Center for an Urban Future

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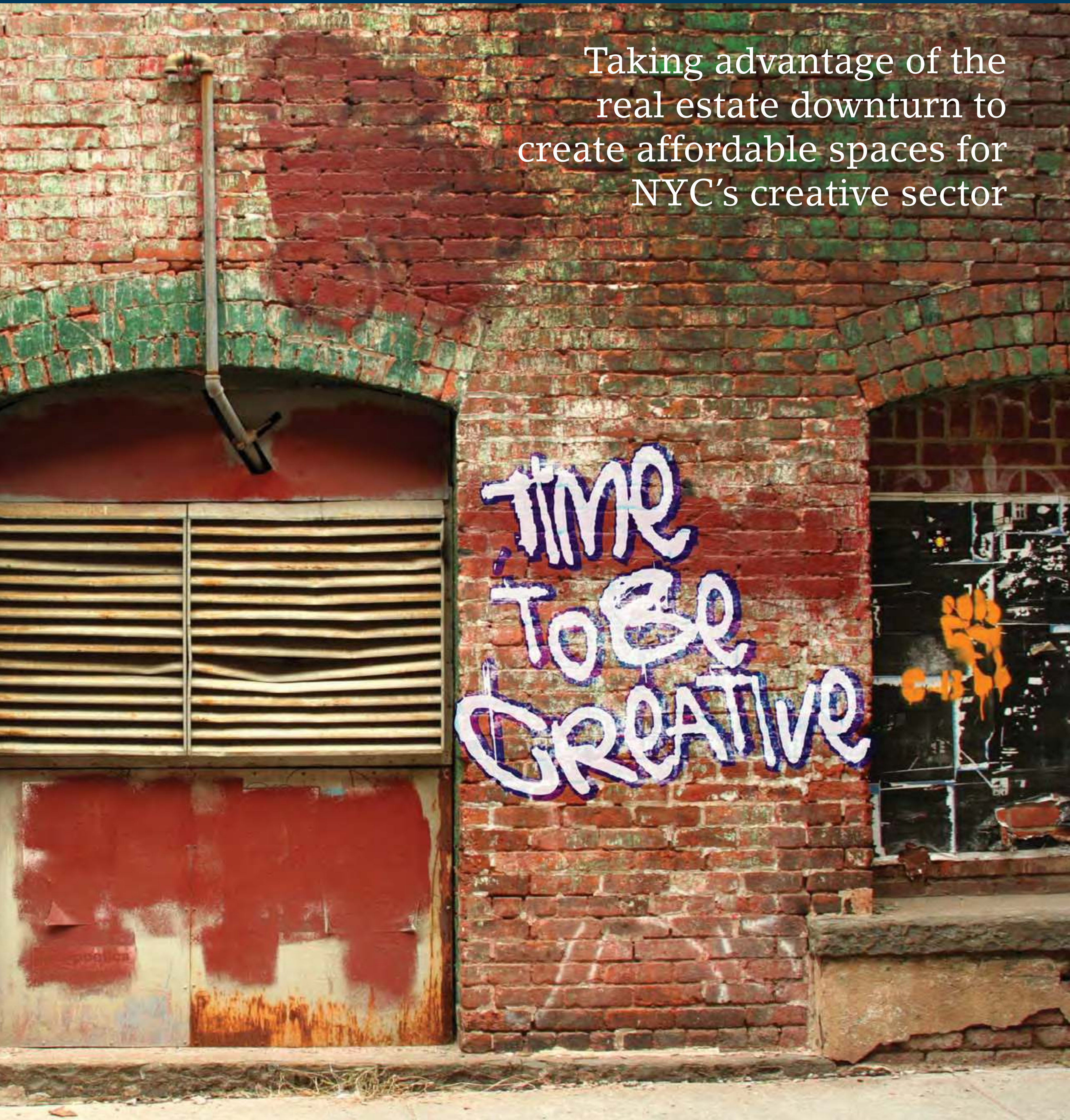
Taking advantage of the real estate downturn to create affordable spaces for NYC's creative sector



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Cover: Design Confederation

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TIME TO BE CREATIVE

Speaking in 2006 about the role of creative industries from film and graphic design to publishing and the performing arts, Mayor Bloomberg aptly characterized the creative sector as New York City's "heart and soul." But in the wake of the gravest economic crisis in a generation, New York needs the creative sector to assume an even more critical role in the city's economic future.

The creative sector stands out as one of the best vehicles for both reigniting and diversifying the city's economy, two important goals at a time when New York's unemployment rate still stands at 9.3 percent and traditional drivers like finance are expected to experience sluggish growth in the years ahead.[1] Though creative industries have not been immune to the effects of the Great Recession, their prospects for future growth are brighter than many other sectors in today's idea-driven economy. Indeed, creativity and design is arguably the city's greatest competitive advantage in an era where fierce global competition is causing industries from finance to manufacturing to add a disproportionate share of their new jobs overseas.

While the creative sector holds considerable potential, its growth in New York is far from assured. The real estate boom of the past decade has made the city increasingly unaffordable as a place for artists to live, work, rehearse and perform. At the same time, countless artists and nonprofit arts organizations—the key building blocks of New York's larger creative sector—are now reeling from an epic crisis brought on by the economic downturn. And all of this is occurring as numerous American cities have been stepping up their efforts to recruit creative people.

The ongoing economic and real estate downturn presents a golden opportunity to strengthen the creative sector for the long term. The dramatic drop in real estate prices, in particular, offers a rare chance to re-use or redevelop real estate in ways that help address the serious space problems facing artists, arts organizations and creative enterprises. There is significant precedent for this: previous downturns have produced some of the most innovative and imaginative real estate development projects and policy proposals in the city's history—many of which specifically benefited nonprofits and those in the arts.

New York's policymakers, grantmakers and business leaders must take bold steps now to maintain the city's creative advantage and fulfill this sector's potential for growth. This report provides a blueprint for what should be done.

Funded by the Rockefeller Foundation and based on nearly a year of research, our report argues that this moment—with the economy in distress and arts groups themselves facing an almost unprecedented convergence of crises—is precisely the right one to dramatically step up efforts on behalf of New York City's creative sector.

In the pages that follow, we provide city policymakers, philanthropic officials and business leaders with a set of 17 recommendations to strengthen the creative sector—most, but not all, of which involve taking advantage of the downturn in the real estate market to create new spaces for artists, arts organizations and creative entrepreneurs. Our blueprint is informed by more than 75 interviews with artists, leaders of arts organizations, executives of creative businesses, real estate developers, grant-makers, economic development experts and urban planners.

There are compelling reasons why city policymakers should take advantage of the downturn to strengthen the creative sector. The most obvious is economic self-interest. The nine industries we consider part of the creative sector—advertising; film and video; broadcasting; publishing; architecture; design; music; visual arts; and performing arts—cumulatively employ more than eight percent of all workers in the city.[2] Combined, they grew at a faster clip than the rest of the economy in the early part of this decade. Some creative fields, such as film and TV production and the performing arts, even added a significant number of jobs in the past year, while most parts of the economy were receding.[3]

Moreover, in today's global economy, where fewer and fewer things are actually made in high cost urban areas and when a growing number of cities across the world are fighting for market share in high-end sectors like financial services, the Big Apple's future competitive advantage will increasingly depend on maintaining its status as a creative hub. "The emergence of the creative economy will, at least in terms of job growth if not in terms of revenue, be more of a driver than financial services in the future of the city," says Carl Weisbrod, past president of real estate for Trinity Church and former head of the New York City Economic Development Corporation.[4] "Creative businesses run the gamut from small nonprofits to large multinationals, but they're tied to each other. What they're all drawing from and what is the essence of the city is the great talent pool. Ultimately, the city should be focused on how to attract and retain that talent."

The question of what New York can do to attract and retain creative talent is a central focus of this report. Our recommendations are premised on a belief, informed by the dozens of interviews we conducted, that New York is not immune to losing its status as the pre-eminent destination for writers, designers, visual artists, performers and other creative professionals. In fact, New York's creative edge arguably is more at risk today than ever before.

There has not yet been an exodus of creative individuals from the city, but it is undeniable that many artists have given up on New York, reluctantly, for cheaper locales such as Philadelphia, the Hudson Valley and Berlin. While New York continues to draw creative people from around the world, the city is no longer the only natural destination for artists, writers and designers. More American cities now have the cultural amenities that creative people demand and a growing number of regions have developed policies to attract creative talent. The "pull" efforts of other areas have coincided with a strong local "push" factor: rapidly escalating real estate prices in the past decade that have made it exceedingly difficult for artists to live and work here.

"I believe this city risks losing its working community of artists," says Ted Berger, past president of the New York Foundation for the Arts. "That's a problem for a city that economically needs this community here. We are in an acute situation for work space and live space for individual artists."

Some local arts experts believe that younger and more innovative artists may already be bypassing New York for other, more affordable cities. "The younger generation [of artists] is unable to come here and is no longer influencing the culture of New York City," says Anne-Brigitte Sirois, the founder of Art State, a Manhattan-based firm that advances the development of arts spaces. "If nothing is done, New York will become like Washington, DC—an institutional place with nothing interesting occurring."

Space issues are not the only immediate threat to New York's creative sector. Another problem is that a growing number of the city's theater companies, dance troupes and other nonprofit arts groups are facing serious threats to their survival because of a perfect storm of economic pressures caused by the downturn. Organizations in New York's nonprofit arts sector traditionally have drawn from multiple sources of revenue, including government support, charitable contributions and gate receipts or sales. Under normal circumstances, when one revenue stream dries up—for example, a philanthropic funder chooses to discontinue its giving, or direct income dips for reasons outside of an organization's control—the others provide enough of a cushion that, while an organization might endure some belt-tightening, its survival is not in question. The threat to New York City's nonprofit arts organizations in this downturn is that every one of these revenue streams is under severe strain.

While arts groups clearly are not the only ones suffering in this downturn, the sheer number of arts organizations that are fighting for survival has implications for the city's economy. That's because these groups provide a key foundation for the larger creative sector. Indeed, the presence of such a varied group of small and mid-sized arts groups makes New York singularly attractive to creative people from around the globe.

To this point, only a handful of arts groups have shut their doors entirely. But most organizations, large and small, have had to make painful cuts—from scaling back exhibitions and reducing the number of performances to eliminating staff. This May, the Alliance for the Arts published a report finding that 42 percent of the cultural groups they surveyed anticipated cancelled or postponing programs this year, while 60 percent of the organizations said they were reducing their budgets. "So many groups are hanging on by their fingernails," says Eugenie Cowan, executive director of NYC Performing Arts Spaces.

Individual artists are also struggling, even more so than normal. In 2009, the average unemployment rate for all artists nationwide was 9.5 percent, higher than the unemployment rate of the civilian workforce (8.6 percent). Unemployment among artists rose faster than for other workers; between 2008 and 2009, the artist unemployment rate climbed by 4.3 percentage points—a full point higher than the increase to the overall unemployment rate over the two-year recessionary period.[5] With a disproportionate share of the nation's artists, New York's creative community is undoubtedly feeling much of this pain.

Many of those we interviewed applaud the Bloomberg administration for improving upon what was already arguably the nation's most supportive local arts policy. The city's Department of Cultural Affairs (DCA) has a larger budget than the National Endowment for the Arts (NEA), and Mayor Bloomberg recently rolled out several promising new initiatives to support nonprofit organizations and freelancers during this downturn. In addition, the city's Economic Development Corporation (EDC) has helped establish a handful of business incubators around the five boroughs, including ones for fashion designers, new media startups and freelancers, and enabled Chashama, a New York-based arts group, to expand its incubator for artists at the Brooklyn Army Terminal by 40,000 square feet. Despite all this, however, there was also wide agreement among those we interviewed that city policymakers—along with the philanthropic and business communities—need to do more to address the short-term survival risks and the long-term affordability issues that threaten New York's creative sector.

We, too, believe that much more needs to be done. And soon.

If there is an upside to the economic crisis, it is that for the first time in years, city policymakers seem to be serious about diversifying New York's economy. And with the city's largest corporations faring the worst in the ongoing meltdown, officials are more committed to finding ways to support entrepreneurs, artists, freelancers, small businesses and nonprofits—the very entities that comprise a large part of the creative sector.

At the same time, the downturn in the city's real estate market provides a rare opening to craft innovative solutions to long-festering challenges, especially the shortage of affordable live and work spaces for artists and arts organizations.

Indeed, after years when the owners of residential and commercial buildings were in total control of the city's real estate market, the tables are now decidedly reversed. The vacancy rate for Class A office buildings in Manhattan reached 12.8 percent in March 2010, its highest level since 1997, while the rate for Class B spaces was even higher (14.7 percent).[6] In April 2010, there were 48 New York City defaulted commercial properties that had been delinquent for 60 days or more.[7] Manhattan's storefront vacancy rate also recently reached its highest level since the early 1990s.[8] The city's housing market faces even greater challenges. Between 2008 and 2009, the city experienced a 13 percent spike in residential inventory, with a flood of newly developed residential units going unsold in neighborhoods from Williamsburg and downtown Brooklyn to Harlem. Well over a thousand residential properties across the five boroughs are currently in foreclosure, and the city is home to 515 stalled construction sites, most of which are housing developments.

There are other unique opportunities to recapture space for the arts. The Catholic Diocese has closed dozens of its schools in the five boroughs in recent years as a result of declining enrollment. Meanwhile, Deputy Mayor Stephen Goldsmith recently announced a plan to shed much of the office space leased by city agencies after documenting that about 11 percent of all city government desks are currently empty.

New York City has capitalized on down cycles in the real estate market before. During the depths of the recession in the early 1990s, the city provided incentives for developer Larry Silverstein to convert his aging office tower at 120 Wall Street—which had a whopping 40 percent vacancy rate at the time—into a building with reduced rents for nonprofit organizations. Around the same time, the city sold a dilapidated factory in Greenpoint that it owned—the previous owner failed to pay its taxes—to a nonprofit developer for $1 as part of a plan to turn the property into affordable spaces for woodworkers and other artisan manufacturers.

The Aurora, an affordable housing development on West 57th Street for individuals in the performing arts, came about after the building's for-profit developer went bankrupt in the downturn of the early 1990s. After the building sat empty for seven years, the Actors Fund applied for—and received—federal low-income tax credits to take it over. In the immediate aftermath of the 1970s fiscal crisis, policymakers rescued a middle class housing development that ran out of funds midway through construction and reconfigured the project—known as Manhattan Plaza Apartments—into the city's largest residential complex for people working in the arts. And in 1967, a nonprofit organization purchased the empty Bell Laboratories complex in the West Village and converted it into Westbeth, a 13-story arts development that features more than 300 apartments, studios and rehearsal spaces for those in the visual, literary and performing arts. The trailblazing project was funded by the National Council for the Arts (the predecessor to the National Endowment for the Arts) and the JM Kaplan Fund, a New York-based philanthropic foundation—and enabled by zoning law amendment from the New York City Planning Commission.

All these strategies paid off tremendously: 120 Wall Street remains the home of dozens of nonprofits (including the Center for an Urban Future), the Greenpoint Manufacturing and Design Center has been filled with artisan manufacturers since shortly after it opened, and the three housing developments—the Aurora, Manhattan Plaza and Westbeth—have long waiting lists of artists who long to live there. (See "Opportunity in Crisis," page 28, for detailed snapshots of five projects undertaken in previous downturns which involved reusing empty or underused real estate for nonprofits, the arts and creative businesses.)

With the right set of strategies and programs today, New York City can achieve such results again.

Recommendations

Part I: Seize the Opportunity to Craft Permanent Solutions to the Space Problem

Part II: Help Nonprofit Arts Groups Reduce Costs and Become More Efficient

Recommendations

Seize the Opportunity to Create New Spaces for Artists, Arts Groups and Creative Entrepreneurs

While the Great Recession is officially over, the downturn slammed the brakes on New York City's overheated real estate market. Even though the city's real estate market did not fall as far as some initially predicted, the cost of renting or buying commercial and residential space plummeted, vacancy rates spiked, and for the first time in nearly two decades, the city's real estate market appears headed for a sustained period of stagnant prices. While this is dispiriting news for the city's property owners, it creates a unique opportunity to lease, purchase or redevelop properties for arts-related uses.

Though many in the real estate community will ride out the market dip until prices rise again, some building owners will undoubtedly be open to considering creative solutions to fill their spaces. Some may even welcome the opportunity. Property owners who wouldn't have contemplated entering into a long-term lease with a nonprofit arts organization two years ago—when there was an abundance of high-paying tenants seeking space—might now entertain this option, especially if the city sweetened the deal by providing financial incentives for those who do so. The right incentives might entice some owners with a significant amount of vacant space to donate or sell space for the creation of a permanent arts incubator or a rehearsal venue.

Taking advantage of the situation won't be without challenges. One potential snag is that most distressed properties—the ones that might seem like no brainers for reuse as arts spaces—tend to be highly leveraged and are effectively owned by banks or other lenders. "I think the banks or financial institutions that are, in their minds, temporarily in control of commercial property are not going to be receptive to creative solutions," says Trinity's Carl Weisbrod. "They are essentially asset managers and just passing through."

Another potential barrier is that not every underused building will lend itself to the kind of space that is most in demand by artists, arts groups and creative entrepreneurs. For instance, some of the greatest space needs are for dance rehearsal space that requires column-free floors, something lacking in many older buildings.

And, perhaps most important of all, most buildings owners won't be amenable to turning their empty or underused properties into spaces for the arts unless doing so makes economic sense for them. "Most landlords are going to do what's in their self-interest," says David Lebenstein, senior managing director of real estate brokerage Cassidy Turley and a specialist in advising nonprofit organizations on their real estate needs.[9]

Still, there clearly are opportunities where the city could make it work. The trick is just identifying the right properties and coming up with some innovative solutions that make sense for the owners and the lenders (or investors). "The creative solutions will come from long-term owners, owners with lower leverage and, I think, owners who are desperate for tenants but have a longer commitment to New York City," posits Weisbrod.

The following are specific strategies worth undertaking.

1 Issue an RFP Seeking Property Owners to Convert Vacant Real Estate into Arts Spaces

One way for the city to take the initiative would be to put out a Request for Proposals (RFP), setting broad parameters for the type of facility it wants to create, and see what creative ideas building owners submit in response. There could be one citywide RFP, or several that specifically target buildings located in a handful of communities that already have a critical mass of artists and arts organizations. In either case, the objective would be to solicit plausible proposals for turning all or parts of buildings into shared spaces for arts nonprofits, incubators for creative entrepreneurs, live/work studios for artists, co-working spaces for freelancers or other creative uses.

Owners could sell their buildings to the city or a nonprofit developer, thereby unloading a potential albatross. Another option would be for the owners to retain control of the building while agreeing either to sell individual floors as condos to nonprofit arts groups or to enter into long-term leases with arts organizations at subsidized rates. In return, the city would provide the owners with meaningful benefits, such as granting a property tax break or assuming part of the owner's debt.

There is precedent to going this route. In the early 1990s, the Dinkins administration issued an RFP that invited building owners in lower Manhattan to make proposals for converting a large block of office space into a major new center for national nonprofit organizations. The city received 13 proposals from building owners—a healthy response rate prompted by the sky-high commercial vacancy rates in the neighborhood at the time—and ultimately choose to establish the new "Association Center" at 120 Wall Street, a building owned by Larry Silverstein.[10] Dozens of nonprofits signed 15-year leases at below-market rents, while Silverstein benefited from tax exemptions and a steady pool of tenants—a notsignificant fact given that vacancy rates in his building approached 40 percent at the time.

> In the early 1990s, the city issued an RFP seeking building owners interested in converting a large block of office space into affordable spaces for nonprofits in return for financial incentives. Larry Silverstein was one of 13 owners who responded.

While the city's assertiveness in creating the nonprofit center at 120 Wall Street is worth emulating, many arts leaders and real estate experts interviewed for this study suggested that some things be done differently today. Most importantly, a new model should insist on longer-term or permanent space for nonprofits—not 15-year leases, since many of them will likely have to move out when their leases expire and the landlord is free to charge significantly higher rents.

2 Create a Unit at EDC to Identify Buildings with High Vacancy Rates and Potential for Arts Uses

The city's Economic Development Corporation (EDC) should assign a team that would work closely with real estate industry officials to identify specific buildings across the five boroughs that are now in distress or have especially high vacancy rates and which might lend themselves to a creative reuse. EDC should mainly target properties situated in communities that already have a foundation of an arts community, from the Garment Center and downtown Manhattan to Bushwick, Long Island City, Sunset Park, St. George and the South Bronx. And since many of the buildings developed in the last few years are too highly leveraged to be suitable for a creative reuse, EDC officials should concentrate on older buildings with long-term owners.

In addition to privately-owned commercial and residential buildings, EDC should take a close look at underused parochial school facilities, houses of worship, government buildings and other public assets that could prove suitable for a creative reuse. For instance, more than one real estate official interviewed for this report suggested that the Catholic Diocese, which has shuttered several private schools in recent years due to ongoing financial difficulties, might be worth approaching. Perhaps it would be open to working with the city on a deal to turn one or more of their facilities into an arts space.

After identifying a handful of potential properties, EDC officials should then touch base with the owners and seek to determine the appropriate mix of tax incentives or financing tools to secure a deal that would create permanently affordable spaces for the arts.

There are probably at least a few property owners across the five boroughs who would welcome an innovative approach to fill their vacant spaces with artists or arts groups. EDC should help identify these opportunities before they are gone.

3 Expand Temporary Arts Space Initiatives

Many property owners in the city won't be interested in turning their newly vacant spaces over to artists and arts groups on a permanent basis. But the spike in empty commercial spaces should at least be capitalized upon for creating temporary homes for artists' studios, galleries, rehearsal spaces and performance venues. Putting arts uses in these vacant spaces for a period of several months to a few years typically helps both artists, who crave free or low-cost space, and property owners, who usually get significant value from making these spaces available since it makes the spaces more attractive to prospective commercial tenants and keeps hard-to-lease spaces from gathering dust for long periods.

Some of this is already happening. A handful of "pop-up" galleries have sprung up around the city in temporarily empty storefronts and offices. But the demand for such spaces greatly outpaces what's available. Indeed, only a tiny fraction of the vacant storefronts and offices around the five boroughs today are being used in this fashion. And despite the massive spike in vacant commercial spaces over the past two years, many of which have been sitting empty for an extended period, there has only been a slight increase in the number of pop-up art spaces. The vast majority of property owners still aren't aware of programs that help them turn their vacant facilities into short-term art spaces, and many are in the dark about what they stand to gain from participating in such programs.

With vacancy rates at their highest levels in years, city officials should set a goal of doubling the number of temporary art spaces. City officials should quickly develop a plan to take advantage of the opportunity, one that taps the expertise of real estate industry leaders, officials from many of the city's business improvement districts and the two non-profit groups—Chashama and the Lower Manhattan Cultural Council (LMCC)—that have the most experience running programs that make vacant commercial space available to artists, curators, and cultural organizations on a temporary basis for projects.

One specific idea is for the Real Estate Board of New York (REBNY) and BIDs to promote existing programs to its members. A simple mailing about the high rewards and low risk of participating in these programs would go a long way, as would holding workshops with organizations such as Chashama or LMCC that explain how building owners could take part in these initiatives and spell out what's in it for them.

Another suggestion is for city and philanthropic leaders to help provide the administrative support that groups like Chashama and LMCC desperately need to expand their own initiatives. Both organizations have developed significant expertise in handling these types of projects and arranging for contingencies from liability insurance to building ID's for artists. This is useful since building owners are unlikely to donate their space unless they feel a high degree of comfort that things will go smoothly and involve minimal work on their part. But while these are two of the nation's most innovative space reuse programs for the arts, they operate on a small scale and in just a handful of neighborhoods.

For instance, LMCC's Swing Space initiative works with about six to seven donated commercial spaces in downtown Manhattan each year, totaling roughly 80,000 square feet. Chashama has 15 current projects, but they have only been able to take on four new spaces in the past year despite the massive increase in real estate vacancies. "We'd probably be able to do 10 to 15 more spaces and work with another 100 artists if we could have two more full times staff members, one working on contracts with building owners and one working for artists," says Anita Durst, founder of Chashama. "There are so many opportunities with the real estate vacancies in New York."

To be sure, neither city government nor the philanthropic world is flush with money right now. But if funds can't be found to help expand these initiatives, the city might consider setting up a unit with staffers from EDC and DCA to provide administrative and legal support for pop-up projects coordinated by Chashama, LMCC or other groups around the city.

4 Create Incentives that Reduce the Cost of Initial Tenant Improvements

It isn't unusual for commercial building owners to sink hundreds of thousands of dollars into their properties every time they build out raw space for new tenants. Landlords usually take out loans to pay for the fit-out and then recoup their expenses over the course of the lease as they amortize the costs in added rents. But the economics of this process often discourages owners from renting to nonprofit arts groups operating on narrow budgetary margins, or at the least makes it difficult for landlords to offer discounted rent to arts organizations. Nonprofits in general—and particularly those in the arts—often lack the funds to cover initial tenant improvements and they often find it particularly difficult to secure credit from banks and other lenders. The extremely tight credit markets in the current economy adds another degree of complexity, as landlords too are finding it increasingly challenging to access the capital they need for build-outs.

"It's a real barrier to doing a deal with nonprofits," says one commercial real estate manager. "We have a very strong balance sheet, but if we were looking at taking raw space and putting in $70 to $100 a foot in fit-out costs for a 5,000 square foot space, who comes up with that $500,000? A tenant might go on a fundraising campaign or luck out and get capital dollars from the City Council. Or the tenant or landlord goes out and borrows it. But it's not so easy today. What's driving owners today is a need for capital. It's that initial capital hurdle. They need the capital to make a fit-out and a degree of credit worthiness."

City Hall should create new fit-out incentives for owners who agree to provide below-market rents to nonprofits. One idea is for the city itself to finance the initial build-out costs at a very low interest rate, or provide loan guarantees for landlords to access the capital they need.

The high cost of building out raw space often discourages landlords from renting to nonprofit arts groups, many of whom lack the financing to cover these upfront expenses.

5 Open New Incubators, Including Facilities for Working Artists and Creative Entrepreneurs

Since the onset of the Great Recession, EDC has helped establish a handful of business incubators around the five boroughs. EDC has opened an incubator for media and technology firms, an incubator for fashion designers and a "hive" for freelancers. The agency has also provided resources that enabled Chashama to add an additional 40,000 square feet to its existing incubator for working artists at the Brooklyn Army Terminal (BAT) in Sunset Park.

By providing discounted space, the incubators address one of the major barriers to the success of emerging firms, freelancers and artists in New York. The incubators also make economic sense for the building owners who made these facilities possible.

With the exception of the facility at BAT, which is owned by the city, the incubators came about when Trinity Real Estate, the Rudin Organization and Newmark Knight Frank agreed to provide space in their buildings at reduced rates for incubator tenants. While the owners are forgoing potential rent revenue, providing space for an incubator allows each of them to fill empty space in their building and, more importantly, gives them a leg up in signing future leases with businesses that graduate from the incubators.

The city should expand on these initial efforts and open additional incubators around the five boroughs, including some with studio space or work stations for artists and creative entrepreneurs. EDC should appeal to additional building owners across the city to provide space for future incubators, signaling the potential economic benefits of doing so.

The Bloomberg administration has opened a handful of business incubators in the past two years. The next phase of the program should include start-up spaces for working artists.

6 Encourage More Nonprofit Condos

In 1985, six nonprofit groups finalized a deal to purchase their own offices at 666 Broadway in what was the city's first nonprofit condo project. The innovative project gave the nonprofits something rare for similar organizations in New York: a permanent home. By owning their own space at costs equivalent to rent, the groups ensured that they wouldn't face the prospect of a steep rent increase after 15 years—or whenever their lease was up for renewal. The condo project also allowed the nonprofits to realize significant cost savings over the long run, and it enabled some of them to make a huge windfall—the six nonprofits each paid $850,000 for a floor in 1985; in 2007, one of the floors sold for $5.7 million.

The project should have served as a model for nonprofits to address their space challenges. However, in the ensuing 25 years, there have been only a couple of similar nonprofit condo projects around the five boroughs.

The current downturn should be a good time to replicate this model. Indeed, the 666 Broadway condo project came about because the building was largely empty and the real estate market was weak. And it happened without any major infusion of funds from the government.

According to David Lebenstein, who negotiated the deal on behalf of the nonprofit groups, the building's owner—Paul Wallace—came to him with the idea of selling six floors as condos. Wallace wanted to keep ownership over the building's ground floor retail space, which was a huge moneymaker for him, as well as the top floor, which was also valuable to him. But because he was keeping the lucrative retail space and top floor, Wallace was willing to sell the six floors to nonprofits on a break even basis. Wallace's idea was to get six nonprofits to each buy a floor. No single nonprofit would be able to purchase all six floors, but Wallace thought that each nonprofit could line up bank financing to purchase a floor. And since nonprofits in New York don't pay real estate taxes, selling condos to them would remove those floors from the tax rolls and effectively reduce the building's operating costs from roughly $15 to $10 per square foot. It would also help bring down the purchase price for each nonprofit, making the cost of buying the space roughly comparable to the cost of renting similar space. (While nonprofits who own property in New York don't pay real estate taxes, the owners of buildings that rent to nonprofits do pay taxes, which are then passed along to nonprofit tenants through higher rents.)

A few years later, Jeffrey Gural pioneered a similar project at 305 Seventh Avenue. Gural was motivated to create nonprofit condos there because the building was largely empty after many of its tenants in the fur industry went out of business. He owed the bank about $10 million and needed to find a steady stream of tenants in an economy where private sector firms weren't exactly breaking down his door looking for space. "At the time, we went to the bank that had the loan and convinced them that they should convert their loan to individual loans to condo purchasers," says Gural. "Then we went to the nonprofit world and said, 'You would ordinarily rent space for $30 a square foot. We'll structure you can own the space and pay $30 a square foot.' That was unique situation. You need to have an empty bldg and a bank that doesn't want the building."

Both projects have been huge successes, with none of the tenants defaulting. Lebenstein would love to see more of these projects because they lead to permanent space. "It creates ownership for nonprofits," says Lebenstein. To recreate what happened at 666 Broadway, Lebenstein believes it will require "benevolent" or forward-thinking real estate owners like Wallace or Gural who spearhead the project and sell the financing concept to the lender.

REBNY and EDC should promote these success stories and encourage building owners across the city to go this route.

7 Open Schools and Libraries After Hours for Artists and Arts Groups to Rehearse

While all sorts of spaces for artists are in short supply in New York City, the shortage of affordable and available rehearsal space for theater groups, dancers, musicians and other performers is particularly acute. "The greatest needs are for rehearsal space," says Eugenie Cowan, executive director of NYC Performing Arts Spaces. "There's not enough of it, and what there is, is not affordable or readily available."

As rehearsal spaces go begging, however, scores of auditoriums, gymnasiums and other large spaces in the city's public schools and libraries sit empty after school hours for much of the year. "There are school auditoriums that sit dark every night," says Jon Stancato, cofounder and resident director of Stolen Chair Theatre Company.

The city should develop a plan to open up some of these publicly-owned spaces to local arts groups, at minimal cost.

To be sure, school facilities won't be suitable for every arts group. But many performers would jump at the chance to rehearse in schools, libraries or other public spaces if the price were right. As it is, many arts groups tend to rehearse at night, when these facilities typically go unused.

Currently, some schools do open their doors for neighborhood arts groups to rehearse. But our research finds that this is more the exception than the rule, and it tends to happen only when there is a strong push from the principal. Reasons why more schools do not make their facilities available include liability concerns, resistance from custodial unions and the cost that schools incur to pay security guards. But another factor is that the city's top schools officials have not expressly encouraged principals to make their empty spaces available to neighborhood arts groups and have failed to create uniform guidelines on how the process should work.

Mayor Bloomberg, DCA Commissioner Levin and Schools Chancellor Joel Klein should give their blessing to this idea and move quickly to create a clear and consistent policy for encouraging schools, libraries and other public facilities to make suitable facilities available for arts groups to conduct rehearsals when the space otherwise would be empty.

> "There are school auditoriums that sit dark every night."

Mayor Bloomberg has already done something similar to this as part of his widely praised PlaNYC initiative to create a more sustainable city. In the past couple of years, the administration has opened more than five dozen schoolyards that were previously closed to the public for use as playgrounds. These spaces were previously closed off to the public, but the Mayor committed to open all schoolyard sites for which no improvements were required. Mayor Bloomberg should use this as a model for opening significantly more school facilities for arts groups to use as rehearsal spaces.

8 Tap Long-Vacant Second Floor Retail Spaces for Artists and Arts Groups

The economic downturn has led to numerous retail vacancies across the five boroughs. While many of these ground floor storefronts may not remain vacant for long, that won't be the case with the millions of square feet of upper floor retail spaces that have long gone unused. Even during the overheated real estate market of recent years, a shockingly high number of second and third floor spaces remained empty in several of the most dynamic commercial districts across the city—from downtown Jamaica in Queens to Brooklyn's Fulton Mall to the Hub in the South Bronx. Most retailers aren't interested in leasing upper floor space, since they are less visible to shoppers. But these spaces might be ideal for arts groups and artists looking for long-term affordable places to work, rehearse or perform.

Because upper floors won't fetch hefty rents and building owners are already bringing in lucrative profits with their ground floor retail tenants, there has been little incentive for building owners to exert any real effort to renting out these spaces. Another problem is that many of these spaces would require significant upfront investments to bring them into a state of good repair—costs that might not be recouped for years given the low rents they would have to charge. Finally, owners suffer almost no penalty for the persistence of upper floor vacancies, and might in some cases even reap a relative advantage by leaving them alone. Owners submit so-called "income and expense" reports to the Department of Finance as a part of the property tax assessment process. If the building has long-term vacancies they don't contribute to the owner's income and so oftentimes won't appear as a part of the building's taxable value, especially if there are high vacancy rates in the surrounding neighborhood.

While there are understandable reasons why landlords have not put these empty spaces back in play, the presence of so much unused space is appalling given the tremendous unmet demand for affordable offices, artists' studios, rehearsal spaces and performance venues. City officials should work with real estate groups and local business organizations to develop a set of carrots and sticks that encourage landlords to rent these spaces to arts organizations, creative sector businesses, freelancers and others with significant space needs.

Second floor retail spaces sit empty across the five boroughs. Some of them might be ideal for artists and arts groups.

9 Establish New Incentives to Preserve and Upgrade Class B Office Buildings

Class B and C office buildings, so designated because they are older and not as desirable for well heeled corporate tenants as Class A buildings, aren't usually thought of as a key asset for the city's economy. But because these older properties command significantly lower rents than Class A office towers, they can be ideal spaces for small businesses and nonprofits, and often serve as natural incubators for fledgling firms with huge growth potential. In large part because of their more reasonable rents, these buildings today are home to a significant chunk of the city's architects, fashion designers, digital media companies, talent agents and other creative sector businesses. Many of the new media firms that emerged in the mid-1990s—in what became known as Silicon Alley—started and grew in Class B buildings.

Unfortunately, there are dramatically fewer Class B and C buildings around the five boroughs today than 10 or 15 years ago. In fact, the total amount of Class B and C space in Manhattan declined by 47 percent between 1995 and 2009; the amount of Class A space is virtually unchanged, falling less than three percent during this period.

A number of Class B and C properties have been converted into apartments in recent years, in neighborhoods from lower Manhattan and the midtown Garment Center to downtown Brooklyn and Long Island City. Some of these conversions have made obvious sense: in lower Manhattan, for instance, the addition of thousands of new housing units has been a key component of efforts to build a more vibrant, 24/7 community. But the sheer number of conversions citywide is cause for concern, especially given that affordable office space has long been at such a premium in the city and since no new Class B properties are being developed.

City economic development officials should create a new set of incentives, including tax exemptions and low-cost financing for tenant improvements, which make it financially attractive for Class B and C owners to preserve their buildings as office spaces. Modernizing their buildings could enable owners to attract slightly higher paying tenants and increase occupancy rates, and the availability of incentives likely would help convince many Class B and C owners to make these investments.

Similarly, it might be worth considering new city incentives for owners of industrial loft buildings who convert their properties to office uses. To be sure, there's still great demand for manufacturing facilities across the city, and city planners should make it a priority to protect these remaining industrial spaces with stronger zoning tools. But industrial lofts are also well suited to graphic designers, small advertising firms, recording studios and other creative businesses that face a chronic struggle to find suitable, affordable space. Zoning already allows for industrial buildings to be used for these other commercial purposes, but owners of industrial lofts rarely go this route. More often, they convert their spaces to residential uses—a shift that permanently removes space in which tenants could pursue industrial, office or artistic uses. As a result, neighborhoods like Williamsburg today are full of creative entrepreneurs but have relatively few office space options for them despite the dozens of industrial loft buildings in the area; most of those properties have been converted into apartments. City incentives might encourage some loft owners to make the investments necessary to turn their industrial facilities into attractive office spaces, thereby reducing the likelihood that they will make the leap from industrial to residential.

10 Create a Cultural Land Trust

Foundations that support the arts, city officials, business leaders and real estate developers should join together in supporting a feasibility study that investigates the viability of establishing a cultural land trust, whose mission would be to purchase real estate that would host permanently affordable spaces for the arts. Such an entity, to be modeled after the Trust for Public Land, a national conservation organization, and the more than 100 community land trusts that operate across the U.S. today, could help the arts community capitalize on current opportunities in the real estate market as well as provide a long-term mechanism to address the city's perpetual space crunch for artists and arts organizations. By creating permanently affordable space for the arts, a cultural land trust would address the greatest need cited by nearly everyone interviewed for this study.

> A cultural land trust might be the best way to create permanently affordable space for the arts.

In recent decades, artists and arts organizations have had a transformative impact on numerous New York City communities, but too often they end up victims of their own success: as the neighborhoods in which they have settled to live and work begin to thrive, real estate prices quickly skyrocket to levels well above what those in the arts can afford. The takeaway for those that have watched this process play out in Soho, Chelsea, Williamsburg and numerous other areas is that arts spaces owned by private developers—even if originally offered at reduced rates—will almost never remain affordable over the long run. Only a nonprofit developer who is not chasing out-sized returns can ensure long-term affordability, but currently no one in the marketplace fills this role.

The community land trust model offers an intriguing solution. As community land trusts have grown in number and prominence over the past two decades, the model has proven effective for ensuring the long-term availability of affordable housing. These nonprofit entities typically acquire and hold land, but sell off any residential or commercial buildings which are on the land. In this way, the cost of land in the housing equation is minimized or eliminated, thus making the housing more affordable. The land leases are long-term (typically 99 years) and renewable. Most, if not all, community land trusts have in place "limited equity" policies and formulas that restrict the resale price of the housing in order to maintain its long-term affordability. These features of the community land trust model provide homeownership opportunities to people who might otherwise be left out of the market.

The cultural land trust would require high-profile leadership with a deep understanding of the importance of arts groups and artists to the city economy, as well as a broad base of funds raised from a variety of sources. While much of its initial funds might come from government, foundations and corporate supporters of the arts, eventually a larger share of its revenue stream would be generated by projects in which the Trust retains equity.

11 Conduct Training Sessions on Developing Shared Spaces and Shared Services for Nonprofits

In recent years, organizations in San Francisco, Los Angeles, Denver, Seattle, Minneapolis, Boston and other North American cities have developed or retrofitted several dozen buildings as shared spaces for nonprofits, including many that feature offices, performance venues, rehearsal facilities and galleries for arts groups. By partnering with other organizations, nonprofit groups are able to get the long-term space they want while keeping their costs down. But the shared space model has been relatively rare in New York. "This model doesn't really exist [in New York]," says Gary Bernstein, executive director of Wingspan Arts, a Manhattan-based nonprofit group that has been actively looking to purchase a building that would include shared performance and rehearsal spaces as well as gallery space for visual artists. "We know there's a need for it."

Given the serious space needs of small and mid-sized arts organizations in New York, and the significant financial challenges now facing several local arts organizations that purchased real estate in recent years, DCA should partner with EDC and philanthropic foundations to explore the potential for creating new shared arts spaces in the five boroughs and understand the major financial obstacles for doing this.

City officials and arts funders could learn a lot from organizations across the country that have accumulated considerable expertise about how to develop, finance and operate successful shared facilities. To impart some of this wisdom, the city's philanthropic community should sponsor a day-long training session that brings in some of the foremost national experts in creating shared spaces for nonprofits, such as the NonprofitCenters Network, a cross-sector national network of nonprofits and their real estate partners or the PRI-Makers Network, an association of grantmakers that use program-related and other investments to accomplish their philanthropic goals.

Several mid-sized arts groups that purchased real estate in recent years are now drowning in debt and struggling to survive. It's worth considering whether shared arts spaces would be a better model.

12 Convert Foreclosed or Stalled Housing Developments into Living Spaces for Artists

Artists aren't the only New Yorkers struggling under the weight of the city's astronomical housing costs: teachers, firefighters, biomedical researchers and countless poor, working poor and middle class residents face the same problem. Thus, it's difficult to argue that the city should begin using a significant chunk of its affordable housing subsidies to develop homes for artists.

But given the outsized importance of the arts to New York's economy and the paucity of existing subsidized residential facilities for those in the arts—by our calculation, there are only five such complexes in the city—there's a compelling case to be made that policymakers should create some new preferences for artists in affordable housing developments that are built in the months and years ahead. Indeed, New York's future as a creative hub depends on the city's success in attracting and retaining the most creative, innovative and talented visual artists, performers, writers, film makers and designers from across the country and around the world. Yet, the skyrocketing cost of housing over the past 10 to 20 years has begun to seriously affect the city's ability to do this. Numerous studies—including this one—have found that a significant number of artists have been priced out of the city, while many others have opted not to come here in the first place due to the lack of affordable housing.

EDC and the city's Department of Cultural Affairs (DCA) can't begin to solve this problem on their own. They need to enlist city and state housing agencies—the NYC Department of Housing, Preservation and Development (HPD), the NYC Housing Development Corporation (HDC) and the NYC Department of Buildings (DOB) along with the NYS Housing Finance Agency and NYS Division of Housing and Community Renewal—to become active partners in this task. While these agencies have some of the nation's most innovative and aggressive programs for spurring the development of affordable housing, their projects too often proceed without involving low- or moderate- income artists. At the same time, arts advocates need to do a better job of connecting with these agencies—as well as with housing advocates—and making the case for why more of the new affordable housing developments should include artists.

One promising opportunity is for EDC and DCA to partner with the housing agencies to develop a plan for turning some of the roughly 500 stalled housing developments and 1,000 residential properties now in foreclosure into affordable housing with some preferences for artists. The agencies could either convert an entire building into a home for artists, or set aside part of a complex targeting a range of low-income residents for those working in the arts. "There are hundreds of [residential] buildings that are stuck in this downturn," says Mary Ann Tighe, chair of the Real Estate Board of New York (REBNY). "They're stuck sort of midway in the process of being built. This is the moment of opportunity for these hundreds of buildings and the question is how to gain control of these."

Another solution is to replicate successful artists' housing or live/work developments. For instance, Minneapolis-based Artspace, the nation's leading nonprofit real estate developer, is now working on its first project in the five boroughs—the conversion of a boarded-up former East Harlem school building (PS 109) into 90 live/work units for low-income artists. The project will also create 10,000 square feet of work space for arts organizations. Local economic development and housing officials should push to do similar projects elsewhere in the city. Similarly, the city might look to pattern a project after the Aurora. The development was originally slated to be market-rate housing, but construction halted when the economy stalled and it remained unfinished for seven years before the Actors Fund came in and used federal tax credits to complete the project as a residential facility for low-income artists.

13 Eliminate Bureaucratic Hurdles that Artists Face When Applying for Subsidized Housing

Numerous actors, artists, independent filmmakers and freelancers in the creative field meet the income thresholds to qualify for government benefit programs, from affordable housing to health care. However, many of these creative professionals encounter formidable obstacles when applying for these services because of antiquated application procedures that disadvantage people who work on an episodic or freelance basis. "Every benefit in New York has significant barriers for independent, freelance and episodic workers," says Barbara Davis, deputy executive director of The Actors Fund, a nationwide arts service organization. "That's biggest, broadest problem we see."

For understandable reasons, government programs require applicants to submit W2 or 1099 forms and other documents that detail the amount of income they earned in the past year and provide an indication of what they will earn in future years. However, submitting this documentation isn't so simple for many creative workers who might have had a handful of paid gigs as dancers, actors, playwrights or film editors in addition to numerous part-time and freelance jobs—and whose workload and income often varies greatly from one year to the next. "Try talking to a 33 year old modern dancer and put together every way they got paid: temp job, babysitting, wait job, dance job," adds Davis. "These people don't have one W2 for the year. They have stacks and stacks of different 1099s and all sorts of ways to show different contracts. And it's not a predictor of what's going on for them the next year. The way people in the creative community earn money does not fit into existing models of support services and benefit programs."

City Hall should set up an inter-agency task force, perhaps led by DCA, to conduct a detailed review of various city, state and federal government benefit programs. The goal would be to identify which programs feature applications that are needlessly biased against independent artists, actors and freelancers and to make specific recommendations for creating a more flexible and fairer process.

"The way people in the creative community earn money does not fit into existing models of support services and benefit programs."

Is New York Losing its Status as a Global Arts Center?

For most of its history, New York was never among the cheapest places in the country to live. But there were always havens of affordability across the five boroughs where artists could live on the paltry earnings they made from selling their art, performing or working in part-time jobs. At the same time, it was usually possible to rent a space to work, rehearse or perform without breaking the bank.

But many artists and arts leaders say that this is less the case today than ever before, thanks to soaring real estate prices over the past decade in nearly every corner of the city. The result is an affordability crisis that jeopardizes the city's future as a pre-eminent creative center—or at least threatens the city's status as a place that produces cutting edge art.

"New York has closed itself off to the young and the struggling," said legendary punk rocker, poet and visual artist Patti Smith, speaking at a forum this Spring at Cooper Union. Smith, who herself came to New York as a young artist in the late 1960s, advised other artists in the crowd to "find a new city," saying that "New York City has been taken away from you."

In interviews for this report, other artists reached similar conclusions. Lise Brenner, a dancer who has been in New York for much of the past two decades, laments that the rising cost of living has caused the city to lose some of its artistic edge. "New York was the top, the place from which modern dance emanated," says Brenner. "And what's happened is during the last 10 years we are no longer the innovators. We don't have enough spaces to rehearse in, not enough venues to perform. It's the living space, the working space, the fact that dancers are all in same boat of not being able to carve enough time away from making money to train and practice."

Jonah Bokaer, a 29 year old New York-based dancer and choreographer, adds that the city's high costs prompted many of his contemporaries to move elsewhere. "My generation of dancers/artists left New York City for Philadelphia, Boston, Berlin, Hudson (NY), Lyon and other places."

Indeed, as New York has gotten prohibitively expensive, a range of other cities have emerged

> "New York has closed itself off to the young and struggling."

as competition. Even though none of them are on par with New York as a creative capital—most don't even come close—they have been able to attract artists from New York and elsewhere because of their affordability, quality of life and a growing number of the amenities that appeal to creative individuals.

"A few years back…it started to become clear that you really didn't have to be in major cities to produce this stuff, you could be anywhere. There's now great, great art production in Kansas City or Salt Lake, which is a very big art town, unexpectedly," said New York Times fashion reporter Guy Trebay in an interview with Women's Wear Daily earlier this year. "I think people will always come to New York to make themselves known and sold, but, creatively, I don't see that there's any reason why you have to be here."

Recommendations

Help Nonprofit Arts Groups Reduce Costs and Become More Efficient

Arts organizations throughout the five boroughs today are reeling from an almost unprecedented financial crisis. In previous downturns, arts groups were able to survive because some of their revenue streams (such as money from philanthropic foundations or individual donors) remained fairly strong even as others (like government support or ticket sales) took a hit. But for countless arts groups, this downturn has been singularly devastating, with every significant income source impacted: foundations have been forced to make significant cuts in their arts giving after steep losses in the stock market caused their endowments to fall by 30 percent or more; individual donations have dropped as wealthy donors have sustained heavy losses in their own portfolios or experienced layoffs themselves; city and state government has greatly reduced funding for the arts; and revenue through ticket purchases and art sales has decreased since New Yorkers are spending less on entertainment and art and fewer tourists are coming to the city. Several arts organizations in the city face magnified economic problems because they recently purchased, or are in the process of purchasing, real estate. Many of these groups were already in bad shape; now they have an even deeper hole from which to dig.

For countless arts groups, this downturn has been singularly devastating, with every significant income source impacted.

With both the city and state now being forced to lay off teachers and close senior centers and parks to deal with massive fiscal crises, it's unrealistic to expect local government officials to come up with a major cash infusion for struggling arts organizations. But there are actions city and state policymakers, along with philanthropic leaders, could take to help arts groups get through the recession, from helping them restructure their debt and guaranteeing loans to taking advantage of technologies that would enable them to reduce their costs and become more efficient.

To its credit, the Bloomberg administration has already unveiled a package of programs designed to support local arts groups in this recession. But more is needed. Given how critical the nonprofit arts sector is to the city's larger for-profit creative economy and the increasing likelihood that a number of key arts groups will not survive this downturn, city and state policymakers should quickly develop a more comprehensive package of programs to strengthen and support New York's vulnerable arts organizations.

14 Further Expand EDC's Loan Guarantee Program to Serve More Nonprofit Arts Groups

In late 2008, as part of a series of initiatives designed to help New Yorkers deal with the city's economic downturn, the Bloomberg administration expanded the NYC Capital Access Revolving Loan Guarantee Program—previously available only to small businesses—to nonprofits as well. The program provides lenders with up to a 40 percent guarantee for qualified loans and lines of credit up to $250,000, thereby reducing lenders' risk in providing loans to applicants that they might otherwise reject—such as small firms, micro-businesses and nonprofits. Expanding the program to include nonprofits was certainly welcome, but the guarantee does not appear to be high enough to incentivize banks and other lenders to make loans for most small and medium-sized arts nonprofits in the arts, which are considered among the highest-risk loan applicants. This is in part because government funds, which lenders view as a stabile source of revenue, typically account for a lower share of the overall budget for arts groups than for other nonprofits. Even lenders specializing in the nonprofit sector need more of a credit enhancement to feel comfortable making loans to more arts groups.

The city should address this credit gap by raising the guarantee to 50 percent for loans made to nonprofit arts organizations. The funds needed to cover the additional guarantee could come from EDC or from philanthropic foundations.

Small- and medium-sized arts organizations are among the highest-risk loan applicants for lenders, because government funds—which lenders view as a stabile source of revenue—usually account for a lower share of the overall budget for arts groups than other nonprofits.

15 Help Arts Groups Restructure Their Debt

City assistance not only should refrain from adding more debt to the ledgers of arts organizations, but also should help those organizations restructure their current financial obligations—many of which were incurred as a result of undertaking major projects to build or acquire new performance and office spaces in recent years. These nonprofit theater groups, dance companies and other nonprofit arts organizations used capital funding from the city (as well as the Lower Manhattan Development Corporation) to help pay for these real estate projects, but long delays, overly ambitious plans and a host of other factors caused costs to escalate and required the groups to incur ever higher levels of debt, which could prove unsustainable in the current recession.

The city's Economic Development Corporation (EDC) could restructure the debt obligations for several of these groups by issuing tax exempt Industrial Development Agency (IDA) bonds. Doing so would notably lower the interest rates for these organizations, providing them more breathing space to meet other needs for the duration of the downturn. "Even a small reduction in debt is operating money for us," said one nonprofit leader interviewed for this report.

IDA bonds aren't usually an appealing option for small and mid-sized organizations, since the hefty, upfront underwriting fees often outweigh the long-term savings on relatively small debt offerings. But rather than issuing several small IDA bonds to nonprofit arts groups that are in more or less the same boat, EDC could consider pooling the groups into one larger bond issue; the fees for the pool wouldn't be much larger than they would for an individual bond issue, and dividing them among the various organizations would reduce each organization's cost to a manageable level.

To its credit, EDC has indicated a willingness to utilize this type of refinancing vehicle on behalf of a handful of nonprofit arts organizations that are located in lower Manhattan and facing similar debt burdens. Unfortunately, one barrier stands in the way: For nearly a year and a half, the state legislature has failed to pass legislation reauthorizing the IDA program in New York City and across the state. Without authorization, EDC cannot legally complete these refinancing deals.

The state legislature should act quickly to authorize EDC to administer IDA bonds. When they do so, the agency should move forward with one or more pooled bond issues to groups of similarly situated nonprofit arts organizations.

The city could help several struggling arts groups by restructuring their debt. But this can't happen unless the state legislature ends a stalemate and passes legislation reauthorizing the IDA program.

16 Initiate a Major Push to Help Nonprofit Arts Groups to Adapt Technology

Web-based customer management systems, digital payroll and bookkeeping programs, open source software and other new technologies that are widely used by small businesses today could enable arts organizations to achieve significant cost savings, become more efficient and make better-informed decisions about everything from fundraising to marketing. All of this could make a huge difference for nonprofit arts groups that, even in the best of times, often struggle to raise enough money to cover their operating costs and now face sharp reductions in revenue. Unfortunately, too few of the city's small and mid-sized nonprofit arts groups have adapted these new technologies, often because they don't know about them (or don't know which system is best), can't afford the initial cost of implementation or don't have staff with the know-how to use and maintain the new systems.

> "If the creative sector is going to flourish, they're going to have to adapt low-cost solutions around managing their money and developing online strategies to identify who their audience is and manage their customers."

"If the creative sector is going to flourish, they're going to have to adapt low-cost solutions around managing their money and develop online strategies to identify who their audience is and manage their customers," says Sam Miller, newly appointed president of the Lower Manhattan Cultural Council and formerly the head of Leveraging Investments in Creativity (LINC), a national organization that focuses on improving the conditions of artists. "There are tools that organizations are developing, but they need money to deal with the upfront costs. And then they need technical assistance to use it. It should be sustainable at a reasonable cost after a few years, but there has to be initial money to purchase software, hire a Web designer and develop Web tools."

"I know a great database for managing contacts and donors," adds the head of one mid-sized nonprofit arts group. "The bigger organizations can afford to purchase it, but we're too small to get it. It's too expensive. There's a lot of other technology out there, too. But there's a big learning curve to do some of this and it's so expensive to purchase a consultant who could help us do a sophisticated online strategy. The city should help nonprofits get access to technologies like that in order to reduce costs."

DCA and leading foundations should push for a citywide initiative to help nonprofits adopt new technologies that help them reduce their costs and become more efficient.

17 Allow Nonprofits to Access REAP and Other Incentive Programs Open to Small Businesses

Nonprofit arts groups have demonstrated their positive economic impact in communities around New York City. As is true of for-profit businesses, they employ workers who spend money in neighborhood restaurants, copy shops and other services. Many arts groups that offer performances, galleries, classes or other public programming provide an additional benefit: they regularly bring in people from other neighborhoods and, often, from outside the city, who both pay for creative offerings and spend money eating and shopping nearby.

Yet, despite all of this, nonprofits usually don't qualify for the city's economic development incentive programs. The problem is that the city's financial incentive programs typically include an exemption or abatement from taxes, a system that makes perfect sense for businesses but which leaves nonprofits, which usually don't pay taxes, out in the cold.

EDC should review their incentive programs to consider changes that would enable nonprofits to utilize them. The agency could create a working group to examine the feasibility of extending each of their current incentive programs to nonprofits, but the obvious place to start is the Relocation and Employment Assistance Program (REAP).

Designed to spark growth in neighborhoods outside of Manhattan's central districts, REAP provides significant tax credits to companies that relocate from most parts of Manhattan—or from outside the city entirely—to the other four boroughs and upper Manhattan. Companies receive a $3,000 tax credit per year for each job relocated, for up to 12 years. Firms also receive the same tax credit for each new job added within five years of the move. Real estate experts interviewed for this study say that companies which fully take advantage of REAP can lower their rent from $25 to $10 per square foot.

Excluding nonprofits from REAP doesn't make much sense. After all, nonprofits might be even more willing than businesses to consider the idea of relocating outside of Manhattan; REAP might provide the final push they need. Their employees would help create demand for the local amenities that emerging business districts often lack, perhaps to an even greater extent than large corporations. Indeed, several companies that relocated, with the help of city incentives, to Long Island City and downtown Brooklyn built cafeterias into their office buildings; nonprofit employees probably would be more likely to patronize local food options and other shops.

"Nonprofits are essentially at a disadvantage to go into neighborhoods that the city is trying to incentivize people to locate in," one real estate developer says about the REAP program. Another executive of a nonprofit arts organization asked: "My organization can be an engine for economic development; why should we be barred from participating?"

David Lebenstein of Cassidy Turley suggests that the city create a small fund that would provide nonprofits that move from Manhattan to space in the other four boroughs or above 96th Street in Manhattan with grants of $1,000 to $3,000 per employee. To keep the costs down and to ensure that small- and medium-sized nonprofits benefit, he suggests limiting the total amount of grants available to any one organization.

Opportunity in Crisis

Previous Downturns in New York Produced Innovative Real Estate Initiatives that Benefited Nonprofits and Artists; These Five Examples from the Past Hold Lessons for How to Make the Most of the Current Downturn

Rahm Emanuel, chief of staff to President Obama, famously said in November 2008 that a good crisis should never go to waste. With that in mind, the bursting of the real estate bubble presents an opportunity that would have been unimaginable during the inflated market of the past several years to lease, purchase or redevelop properties for arts-related uses. Establishing new affordable arts spaces would allow New York to take meaningful steps towards addressing what has long been the paramount challenge facing countless artists, arts groups and creative entrepreneurs.

As in previous down cycles, owners of commercial or residential buildings across the five boroughs that are now vacant, underused or on the verge of foreclosure will almost certainly be willing to consider a broader range of options for their properties than they would have a few years ago. With demand for high-end residential housing sharply decreased, more owners will opt to rent spaces to small businesses, nonprofits and other less-lucrative tenants. Some property owners that had been planning to convert older office buildings, warehouses or factory lofts into luxury residential buildings might forego these options and continue renting to manufacturers, artisans and artists. However, a handful of owners might also be open to more innovative plans, such as turning an entire building or a number of floors into a home for nonprofits or an incubator for creative entrepreneurs.

"This is a strategic time to take on space for nonprofits," says China Brotsky, managing director of Tides Shared Spaces, which creates, operates and promotes sustainable work space for nonprofits.

"We're at a defining moment when a carrot can be extended to property owners and they can compromise in a way they never would have dreamed of before," adds Brian Coleman, CEO of the Greenpoint Manufacturing and Design Center, a Brooklyn-based nonprofit organization that has redeveloped several factory buildings as affordable centers for woodworkers and other small manufacturers. "It's a great time to start."

Previous downturns in the city's economy and real estate market have produced a number of innovative development projects that have benefited nonprofits, artists and other groups that perpetually struggle under the weight of the city's exorbitant real estate costs. The following snapshots provide examples of innovative government-backed real estate projects undertaken during recessions or weak cycles in the real estate market.

120 Wall Street

In the early 1990s, many nonprofit organizations were becoming priced out of the city and considering options to relocate. New York City's nonprofit community had accounted for more than 10 percent of the city's employment and its potential exodus became a source of great concern for local policymakers. At the same time, lower Manhattan was under severe economic pressure. Several commercial office buildings in the Financial District were experiencing alarmingly high vacancy rates as an increasing number of firms migrated from downtown to midtown in search of larger, more modernized office space.

In 1991, the administration of Mayor David Dinkins set out to resolve both of these economic concerns at once by establishing an affordable home for dozens of nonprofit organizations in a lower Manhattan office building that had been struggling to attract private sector tenants. The city's economic development agency solicited proposals from commercial owners in the downtown area who had a substantial amount of vacant office space available for conversion to a not-for-profit "Association Center." Designating the property as an Association Center would qualify both the property owner and prospective nonprofit tenants to be compensated by the city with a host of tax and other financial incentives, including issuing IDA bonds to finance tenant improvements. The Association Center would provide nonprofits with a mechanism for reducing their operating expenses by allowing nonprofits to lock-in below-market rents for an average period of 15 years. In theory, a fortunate group of nonprofits would be given an affordable and semi-permanent home in exchange for helping to revive lower Manhattan's economy.

The Dinkins Administration received 13 applications from building owners and in 1993 selected Larry Silverstein's property, 120 Wall Street. At the time of the selection, the building's vacancy rate was approaching 40 percent. Silverstein clearly needed occupants and nonprofits desperately needed affordable office space. A mutually beneficial arrangement, 120 Wall Street's conversion to tax-free nonprofit business incubator served to optimize the property's space. It encouraged innovative uses of shared spaces by and among tenants and played an integral role in helping the building operate at or near capacity throughout the past two decades. Today, 120 Wall Street is home to more than 40 nonprofit organizations and serves as an inspiration to creative nonprofit developers. There are now several other properties throughout the downtown area that are experimenting with low-cost, shared-work-space models for nonprofit use, increasing the presence of nonprofits throughout lower Manhattan. Not only was the Association Center successful in helping to stop the city's hemorrhaging of nonprofits, but it also encouraged the migration of several other nonprofits to the downtown area, providing property owners with a new class of tenants to occupy their vacant office space.

Westbeth

Westbeth, the first large-scale initiative to create affordable housing for artists in New York, powerfully illustrates what can be done when public officials and philanthropic leaders seize an opportunity to take advantage of real estate vacancies.

The opportunity arose in 1966, when Bell Laboratories relocated its operations from Manhattan to New Jersey, leaving its large West Village complex vacant. At the time, artists in the city had been struggling to find affordable living spaces and advocates identified the empty Bell Labs facility as a potential solution. Their dream was realized when the federal government (the National Council on the Arts) and a New York-based philanthropic foundation (the J.M. Kaplan Fund) each committed more than $1 million, enabling a nonprofit organization to purchase the complex from Bell Labs' parent company for $2.5 million. City officials also aided the project; the New York City Planning Commission passed a zoning law amendment that cleared the way for Westbeth to move forward.

Once purchased, the block-long industrial complex was then converted into affordable live-work spaces for artists, making Westbeth the first federally-subsidized artists' housing project in the United States. It opened in 1971 and now has 383 apartments that are rented at affordable rates to artists of all disciplines. Westbeth also houses the Merce Cunningham Dance Company as well an art gallery, a theater, rehearsal spaces and numerous studios for painters, sculptors, musicians and other artists. There has been so much demand for the residential units at Westbeth that the waiting list has been closed since 1997 to allow artists already on the list to get a space. Over the years, artists living at Westbeth have included Diane Arbus, Moses Gunn, Gil Evans and John Scofield.

Manhattan Plaza

Today, Manhattan Plaza Apartments is arguably one of New York City's greatest assets when it comes to retaining artistic talent. In a city where exorbitant housing costs often makes it difficult if not impossible for those working in the creative sector to remain in the five boroughs, Manhattan Plaza is a subsidized housing complex that sets aside 70 percent of 1,689 units to members of the performing arts. One of just a handful of subsidized residential buildings for the arts, Manhattan Plaza has functioned as a performing arts incubator since it opened in June 1977, providing performers with affordable living and rehearsal space and with opportunities for networking and professional development.

But Manhattan Plaza was not originally designed to be an arts haven. It came about only because of government action to resuscitate a stalled development project in the downturn of the mid-1970s.

In 1973, developer Richard Ravitch began construction on his privately financed project called Manhattan Plaza Apartments in the city's Hell's Kitchen neighborhood. The development was originally designed for middle-income living and was intended to be a driver in reviving the area, which was then regarded as one of the seediest areas in the city. To attract prospective tenants to the area, Ravitch included a host of amenities such as a pool, multi-story garage and a fitness center in his development. The city also saw the value of bringing middle-income housing to the area and committed itself to a $90 million mortgage commitment on the development, in return for a designation that 10 percent of the units would be covered by Mitchell-Lama income ceilings.

About halfway through the project's completion, a lethal confluence of the City's financial crisis, a nationwide recession and an energy crisis lead to soaring construction costs. The city was unable to keep up with the project's inflated costs and eventually defaulted on its mortgage commitment. After a request for help from city officials, the federal government saved the project by converting Manhattan Plaza to a Section 8 public housing complex, offering rent subsidies in exchange for mandating that the project target both low and moderate income tenants. Given the project's proximity to the Broadway theater district, many also saw the development of this complex as an opportunity to support the theater community. Many performers and arts leaders successfully advocated for affordable housing specifically designated for members of the city's theater community.

The New 42nd Street

Times Square today is the site of some of the most expensive real estate in New York City. But thanks to a series of bold, forward-looking actions taken by city and state officials in the downturn of the early 1990s, the heart of this high-priced entertainment district is also home to a nonprofit children's theater, five floors of affordable rehearsal space for performing arts companies, three floors of permanent office space for nonprofit theater groups and a 199-seat experimental theater.

All of these critical arts spaces—the New Victory Theater, the New 42nd Street Studios and The Duke on 42nd Street—came about as part of a decades-long process to revitalize 42nd Street, which had become a seedy stretch of sex shops by the 1980s. These projects succeeded in large part due to strong leadership and clever planning by the staff of the New 42nd Street, an independent organization set up in 1990 by the city and state to solicit proposals for resuscitating several historic theaters and oversee their renovation and management. But it's unlikely that so much space for nonprofit arts groups to rehearse and perform would have been included in the revival plan if not for the sharp drop in the real estate market at the end of the '80s. "By the time we got involved in 1990, the market really turned," says one official involved in the original project. "No one cared about 42nd Street by then. Had it been a good economic time, the city and state would never have signed off on [our plan]. One of the lessons learned is that slow times are really good for doing planning and getting the legal and financial infrastructure in place, so when the market hits again you're already there."

Equally important to the success of these developments was the use of creative financing mechanisms: city and state officials essentially mandated that future office, retail and entertainment developments would cross-subsidize the nonprofit spaces. City and state officials had provided lavish government incentives to spur development of four office towers at the intersection of 42nd Street, Broadway and Seventh Avenue; in return, the developers were required to pay millions of dollars—based on a formula related to amount of rentable square feet—toward the development of two nonprofit theaters down the block. Developers of future commercial projects elsewhere on 42nd Street—from the AMC Movie complex to the E-Walk Hotel—also had to kick in money to the New 42nd Street based on a similar formula.

Greenpoint Manufacturing and Design Center

The Greenpoint Manufacturing and Design Center's (GMDC) showcase building at 1155 Manhattan Avenue in North Brooklyn today serves as a refuge for more than 70 woodworkers, graphic artists and artisan manufacturers. Thirty six percent of the buildings tenants are in the arts, including a metal worker who creates dinosaur sculptures for the Museum of Natural History and an artist who designs window displays for Saks Fifth Avenue and Lord & Taylor. The building has had a long waiting list since shortly after its redevelopment in the early 1990s, an unsurprising fact given that this is one of a small handful of industrial properties left in New York where rents are affordable and guaranteed to stay that way.

The building's unique status as an affordable incubator for light manufacturing and crafts companies stems from a decision by Mayor David Dinkins in the early 1990s to turn the facility, then a largely empty factory building in a state of disrepair, over to a nonprofit industrial developer whose mission is to create and maintain sustainable spaces for small and mid-sized manufacturers. Because the owner is not looking to turn a profit, tenants aren't subject to astronomic rent increases and don't have to worry about their building being converted into a luxury condominium—a problem that caused hundreds of New York manufacturers to be displaced over the past decade.

1155 Manhattan Avenue became the first of six buildings redeveloped and managed by GMDC in 1994, when the city sold the building to the nonprofit developer for $1 in 1994. The city had come to own the factory as a result of a tax foreclosure in 1974, but over the years lacked the money to maintain or upgrade the facility. While the building deteriorated, a handful of woodworkers and other commercial tenants set up production shops and artist's studios. The city gave these tenants month-to-month leases, while simultaneously exploring other long-term options for the building; among other things, government officials invited private developers to the site to gauge their interest in converting it to a residential property and also considered demolishing the structure.

By the downturn of the early 1990s, however, city officials agreed to sell 1155 Manhattan Avenue to GMDC and make it a haven for artisan manufacturers. In addition to purchasing the property from the city for next-to-nothing, GMDC secured around $7 million in grants and creative, low-cost financing from government, foundations and lenders to undertake the structural repairs needed to make the space inhabitable.

FOOTNOTES

1. New York State Department of Labor. New York City's seasonally adjusted unemployment rate was 9.3 percent in September 2010.
2. The Center for an Urban Future's December 2005 report, "Creative New York" defined New York City's creative sector as consisting of these nine industries. http://www.nycfuture.org/images_pdfs/pdfs/CREATIVE_NEW_YORK.pdf
3. According to the New York State Labor Department, between July 2009 and July 2010 the "motion picture and sound recording" sector added 2,400 jobs in New York City, a gain of 6.2 percent, while "performing arts, spectator sports and related industries" added 2,600 jobs, an increase of 7.8 percent.
4. Weisbrod stepped down as president of Trinity Real Estate in October 2010, but is expected to remain with Trinity until January 2011.
5. National Endowment for the Arts, "Artist Unemployment Rates for 2008 and 2009: An Addendum to NEA Research Note #97, Artists in a Year of Recession: Impact on Jobs in 2008" NEA Research Bulletin, January 2010.
6. Cassidy Turley, April 2010. An August 2010 report from Jones Lang Lasalle showed that Manhattan's Class A vacancy rate had fallen to 12.1 percent in the second quarter of 2010; the rate for Class B buildings was 13.0 percent.
7. "8 addresses new to distressed properties list," The Real Deal, May 3, 2010.
8. Christine Haughney, "Stores Go Dark Where Buyers Once Roamed," New York Times, July 20, 2009.
9. Lebenstein is a board member of the Center for an Urban Future.
10. The Center for an Urban Future has long been located at 120 Wall Street.

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