by more than two categories – for example, from being a reclamation block group in 2001 to a transitional block group in 2003. This improvement was not distributed evenly; many local housing markets remained flat over the two years. What explained which block groups improved and which did not? The level of cultural assets in a block group correlated very strongly with block group improvement. More than half of the block groups with the highest concentration of cultural activity improved by at least two market categories, while less than 2 percent of the other block groups showed comparable improvement.

What still needs to be explained is why the arts have such a powerful effect, and SIAP feels that researchers need to look beyond the “usual suspects” – the direct economic impact of the arts on urban economies. It is the “unusual suspects,” especially the impact of culture on the civic life of urban neighborhoods, that provide the most convincing answer to this puzzle. Data suggests that cultural participation builds collective efficacy within neighborhoods and creates bridges between different social classes and ethnic groups, which is critical to the transformation of communities.

The owners see this venture as an indicator of change for Philadelphia. “We are now creating a point of production for the arts world where a center of production for the manufacturing world once stood,” says Gleeson. It also stands as an indicator of change for Old Kensington. “An old boarded up warehouse that wasn't available to the community is now open to them,” explained Kripal. The partners are interested in the role that their center can play in the neighborhood: local children take weekend art classes in the building; nonprofit organizations like the Village of Arts and Humanities hold meetings and fundraisers onsite; and there are dreams of starting a summer cinema program for the community to enjoy.

But right now, Crane Arts LLC is concentrating on finishing construction on The Stable, the last piece of their property, which they hope to turn into more studio space. Once that is complete, they will offer 60,000 square feet of space for local artists to work, display and sell. “I feel really lucky to be in a studio,” shared one artist. “I see how many people try to get in, and it's full. There are so many people on the wait list, because they like to be part of the building and what's going on here.” And with continued vision on the part of the owners, continued financing from TRF and others, and continued talent flocking to the 1400 block of American Street, it appears that the demand will continue as well.



## About Social Impact of the Arts Project

SIAP is a policy research group at the University of Pennsylvania's School of Social Policy & Practice. Since 1994 SIAP has conducted research on metropolitan Philadelphia to explore the structure of the creative sector, the dynamics of cultural participation, and the relationship of the arts to community well-being. SIAP leads the field in the development of methods for studying links between cultural engagement, community-building, and neighborhood revitalization.



## About The Reinvestment Fund

TRF is a national leader in the financing of neighborhood revitalization. A development financial corporation with a wealth building agenda for low- and moderate-income people and places, TRF uses its assets to finance housing, community facilities, commercial real estate and businesses and public policy research across the Mid-Atlantic. TRF conducts research and analysis on policy issues that influence neighborhood revitalization and economic growth both to help it identify opportunities to invest its own resources and to help public sector and private clients with their own strategies to preserve and rebuild vulnerable communities.