CREATIVITY

CREATIVE PLACES & BUSINESSES

Catalyzing Growth in Communities

INVESTMENT

IMPACT

Calvert Foundation enables people to invest for social good. Throughout its more than 20-year history, Calvert Foundation has provided investor capital to support the financing needs of domestic and international community development organizations, projects, funds and other social enterprises. Through this work, Calvert Foundation has funded affordable housing for artists, community cultural centers, and small businesses in creative industries.

Launched in 2016, Upstart Co-Lab has a mission to create opportunities for artist innovators to deliver social impact at scale. One way Upstart seeks to fulfill this mission is by bringing a creativity lens to impact investing. Upstart Co-Lab is a fiscally-sponsored project of Rockefeller Philanthropy Advisors.

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Preface

Creative Places and Businesses are a critical yet under-recognized element of comprehensive community development. This research investigates the current demand for debt capital among Creative Places and Businesses through in-depth interviews with 75 individuals representing Creative Places and Businesses, financial intermediaries, impact investors, philanthropic funders, and thought leaders in these fields.

Through these conversations, we gained practical insights about what it will take for impact investing and Creative Places and Businesses to align more closely. Namely, the importance of recognizing Creative Places and Businesses as a segment within community development equipped with shared definitions and standardized metrics; the ongoing need for technical assistance to build familiarity and expertise among community development lenders and capacity among Creative Place and Business borrowers; and the need for development of a robust ecosystem to enable impact capital to truly meet effective demand.

This ecosystem will allow a dollar from an investor to move through the capital markets to finance a Creative Place or Business, and is crucial for allowing impact investment to flow to the Creative Economy.

- Impact investors – retail and institutional asset owners – seek investments in financial products targeting the Creative Economy that look and feel like traditional products and can easily be placed in their investment portfolios.

- Capital raising intermediaries create products that aggregate capital from investors seeking diversified, risk-adjusted options. Capital raising intermediaries invest in capital deployment intermediaries.

- Capital deployment intermediaries – like Community Development Finance Institutions (CDFIs) – are often locally or regionally based and invest in operating businesses and real estate projects in communities, including Creative Places and Businesses. Capital deployment intermediaries aggregate investment opportunities, and track and report on their financial and social returns.

- To qualify for investment, Creative Places and Businesses must be creditworthy, following a solid business plan, well-managed, and cognizant of what it means to take on outside investment. They must also meet impact investor expectations for social impact.

We can observe components of this nascent ecosystem – interested investors, existing community investment products that could be targeted to the Creative Economy, capital raising platforms already distributing these community investment products, and Creative Places and Businesses that have successfully received and repaid investment from CDFIs and other community lenders. However, these components require development and must be united into a fully-functioning system.

We share our learnings in hopes they will help bring attention to the work already happening in communities, and suggest to impact investors who care about the arts, culture, and creativity that there are opportunities in the Creative Economy.

Executive Summary

We identified a $1.54 billion pipeline of 26 projects by 22 Creative Places and Creative Businesses seeking impact capital over five years beginning in 2017. $338 million of this capital is planned in the form of debt financing. Creative Places represent the significant majority of this pipeline. Our findings are representative of the opportunities Creative Places and Businesses are generating in communities, but are far from comprehensive.

While our research was limited in scope, we believe there is value in sharing what we learned. Given the political climate at the time of writing, new sources of funding for creativity and community development are more important than ever. With stronger ties between impact investing and Creative Places and Businesses, more capital can be channeled to help anchor communities, create jobs, and improve quality of life across geographic and demographic boundaries. Much of what we share may be familiar to community development practitioners, but hopefully we present it in a context that will support their growing dialogue with impact investors and project leaders working in the creative economy.

Research Parameters

Our research focused on U.S.-based real estate developers who build and manage live and work space for creatives (Creative Places); and U.S.-based businesses that leverage the arts, design, fashion, food, and other creative industries to drive social impact (Creative Businesses). Real estate and business efforts in the Creative Economy that address the needs of low income, disadvantaged, and excluded communities were prioritized. However, since Creative Businesses is a nascent and fragmented segment of small businesses aligned with community development, our research also looked at creative startups and B Corporations in creative industries.

We solely considered the demand for debt financing, not equity. We did not focus on traditional cultural nonprofits but on business models less dependent on ongoing philanthropic operating subsidies. Our approach was “bottom-up”: we identified the near-term financing needs of 26 projects based on information gathered directly from the projects’ managers. In total, we interviewed 75 individuals representing Creative Places

Creative Places: Multi-tenant affordable real estate projects (including housing, workspace, co-packing space, and retail space) targeting creatives and benefiting their neighbors.

Creative Businesses: Enterprises (focused on operation of facilities, inputs, production and distribution) in creative industries such as fashion, culinary arts, architecture, game design, and industrial design. We see creative businesses as a potential source of quality jobs.[i]

Impact debt: Lending with the objective of generating positive social impact as well as a financial return. Our definition of positive social impact prioritizes benefits for low income, disadvantaged, and excluded communities.

i PCV InSight, 2016, "Defining and Measuring The Creation of Quality Jobs," Pacific Community Ventures, April 14, Accessed January 24, 2017, https://www.pacificcommunityventures.org/2016/04/14/defining-and-measuring-the-creation-of-quality-jobs/. Quality jobs are defined as offering a living wage, basic benefits, career-building opportunities, wealth-building opportunities, and a fair and engaging workplace.

and Businesses, financial intermediaries, impact investors, philanthropic funders, and thought leaders in these fields to find these 26 projects and to contextualize what we learned from talking with them. (See Appendix III and Appendix IV.)

Investment Rationale

Impact investing and Creative Placemaking are relatively new terms that describe familiar activities. "Impact investing" refers to investments that generate social impact alongside financial return.[1] "Creative placemaking" describes the deliberate integration of creatives into comprehensive community development strategies.[2] The parallel growth of impact investing and creative placemaking offers a unique opportunity to have impact in communities.

Impact investors, enthusiastic about aligning their capital with their values, have begun to ask for an opportunity to invest in the power of the arts and creativity to make positive social change. With philanthropic support, creatives have demonstrated how their work in communities can strengthen economies, build civic engagement and resiliency, and improve quality of life.[3] With investment capital plus technical assistance, creatives with sustainable business models can take their success to scale. Impact investors can support these efforts by targeting investment to creative communities.

A CREATIVITY LENS FOR IMPACT INVESTING

Creativity Drives Today's Economy: Enthusiasm for creativity is palpable: mayors and governors are commissioning Creative Economy plans; corporate leaders agree that the future of their businesses depends on creativity in the workforce; Kickstarter, Indiegogo and other crowdfunding platforms are channeling billions of dollars to fund creative projects.

Creative Places and Businesses Have Potential: Creative Places and Businesses have been a mainstay of community development for decades, though not recognized as a distinct segment of the market. Our research revealed a pipeline of projects over the next five years seeking more than $1.5 billion in investment capital. New replicable operating models are being demonstrated and have the potential to spread.

Impact Investors Are Interested: Institutions that value the arts, storytelling and creativity and art lovers, art collectors, and artists themselves are looking for opportunities to align their capital with their priorities. Impact investing wealth advisors confirm that their clients are asking for opportunities to invest in the arts and the creative economy. To date, there have been only private opportunities, no products, funds or manager strategies are available.

Impact Capital Is Scale Capital: The social sector scales in one of two ways: through government spending or the capital markets. It is unlikely that government funding will increase for the arts or communities in the near future. That leaves the capital markets—specifically impact investment—to shape a Creative Economy that is inclusive, equitable, and sustainable.

1 Global Impact Investing Network, n.d, What You Need to Know About Impact Investing, Accessed December 27, 2016, https://thegiin.org/impact-investing/need-to-know/#s1.

2 Provided by Jason Schupbach, Director of Design Programs at the National Endowment for the Arts.

3 See Appendix I.

Findings

Creative Places

We identified 14 Creative Places seeking $326 million in impact debt for 17 projects totaling $1.46 billion. The remaining $1.13 billion in financing for those projects to come in the form of tax credits and similar subsidies, impact and conventional equity. Creative Places are a growing segment within community development, but limited access to responsive, flexible capital can constrain viable projects. The barriers we found to investment in Creative Places include a lack of recognition of Creative Places as a distinct segment within community development; the need for better understanding that risks associated with investing in Creative Places are similar to the risks of other real estate-based projects; a need for technical assistance for community lenders and Creative Place project leaders; and an effort by community lenders to take a more inclusive approach towards underwriting. (See Appendix III.)

Creative Businesses

We spoke with CDFIs, accelerator programs focused on creative industries, and interviewed 19 Creative Businesses including three B Corporations. We identified eight Creative Businesses seeking $12 million in impact debt for nine projects as part of $80 million in growth financing over the next five years, with the remaining $68 million to come in the form of self-funding, grants, earned revenue, and impact and conventional equity. These businesses were hard to find due to market fragmentation: some identify as small businesses, some as arts-specific businesses, and some as businesses driving community development. The smaller size of the capital needs for these Creative Businesses compared with the Creative Places in our study is consistent with small business versus real estate borrowing within community development generally. Expert practitioners encouraged that the field make an effort to overcome this fragmentation, believing Creative Businesses are worth attention. (See Appendix III.)

The barriers that challenge lenders to support Creative Businesses are similar to the issues presented by all small business lending and other nascent market segments: small loan size, segment knowledge is required, and companies often need technical assistance. The barriers that keep Creative Businesses from borrowing were more unique: a reluctance to borrow, desire for the business-building support more commonly provided by equity investors, lack of familiarity with impact investing and Community Development Finance Institutions (CDFIs), and crowdfunding platforms for creatives like Kickstarter that offer cheaper alternative capital.

Investor Demand

More institutions and individuals are investing for impact. As they do, new impact focus areas are emerging. Institutions that already value the arts, storytelling, creativity and innovation are exploring ways to effectively deploy their endowment capital on-mission. Individual impact investors—art lovers, art collectors, and artists themselves—are also asking for opportunities to align their capital with their values. As more institutions move to mission-related investing[4] and more individuals adopt impact investing, arts and culture could lose out entirely unless targeted investment options are developed for Creative Places and Businesses.

4 Mission Investors Exchange, 2016, About Mission Investing, Accessed February 22, 2017, https://www.missioninvestors.org/mission-investing. According to the Mission Investors Exchange, mission-related investments are part of a foundation's endowment and have a positive social or environmental impact while contributing to the foundation's long-term financial stability and growth.

Conclusion

There is an opportunity for impact investors seeking to bring new solutions to communities through the lens of creativity. Our research revealed investable Creative Places and Businesses, and meaningful demand for capital. However, barriers must be overcome. Creative Places and Businesses must be recognized as a segment so that investors, intermediaries, and project leaders can find one another and cooperate more easily. Once that happens, for impact capital to truly meet effective demand, the ecosystem connecting impact investors to Creative Places and Businesses with sustainable business models must be in place. This will require shared definitions and metrics, and increased capacity for community lenders and Creative Places and Businesses. Investments in Creative Places and Businesses are good investments in communities. There is great potential to align impact investing and the Creative Economy.

Introduction

We identified a $1.54 billion pipeline of Creative Places and Creative Businesses seeking impact capital for the period of 2017 through 2022. Based on what we learned – and with an appreciation for the power of arts and creativity to drive social impact and strengthen communities – we believe that impact investors should begin to adopt a creativity lens.

Over the past 20 years, impact investing has grown as a field. It is beginning to respond to targeted investor interest and substantiated opportunities with dedicated investment products. For example, investors who want to elevate women and girls can adopt a gender lens.[5] We believe that with the right community development ecosystem in place it is possible to bring a similar, focused approach to impact investing in the Creative Economy.

> ***"I want to create a for-profit development model that can generate a reasonable market return and do it in a way that is replicable where any developer in any town could look at it and say, hey, I'm interested, I can do that, and I can make a 6-8% return and it's all possible even in a model where all the tenants are artists."***
>
> *— Sam Farrazaino – Founder, Equinox Studios, LLC*

Research and experience have shown how the presence of creatives (defined in this report as artists, designers, makers and including those using technology) can stabilize threatened communities as well as benefit regions looking to attract and develop quality jobs.[6] Artists and designers are founders of some of the leading companies of the Internet age, and the cross-over between sustainability and the creative sector is already visible in B Corporations[7] like Kickstarter[8] and Etsy.[9] 10% of U.S. B Corporations are in creative industries, generating social impact and financial returns, and suggesting what is possible when sustainability and the Creative Economy converge.

Recognized in recent years as a driver of economic growth and social cohesion, the Creative Economy is becoming better positioned for impact investment.

5 For a primer on gender lens investing, visit Women Effect at: http://www.womeneffect.com/what-is-gender-lens-investing/.

6 A representative list of cities and states that have commissioned research and plans on the creative economy can be found at http://www.upstartco-lab.org/resources/. In addition, please visit the websites of the National Governors Association, the Brookings Institution and Americans for the Arts for related research.

7 For-profit companies certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. For more on B Corps visit: https://www.bcorporation.net/what-are-b-corps.

8 Kickstarter is a crowdfunding platform for creative projects that has unlocked $2.8 billion of capital, democratizing funding for new ideas and helping to establish the concept of the sharing economy.

9 Etsy is a marketplace for individual sellers/creators of handmade or vintage items, art, and supplies that has unlocked $2.4 billion of annual revenue for small-scale creative entrepreneurs who now can reach customers nationally and around the globe.

Research Parameters

We focused our research on Creative Places and Businesses in the U.S. that are generating both a financial return and a social impact, and are seeking impact debt in 2017-2022. (See Appendix IV.)

Domestic Organizations

Our research focused on groups within the United States that are either developing affordable real estate projects for creatives to live, work, and contribute to their communities (Creative Places) or running financially healthy businesses that leverage the arts, design, fashion, food, and other creative industry sectors to drive social impact and strengthen communities (Creative Businesses).

Social Impact

Our research privileged projects at the vanguard of creativity and social impact. The partners behind this report are committed to working with impact investors to reach underserved populations and drive community change. For that reason, real estate and business efforts in the Creative Economy that address the needs of low income, disadvantaged, and excluded communities were prioritized. However, since Creative Businesses is a nascent and fragmented segment of small businesses aligned with community development, our research also looked at creative startups and B Corporations in creative industries.

Impact Debt

Creative Places and Businesses are financed with different types of capital: philanthropic, commercial, and impact capital (both debt and equity). We focused on impact debt as a starting point for strengthening ties between impact investing and the Creative Economy. Debt currently accounts for 35-40% of all impact investment,[10] and is often viewed as an entry point for new investment segments due to its risk/return parameters. Additionally, our study is in part intended to highlight the ability of the community development sector to leverage the robust infrastructure already in place to target capital to the Creative Economy.

“There’s always a need when you’re dealing with non-traditional tenants or businesses to have capital that is more understanding to community development needs. I think arts and culture is an avenue where we’re still at a nascent stage of building out a business model."

— *Jeff Crum - Director of Real Estate, New Jersey Community Capital*

Financial Return

We focused on Creative Places and Businesses that are suited for investment. We actively looked beyond traditional non-profit cultural organizations[11] (e.g. theaters, museums, dance companies, orchestras), intentionally focusing on organizations with business models that are less dependent on ongoing philanthropic operating subsidies.

Approach

Our approach was “bottom-up”: we identified the near-term financing needs of 26 projects based on information gathered

10 Abhilash Mudaliar, Hannah Schiff, and Rachel Bass, 2016, "2016 GIIN Annual Impact Investor Survey," Global Impact Investing Network, May, Accessed December 28, 2016, https://thegiin.org/assets/2016%20GIIN%20Annual%20Impact%20Investor%20Survey_Web.pdf.

11 ArtPlace America, Doris Duke Charitable Trust, Nonprofit Finance Fund, Seachange Capital Partners, and others have explored the potential for, managed, and reported on their experience with loan programs to nonprofit cultural organizations in the past. Their learnings have informed this research.

directly from the projects' managers. In total, we interviewed 75 individuals representing Creative Places and Businesses, financial intermediaries, impact investors, philanthropic funders, and thought leaders in these fields to find these 26 projects and to contextualize what we learned from talking with them. We gained practical insights we believe can strengthen the connection between impact investors and the Creative Economy.[12] We did not endeavor to assess total market size, national demand for capital, or related trends about the state of investing in Creative Places and Businesses which might be determined by extrapolating from existing government or industry data, or working "top-down." (See Appendix IV.)

12 The Creative Economy is the economic activity driven by creative industries, cultural industries, creative cities, clusters, and the creative class.

Investment Rationale

This section of the report provides context on impact investing, the Creative Economy, and the value of investigating their intersection.

Summary

The term “impact investing” was coined in 2007, and refers to “investments made into companies, organizations, and funds with the intention to generate a social and environmental impact alongside a financial return.”[13] The term “creative placemaking” was coined in 2010 to describe “when artists, arts organizations, and community development practitioners deliberately integrate arts and culture into community revitalization work—placing arts at the table with land-use, transportation, economic development, education, housing, infrastructure, and public safety strategies.”[14] Creatives working in communities help strengthen economic development, encourage civic engagement, build resiliency, and contribute to quality of life.[15] Since 2011, government and philanthropy have channeled over $125 million toward creative placemaking;[16] market-driven capital is the next step in the advancement of creativity and community. However, today limited impact capital is targeted to the Creative Economy.

Impact Investing

History

Investors have sought to balance their desire for financial return with their values and social priorities for centuries. In 1604, a Mennonite shareholder of the Dutch East India Company—upon learning that the company was engaging in piracy as a way to boost profitability in their trading operations—divested his stock to signal that such practices were not aligned with the values he had agreed to when he original invested.[17] In 1848, the Oneida community in upstate New York grappled with how to operate a successful silversmith business for the purpose of funding a utopian community.[18] As Jed Emerson, Senior Impact Strategist at Impact Assets, explains, “Impact investing is part of a historical arc that goes back centuries and will project itself into the future for centuries to come.”

Recent Growth

The term “impact investing” was coined in 2007 at a convening hosted by the Rockefeller Foundation.[19] The Global Impact Investing Network (GIIN)[20] defines impact investing as “investments made into companies, organizations, and funds with the intention to

13 Global Impact Investing Network, n.d, What You Ned to Know About Impact Investing, Accessed December 27, 2016, https://thegiin.org/impact-investing/need-to-know/#s1.

14 Provided by Jason Schupbach, Director of Design Programs at the National Endowment for the Arts

15 See Appendix I.

16 National Endowment for the Arts, 2016, Creative Placemaking Grants and 2017 Guidelines Announced, May 9, Accessed December 28, 2016, https://www.arts.gov/news/2016/creative-placemaking-grants-and-2017-guidelines-announced; and ArtPlace America, 2016, Announcing 2016 National Creative Placemaking Fund Projects, December 6, Accessed December 28, 2016, http://www.artplaceamerica.org/blog/announcing-2016-national-creative-placemaking-fund-projects.

17 SOCAP. “SOCAP16 – Jed Emerson – Blended Value”. Filmed [September 2016]. YouTube video, 11:17. Posted [September 2016]. https://www.youtube.com/watch?v=i04lX9dlmUI.

18 ibid.

19 The Rockefeller Foundation, 2017, Impact Investing and Innovative Finance, Accessed January 22, 2017, https://www.rockefellerfoundation.org/our-work/topics/impact-investing-and-innovative-finance/.

20 The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing.

generate social and environmental impact alongside a financial return."

The past 15 years have seen a substantial increase in the infrastructure, standards, and momentum of impact investment as a field. The *Council on Foundations-Commonfund Study of Responsible Investing: Foundations Survey 2016* reports that of the 186 philanthropies surveyed representing $40 billion in endowment assets, nearly a quarter of them have implemented mission-related investments.[21] The *2016 U.S. Trust Insights on Wealth & Worth* of 684 high net worth individuals revealed a 40% or greater increase in impact asset holdings among women, millennials, genXers, and ultra-high net worth individuals from 2014 to 2016.[22] Articles and reports from McKinsey & Company, the World Economic Forum, *Forbes* and the *Stanford Social Innovation Review* proclaim that impact investing has gone "mainstream."

Over the last 20 years, impact investment has evolved. What started out as a general set of intentions to align "doing well" financially and "doing good" in the world has turned into a wide range of dedicated products, funds, and strategies intended to allow investors to align their capital with the specific issues they care most about. As the field has developed, impact investors increasingly have opportunities to target their capital to the things they care most about including microfinance, clean energy, and sustainable agriculture.

Gender-lens investing emerged in 2009 based in research from the World Bank, Goldman Sachs and others. Criterion Institute, US Trust, Veris Wealth Partners, and Women Effect educated investors about the financial and social benefits of investing in companies with women leadership and family-friendly policies, and provided concrete options to put capital to work. This approach offers a lens that can be applied across asset classes.

Creativity can be a new lens for investors who believe in the power of arts, design, making, and technology to drive social impact, and who want to see more creative solutions to community challenges.

The Arts and Creativity

In 2015, GIIN's Annual Impact Investor Survey reported Arts and Culture as 0% of the $60 billion worth of impact assets under management by its global members.[23] The same survey in 2016, combined Arts and Culture into the "Other" category, though the number of survey respondents with allocations to Arts and Culture grew to 18 (out of 158) in 2016 from 12 (out of 147) the prior year.

That Arts and Culture as a segment was analyzed at all in the context of impact investing is promising. In 2015, three impact investment advisory firms – Veris Wealth Partners, Tideline, and Bienville Capital Management – working independently could not identify impact investment opportunities in Arts and Culture for clients who requested them.

21 Commonfund Institute; Council on Foundations, 2016, "2016 6 CF Study of Responsive Investing," Commonfund Institute, Accessed December 28, 2016, https://www.commonfund.org/wp-content/uploads/News-and-Research/02-Whitepapers-PremiumContent/CCSF-Responsible-Investing-Survey/2016-06-CF-Study-of-Responsible-Investing.pdf.

22 U.S. Trust, 2017, Aligning Investments with Values, Accessed January 7, 2017, http://www.ustrust.com/ust/pages/insights-on-wealth-and-worth-impact-investing-2016.aspx.

23 As of 2015, GIIN was comprised of 158 foundations, banks and other institutional investors. This report of 0% likely means that Arts and Culture investment was less than $300 million and rounded down to zero.

Since arts and cultural production accounted for $704 billion or 4.2% of US GDP in 2013,[24] arguably the Creative Economy is large enough to be investable even if the products, funds and strategies are not yet in place to help impact investors deploy capital for creativity.

In parallel with this study, Upstart Co-Lab had conversations with approximately one hundred impact investors, wealth managers, and advisors confirming interest in investing in arts and creativity. For example, in November 2016, impact investor Lorrie Meyercord invested $1.2 million with the Calvert Foundation enabling a loan to Artspace, a nonprofit developer of affordable housing for artists. "I'd been searching for ways to marry my impact investing and my love of the arts. Investors who understand what creativity means in communities need ways to put their capital to work," said Meyercord.

Creatives + Community

Creative Placemaking

In 2010, the National Endowment for the Arts published *Creative Placemaking*[25] coining the new term. Creative placemaking occurs "when artists, arts organizations, and community development practitioners deliberately integrate arts and culture into community revitalization work—placing arts at the table with land-use, transportation, economic development, education, housing, infrastructure, and public safety strategies." Naming this age-old practice catalyzed significant visibility and philanthropic funding for this work.

In 2011, Our Town and ArtPlace America launched to fund creative placemaking. Our Town is a federal grant program that teams arts organizations with local governments on projects that improve their communities. A program of the National Endowment for the Arts, Our Town has supported 389 projects in all 50 states, Puerto Rico, and the District of Columbia. ArtPlace America is a collaboration among 16 private foundations that has funded 256 projects across 45 states, Puerto Rico, the U.S. Virgin Islands, and the District of Columbia. Through these two philanthropic programs, over $125 million has supported creative placemaking.

Community Development

Community development financial institutions are private financial institutions that leverage funding from private and public sources to finance community-based organizations—including small businesses, microenterprises, nonprofit organizations, commercial real estate, and affordable housing—and spark economic development, job growth and job retention in hard-to-serve U.S. markets. According to the *US SIF Foundation Biennial Report on US Sustainable, Responsible and Impact Investing Trends*, community investing is one of impact investing's fastest growing sectors. Assets nearly doubled between 2014 and 2016 to $121.6 billion across community develop-

24 National Endowment for the Arts, 2016, Arts and Cultural Production Contributed $704.2 Billion to the U.S. Economy in 2013, February 26, Accessed January 8, 2017, https://www.arts.gov/news/2016/arts-and-cultural-production-contributed-7042-billion-us-economy-2013.

25 Ann Markusen and Anne Gadwa, 2010, Creative Placemaking, Report, Washington D.C.: National Endowment for the Arts, Accessed December 28, 2016, https://www.arts.gov/sites/default/files/CreativePlacemaking-Paper.pdf.

ment banks, community development credit unions, community development loan funds, and community development venture capital funds.[26]

> ***“Arts and culture are a cornerstone of all of our work. For a Native people who are still living with the impact of genocide and forced assimilation where the elimination of indigenous arts and culture were a tool toward assimilation, re-establishing arts and culture as a foundation for community development is critical.”***
>
> — *Robert Lilligren - President and CEO, Native American Community Development Institute*

Translating the flow of impact investing assets to community development into more resources for Creative Places and Businesses will depend on harnessing the existing community development infrastructure, especially the expertise of local community development lenders. Community development has always incorporated Creative Places and Businesses, but recently efforts have become more explicit with a stated focus on creative placemaking in particular:

- Local Initiatives Support Corporation (LISC)—one of the largest funders of community development in the United States—opened a dedicated creative placemaking program in 2014, formalizing work they had been doing since the 1980s.

- The National Alliance of Community Economic Development Associations—the umbrella organization for 45 state and regional community development organizations across the country— is building a Creative Placemaking Immersion Program that pairs their members with arts-based organizations to undertake joint knowledge-building.

- New Jersey Community Capital—a Newark, N.J. -based CDFI—launched a dedicated $12 million Creative Placemaking Fund in 2016. This revolving loan fund will deploy flexible loans and technical assistance to catalyze community development and neighborhood stabilization efforts in low-to-moderate income areas across New Jersey. One project in Newark will transform the historic St. Michael’s Medical Center into an arts-focused commercial development.

In 2015, the Federal Reserve Bank of San Francisco (SF Fed) published a special edition of its *Community Development Investment Review* dedicated to creative placemaking.[27] The journal was comprised of articles from government representatives, philanthropic funders, leaders in the community development field, creative placemaking practitioners, and others. This milestone publication advanced thinking about creative placemaking as a driver of economic growth, financial inclusion, and social cohesion in urban and rural communities across the country.

Creative Economy

As creative placemaking gained attention, research efforts by the Brookings Institution, The National Association of Governors, the SF Fed and others on how the presence of creatives can greatly influence the economic health and social prosperity of a

26 US SIF Foundation, 2016, "Report on US Sustainable, Responsible and Impact Investing Trends," US SIF, Accessed January 22, 2017, http://www.ussif.org/trends.

27 Laura Callanan, ed. 2014, Community Development Investment Review (Federal Reserve Bank of San Francisco) 10 (2), http://www.frbsf.org/community-development/files/cdir-10-02-final.pdf.

community garnered the attention of government officials. As a result, mayors from Los Angeles to Chicago to New York City, and governors from Oklahoma to Kentucky, Colorado to Maine, Louisiana to New Jersey have commissioned plans to understand the potential for the Creative Economy to chart a promising economic future for their cities and states.[28]

Social Impact

For decades, the nonprofit arts sector has calculated its impact through jobs, tourism, increased local business patronage, and the sector's economic consumption which totaled $135.2 billion nationwide in 2010.[29] But economic indicators are incomplete. Researchers increasingly focus on well-being factors like social connection, health, and reduced insecurity to measure the impact of creatives on communities.[30] ArtPlace America developed a framework describing *What Creative Placemaking Can Do* outlining four benefits of creative placemaking: economic development, civic engagement, resiliency, and quality of life. (See Appendix I.)

Quality Jobs in a Creative Economy

Quality jobs are defined as offering a living wage, basic benefits, career-building opportunities, wealth-building opportunities, and a fair and engaging workplace.[i] Harnessing human resources and talent, Creative Businesses appear well-positioned to create quality jobs. Recent research[ii] and planning by cities and states on the potential of the Creative Economy in their region suggests that jobs in the Creative Economy meet the test for quality jobs. While more study may be required to strengthen this case, quality jobs appear to be a benefit of an economy built on art, culture, creativity, and innovation.

i PCV InSight, 2016, "Defining and Measuring The Creation of Quality Jobs," Pacific Community Ventures, April 14, Accessed January 24, 2017, https://www.pacificcommunityventures.org/2016/04/14/defining-and-measuring-the-creation-of-quality-jobs/.

ii A representative list of cities and states that have commissioned research and plans on the creative economy can be found at http://www.upstartco-lab.org/resources/. In addition, please visit the websites of the National Governors Association, the Brookings Institution and Americans for the Arts for related research.

Why now?

Creativity is Cool

Enthusiasm for creativity is palpable. In addition to the mayors and governors who have commissioned Creative Economy plans and the corporate leaders who agree that the future of their businesses depends on creativity in the workforce,[31] individuals are backing creative projects through crowdfunding in small amounts that add up to billions of dollars. Converting small-scale backers, donors, and lenders into an army of impact investors will take outreach, education and the right investment vehicles, but the moment seems ripe to try.

28 A representative list of cities and states that have commissioned research and plans on the creative economy can be found at http://www.upstartco-lab.org/resources/.

29 Americans for the Arts, 2012, Arts & Economic Prosperity IV, Study, Washington D.C.: Americans for the Arts.

30 Mark J. Stern, 2014, "Stern Baltimore Talk 10Aug2014 v4revisions," University of Pennsylvania Social Impact of the Arts Project, May, Accessed February 7, 2017, http://impact.sp2.upenn.edu/siap/docs/Stern.Baltimore-Talk.10aug2014.v4revisions.pdf.

31 The Conference Board, 2008, Ready to Innovate, Report, New York: The Conference Board.

- *Kickstarter*, a crowdfunding platform for creative projects, has over 12.3 million backers who have pledged more than $2.8 billion to creative projects since the platform's launch in 2009. Backers receive rewards such as event tickets, art prints, products, or walk-on roles in film and video projects in exchange for the funding they provide.[32] Other crowdfunding platforms used by creatives include Indiegogo, Crowdfunder, Rockethub, and Patreon.

- *Fig*, a crowdfunding platform for video games, connected eight successful video game campaigns with $8.9 million in 2016. Fig offers the option for crowdfunders to purchase equity in games ("investment pledges") in addition to making contributions ("rewards pledges"). Investment pledges prove to be popular: in 2016, the average investment pledge was $2,800 while the average rewards pledge was $134. Fig closed a $7.8 million Series A round of financing in January 2017.[33]

- *Kiva* was founded with a mission to connect people through lending to alleviate poverty. 2.3 million borrowers in 83 countries have received loans totaling $938 million. Kiva recently started targeting U.S.-based artists and makers as a new segment of small scale entrepreneur borrowers by offering three-year, $10,000 loans with a 0% interest rate.[34]

"We have clients – foundations, museums, performing arts centers – who are interested in investment opportunities that are aligned with their objectives for fostering and supporting arts and culture. "

— Tom Mitchell, Managing Director, Cambridge Associates

Impact Investors Asking for Arts and Creativity

There is enthusiasm among impact investors who are looking for new opportunities to align their passions with their investments. Foundations that already value the arts, storytelling, creativity and innovation are exploring ways to effectively deploy their endowment capital on-mission. "We have serious social and ecological challenges before us. The Foundation is committed to using the power of investment to support creative problem solvers and courageous storytellers," said Ellen Friedman, Executive Director of the Compton Foundation.

Individual impact investors—art lovers, art collectors, and artists themselves—are also asking for opportunities to align their capital with their values. Philanthropist, impact investor and artist Maggie Kaplan is representative, "I am passionate about the importance of the arts in society. I want my life to reflect this passion, including in my investment portfolio – alongside my commitments for the environment, education, and the economic empowerment of women and their families."

Wealth advisors confirm this is a growing area. "Most of our clients collect art and our experience has been that collectors tend to be interested in aligning their values with their financial portfolios, seeking positive impact on communities in addition to a competitive return," said Lauren Sparrow, Executive Director of the Blue Rider Group at Morgan Stanley.

As more institutions move to mission-related investing and more individuals adopt impact investing, arts and culture could lose out entirely unless targeted investment

32 Kickstarter, 2017, About - Kickstarter, Accessed January 22, 2017, https://www.kickstarter.com/about?ref=nav.

33 Loose Tooth Industries Inc., 2017, Fig Publishing's Parent Company Raises $7.84 million in Series A Financing, San Francisco: PR Newswire, January 23.

34 Kiva, 2017, About - Kiva, Accessed January 22, 2017, https://www.kiva.org/about.

options are developed for Creative Places and Businesses. While not all creative activities are appropriate for impact investing, more and diverse resources for the creative sector will free philanthropic support for the initiatives that cannot and should not be operated as investable enterprises.

Creative Places and Businesses Are Poised to Grow

Early philanthropic support in field-building efforts for creative placemaking is paying off. Creative Places and Businesses have been actively building the expertise, capacity and infrastructure necessary to scale their efforts to drive social impact while earning financial returns.

Our research substantiated that a number of inspiring Creative Places and Businesses are actively pursuing operating models designed to be replicated in new communities. Many of these efforts are informed by extensive prior experience, but have emerged in their current form only recently. For example, Meta Housing, a housing developer, and EngAGE, an arts education provider, are working together to improve the affordable housing market in California. This work began in 1996 and is currently ongoing in 39 buildings across 26 cities in California, Minnesota, and Oregon. (See Case Study I).

We hope Creative Places and Businesses can help shape a Creative Economy that is inclusive, equitable and sustainable.

Findings

Our research documented a $1.54 billion pipeline of Creative Places and Businesses seeking impact debt. These findings suggest there is potential to connect impact investors with creatives for the benefit of communities but, to do that, barriers must be overcome.

Summary

Our research found 17 Creative Places projects seeking $326 million and nine Creative Businesses projects seeking $12 million in impact debt over the period of 2017 to 2022. While there has always been impact investment in Creative Places and Businesses, in the past it has frequently gone unnoticed due to a lack of "naming and framing." Creative Places and Businesses have potential to scale their efforts to drive social impact while earning financial returns, but executing successfully requires capacity building and specialized expertise.

General Findings

There is meaningful demand for impact debt among developers of Creative Places. Our research yielded a pipeline of more than $1.46 billion of Creative Places projects planned for 2017 to 2022. That figure represents total project cost, and the developers we spoke with estimate that $326 million can be financed with impact debt. (See Appendix III.) Creative Places are a growing segment within community development. Projects are increasingly sophisticated in their design and financing, but limited access to responsive, flexible capital can constrain viable projects.

Our research also revealed a pipeline of Creative Businesses seeking approximately $12 million in impact debt as part of total growth financing needs of $80 million for the period of 2017 to 2022. (See Appendix III.) Like many small businesses, Creative Businesses have a preference for bootstrapping. If they seek external financing, they prefer equity over debt. But many equity investors are only interested in businesses with larger growth potential. As a result, there appears to be untapped demand among midsize Creative Businesses for impact debt.

Given the level of demand for impact debt we identified and the capacity for Creative Places and Businesses to drive social impact, we expected to find a creativity lens already being used within the community development ecosystem. However, this was not the case — and we have a hypothesis why:

Creative Places and Businesses Fly Under the Radar

Creative Places and Businesses are currently categorized as affordable housing, small business, community facilities, commercial real estate, or education. They are not yet recognized as a distinct segment within community development. This is a problem of "naming and framing" activities that have long been underway. Without an agreed definition or an incentive to track them as a segment, Creative Places and Businesses will continue to fly under the radar.

A review of community development leaders reveals that significant impact investment already supports Creative Places and Businesses. For example, between the late 1980's and 2016, Local Initiatives Support Corporation (LISC) has invested $138 million

"Whether these new sources of debt can succeed goes back to the culture of the intermediary partner. You need the right underwriting assumptions."

— Sue Mosey - Executive Director of Midtown Detroit Inc.

in grants, loans, or project equity in 98 projects across the U.S. While LISC lacks complete information on total development costs for all these projects, for 78 of the projects development costs totaled $939 million. LISC continues to make investments in Creative Places and Businesses and anticipates hitting $1 billion in total project development costs by 2020.

CINCINNATI DEVELOPMENT FUND

Cincinnati Development Fund (CDF) is a nonprofit lending institution focused on neighborhood revitalization. CDF provides funding for real estate development in under-served markets in the Greater Cincinnati area.

- **Portfolio** includes $52.2 million in Creative Places and Businesses, which is 24.4% of total portfolio.
- **Project Example**: Incline Theater, Cincinnati, Ohio

  The Incline Theater project comprised construction of a 225-seat performing arts center and 130-space, two-deck parking garage in Cincinnati's low-income Price Hill neighborhood. The theater brought life to a blighted, vacant lot in the heart of the neighborhood's emerging entertainment district and served as a catalyst for development of new businesses and housing within walking distance of the theater.

CRAFT3

Craft3 is a non-profit CDFI making loans that strengthen businesses, families, and the environment throughout Oregon and Washington.

- **Portfolio** includes $8.2 million in loans for Creative Places and Businesses, which is 12% of total portfolio.
- **Project Example**: Equinox Studios, Seattle, WA. (See Case Study II.)

LISC
Building Sustainable Communities

Local Initiatives Support Corporation equips struggling communities with the capital, strategy and know-how to become places where people can thrive.

- **Portfolio** includes $2.49 million in loans to Creative Places and Businesses, which is 1.3% of total loan portfolio.
- **Project Example**: East Bay Center for the Performing Arts —Richmond, CA

  A new beautiful teaching and performing arts center for EBCPA with two theaters and state-of-the-art instructional spaces. The renovated building is part of the city's larger effort to bring economic vitality back to the downtown.

REINVESTMENT FUND

Reinvestment Fund is a catalyst for change in low income communities. RF integrates data, policy and strategic investments to improve the quality of life in low income neighborhoods.

- Since 1985, the **portfolio** in aggregate has included $95 million in Creative Places and Businesses, which is 5% of the total portfolio.
- **Project Example**: Center Theater—Baltimore, MD

  After nearly a decade of vacancy, the Theater was renovated to house a joint film program by Johns Hopkins University and Maryland Institution College of Art as well as office space. Reinvestment Fund financing helped transform the historic building, constructed in 1913, into a mixed-use, multi-tenant hub in Baltimore's Station North Arts and Culture District.

RSF Social Finance

RSF Social Finance is a nonprofit financial services organization dedicated to transforming the way the world works with money. RSF offers investing, lending, and giving to individuals and enterprises committed to improving society and the environment.

- **Portfolio** includes $6.3 million in Creative Places and Businesses, which is 6.5% of its total portfolio.
- **Project Example**: Equinox Studios – Seattle, WA (See Case Study II.)

Skills and Commitment Required

These examples of impact investment in Creative Places and Businesses by Cincinnati Development Fund, Craft3, LISC, Reinvestment Fund, and RSF Social Finance reflect the efforts of community development lenders who understand the value of creativity as a driver of social impact. Like any segment of the community development market, Creative Places and Businesses require some specialized knowledge and experience by both the community development lenders deploying capital into these projects, and the real estate developers and business entrepreneurs leading them. Lenders we spoke with consistently emphasized that they dedicated time and effort to educate colleagues and partners, did significant work upfront, and took a more inclusive approach toward underwriting with Creative Places and Businesses.

Deep Dive: Creative Places

Creative Places are a growing segment within community development. "We used to be a pretty singular organization, and as such, there wasn't much focus on supporting 'a field,' but that has changed dramatically. It is thrilling to see so many different projects related to space for the arts emerging all across the country," said Colin Hamilton, former Senior Vice President of National Advancement at Artspace.

Creative Place projects have grown in sophistication as well as number: project budgets are in the tens of millions of dollars; capital comes from a combination of philanthropic, government, nonprofit, and commercial sources; a single building may include housing, studio space, light manufacturing space, and a performance venue. Here are two examples from Seattle:

- Capitol Hill Housing's 12th Avenue Arts building is located on the site of a former surface parking lot used by the Seattle Police Department. Capitol Hill negotiated with the city to build on the property and move the parking lot underground. The building's ground floor contains two black box theaters and three retail shops that are currently occupied by food businesses. The second floor contains office space for Capitol Hill Housing and local nonprofits, and 88 units of affordable housing make up the top four floors. 12th Avenue Arts opened in 2015.

- Sam Farrazaino founded Equinox Studios LLC, a community of 125 artists and artisans occupying nearly 100,000 square feet of affordable workspace. When Equinox decided to expand into its second and third buildings, it financed the expansion through a loan of $3.3 million from RSF Social Finance and a loan of $5.2 million from Craft3. Today, Equinox's annual revenue is $1 million. There are plans to expand Equinox by another 70,000 square feet to accommodate a waiting list of prospective tenants. While Farrazaino is proud to be supporting the creative community in Seattle, he is trying to prove a concept that can be adapted to other communities. (See Case Study II.)

The developers of Creative Places we spoke with typically launch two to six new projects per year, with each project requiring over one million dollars of loan financing. Access to responsive, flexible capital is crucial to enabling this work. "Our production capacity is limited by available resources, which right now are primarily public sources—money from cities, counties, states, and at the federal level," said Kasey Burke, President of Meta Housing Corporation. “The market for those resources is competitive because there is more demand and more developers looking to build than there are available funds. If we knew we had a source of competitive resources—safe loans with a mission-driven objective—we could go out and do considerably more deals.”

Barriers

There is demand for impact debt among developers of Creative Places. However, there are several barriers to address:

Naming and Framing

Creative Places are being funded by CDFIs and other impact investment intermediaries, and have been for decades. However, they are not recognized as a distinct segment within community development. For example, Artspace projects providing affordable housing and workspace for artists are classified simply as affordable housing. When Creative Places are not explicitly tracked, impact investors wishing to target the Creative Economy cannot find relevant opportunities. A well-socialized definition of Creative Places within the community development field would enable more comprehensive analyses of projects, targeted capital deployment, and allow the stakeholders involved in this growing space to cooperate fully.

> ***“We want to celebrate that growth [of Creative Places] and support it. One way we can do that is by concentrating more of our work around eliminating barriers that could hold back emerging organizations.”***
>
> — *Colin Hamilton, former Senior Vice President of National Advancement, Artspace*

Lender Education Required

Since Creative Places have not been recognized until recently, community development lenders are not always familiar with these models. Education is required to ensure community development lenders understand the opportunities, and underwrite them appropriately. Community development lenders we spoke with noted no difference in overall default rates between Creative Places and other community real estate projects. However, a lack of standardized underwriting criteria reflecting the true risk – and social impact – of Creative Places is a barrier to growth for this new segment.

> ***“For creative projects, conversations with the banks are not different.”***
>
> — *Kasey Burke, President, Meta Housing Corporation*

Technical Assistance for Creative Places

Creative Places owe their success to individuals who understood the potential of creativity in communities, and decided to put in the extra effort. “It’s hard to justify the person power that goes into organizing a capital facility and working with a borrower who’s not well organized to access debt financing—that is often a big cost that goes unrecognized, the hours and hours of time it takes to pull off a transaction and who bears the cost of that," said Gary Hattem, Philanthropy and Social Finance Advisor, former Managing Director and Head of Deutsche Bank Social Finance, and President of Deutsche Bank Americas Foundation.

Technical assistance has been fundamental to the growth of the community development field as a whole, and is important to Creative Places. Philanthropic capital in combination with investment capital can help defray the costs of technical assistance, which would otherwise burden the economics of an investment. "In Macon, we had a $2.8 million project with a $1.2 million repayable PRI teamed up with a $1.6 million grant. The PRI was used to rehab houses and sell them to members of the community as a form of community development," said George Abbott, Director of Community and National Initiatives at Knight Foundation. "Even there where it's a relatively simple model, the borrower needed significant non-repayable philanthropic funding to provide the support services and make the model work."

Creative Places: A New Financing Model

After a career in mergers and acquisitions that included ten years as a Senior Managing Director at Blackstone Group LP, Tom Middleton is now looking to build a new model for real estate development that is anchored by the music industry.

"We're trying to create a place where because of the energy and diversity, people celebrate around a common theme like music. There will be affordable and market rate opportunities that will effectively sustain this community financially. Any subsidies from government or philanthropy would be icing on cake but not things that we necessarily have to have," said Middleton.

Middleton and his partners are investigating two $200 million projects that would be funded entirely by private capital.

Deep Dive: Creative Businesses

In our research, we looked for small businesses (larger than single artisan micro-enterprises) in creative industries with a community focus. We spoke with five CDFIs about their lending experience with Creative Businesses in industries including food, fashion, textile and design. Like real estate, small business lending is a major focus within community development with 32% of non-Credit Union CDFI loans going to businesses and microenterprises in 2014.[35] We spoke with accelerator programs and sponsors focused on creative industries (Creative Startups, Fractured Atlas, Halcyon Creatives) about the capital needs of their members. To understand the potential synergy with impact investors seeking sustainable companies, we also spoke with three B Corporations in creative industries. Our effort to identify Creative Businesses with relevance to communities was broad, and resulted in interviews with 19 Creative Businesses.

The Creative Businesses we talked to are fueled by art, design, and entertainment. Most have for-profit business models, although a couple have non-profit sister organizations. Many intersect with technology either by selling fine art or crafts online, or designing content for digital distribution. The Creative Businesses we interviewed

35 U.S. Department of the Treasury Community Development Financial Institutions Fund, 2016, News Detail , July 20, Accessed December 28, 2016, https://www.cdfifund.gov/news-events/news/Pages/news-detail.aspx?NewsID=221&Category=Press%20Releases.

generally have or anticipate hiring employees and have or anticipate multiple millions in annual revenue. These companies are ambitious, seeking growth and positive revenue, and committed to quality, creativity, and impact.

> ***"CDFIs lending into the creativity sector expected to lend to individual artists but, to find an investable market, they needed to expand their definition of and understanding of creatives beyond the arts."***
>
> — *Kate Barr, Executive Director, Nonprofits Assistance Fund*

Our research experience suggests that while there are Creative Businesses meeting the goals of community development, currently this is not a defined market segment. While CDFI leaders we spoke with said they were sure there were more Creative Businesses benefiting low income communities, they were not surprised that these businesses were hard to find due to fragmentation: some identify as small businesses, some as arts-specific businesses, some as businesses driving community development. The barriers outlined below reflect the experience of community lenders who have worked with Creative Businesses and contextualize this fragmentation. At the same time, the community development lenders we spoke with encouraged the community development field to keep looking, believing Creative Businesses are worth attention.

The Creative Businesses we spoke with have early, stable cash flow and steady growth projections based on self-described conservative assumptions, making them strong candidates for debt capital. These businesses also have used a variety of funding sources: mostly self-funding and earned revenue, and less frequently equity investments,

Urban Plough Furniture: Bootstrapping

Matthew Moore is a multimedia artist and entrepreneur based in Phoenix, Arizona who has exhibited at the Walker Art Center and MassMoCA. His art practice explores the broad issue of placemaking. Moore is the founder of Urban Plough Furniture which designs and creates interiors and custom built furniture. Urban Plough Furniture, launched in July 2016, currently has five employees and is projecting gross revenues of $1 million in its first year of operation. Moore's creative capacity comes through when he talks about placemaking within office space, investigating how space works, how people touch a space, and "designing empathetically" a sit-stand desk that can have a practical, positive impact on office workers.

Currently, the company is bootstrapped by Moore who wanted to be sure he had a good idea and a pipeline of clients before seeking external financing. Anchor clients include The Department (a collaborative workspace in downtown Phoenix), Trinity Capital Investments, and Cartel Coffee. Urban Plough Furniture has set its sights for designing and building modern, community office space beyond its hometown and is currently competing against large, established firms for big projects coast to coast.

convertible notes and debt. A survey[36] of startups, microbusinesses, and growing firms, found that 89% of respondents indicated an interest in loans and lines of credit and only 4% indicated an interest in equity investment (respondents could select multiple answers). And yet among the Creative Businesses we talked to there was a preference for equity investment.

We found that the dominant Silicon Valley start-up narrative is a distraction to businesses in creative industries that are likely to generate positive financial return – but never garner the attention of Sand Hill Road. Many of the Creative Business entrepreneurs we spoke with reported lack of interest in their businesses from traditional equity investors based on perceived lower overall growth potential, modest (but profitable) market and revenue projections, and a stigma reflecting the attitude that arts-adjacent businesses are hobbies not "real businesses."

The experience of Max Slavkin and Aaron Perry-Zucker, founders of Creative Action Network a crowdsourcing platform for social and political art, is illustrative. After graduating from Matter, a Silicon Valley accelerator, they spent months seeking equity investors. "We want to be a $15 million company. The VCs aren't interested in that. They think we're cute. Ironically, we're not risky enough," said Slavkin. Creative Action Network found an alternative path partnering with Patagonia and branching into licensing and e-commerce. Today they're growing organically and not actively seeking outside funding. But the potential to grow at a faster rate with an infusion of third party capital is an option they continue to consider.

Barriers

While the market fragmentation described above – part of the "naming and framing" problem – is perhaps the primary barrier, there are additional barriers that challenge lenders to support Creative Businesses and barriers that prevent Creative Business borrowers from taping impact debt.

From the lender's perspective, there are a few considerations that apply to all small businesses, including Creative Businesses:

Technical Assistance – Small businesses require more technical assistance than large businesses. As a result, most CDFIs working in the small business space expend considerable resources on technical assistance. Creative Businesses are no exception. "Every single creative that we've worked with needed a high touch engagement but it's critical so that creatives can be self-effectuating, combat displacement, and determine their own trajectories. Each deal is unique, especially when you want to make sure you serve a diverse constituency," observed Brian Friedman, former Executive Director of Northeast Shores, a nonprofit development corporation based in Cleveland's Collinwood neighborhood.

One difference between providing technical assistance to a Creative Businesses versus other small businesses is the need to tailor one's approach. "We found that the lan-

"We found that the language we use with Creative Businesses needs to be different. You can't speak banker."

— Daniel Wallace, Loan and Investment Officer, Coastal Enterprises, Inc.

36 Federal Reserve Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond, and St, Louis, 2016, 2015 Small Business Credit Survey: Report on Employer Firms, Report, New York: Federal Reserve Bank of New York.

Meow Wolf: Private Placement

The experience of one Creative Business that did evaluate impact debt as a funding source highlights the reasons lenders and borrowers may not always align. Drew Tulchin is a serial social entrepreneur, former Program Officer at Grameen Foundation, and has directed a CDFI called ECDC/Enterprise Development Group. He is now the Chief Financial Officer at Meow Wolf, an arts production company with a permanent immersive arts complex, that hosts a makerspace, and a youth arts education center in Santa Fe, New Mexico. In less than a year of operations, Meow Wolf has become a top tourist destination in the state, with more than 300,000 visitors, generating substantial cash flow.

Tulchin considered a CDFI loan to fund Meow Wolf's startup costs but found the lending environment in-compatible: lending officers did not understand the revenue model. Or, capital that was available, came with many restrictions and requirements. Tulchin found the options from "CDFI's to be not very strong. There were too many 'if, ands, or buts' that impeded advancing our business model." Instead, Meow Wolf was able to raise funds through a private placement of five year notes.

guage we use with Creative Businesses needs to be different. You can't speak 'banker.' We're discussing the same business and finance concepts but we had to figure out how to do in a way that resonates with the business." said Daniel Wallace, a Loan and Investment Officer with Coastal Enterprises, Inc.

Segment Knowledge – As with any industry segment, underwriting Creative Businesses requires knowledge and familiarity. But Creative Businesses have more in common with other small businesses than may be assumed. Joan Broughton at Craft3 noted, "We analyze loans to creative businesses just as we would other business types. We look at historic cash flow and projected cash flow, mission fit, and operational experience of management and leadership. Because many applicants are unable to obtain traditional financing, we take a creative approach with each business loan application and then our usual underwriting standards apply." At RSF Social Finance, art and creativity businesses are evaluated like other small businesses, though a lower annual revenue hurdle applies.

Size – In 2016, the average loan to a small business was $483,000 from a large national bank, $155,000 from a small national or regional bank, and between $50,000 and $80,000 from an alternative lender.[37] It is less efficient for a lender to process more small loans to deploy the same amount of capital as fewer large loans. Difference in loan size informs the smaller demand for capital by Creative Businesses versus Creative Places surfaced in this study.

Additionally, small businesses do not borrow repeatedly so the entire lender-borrower relationship may be a single loan. According to Elizabeth Demetriou, National Program Director, Economic Development at Local Initiatives Support Corporation: "A business in the food industry, for example, may need a loan to fulfill an order, purchase a space,

37 Value Penguin, 2017, Average Small Business Loan Amount in 2017: Across Banks and Alternative Lenders, Accessed January 22, 2017, https://www.valuepenguin.com/average-small-business-loan-amount.

Creative Startups: Incubator for Creative Businesses

Creative Startups, a startup accelerator based in New Mexico, specializes in businesses in the creative industries. Creative Startups has graduated four classes totaling 40 businesses over three years. Analysis of these graduates suggests that if creative entrepreneurs have access to the type and quality of resources that accelerators give to tech entrepreneurs – then creative entrepreneurs will perform similarly.

"Creative entrepreneurs can and do achieve returns on investment similar to tech startups. Our accelerator shows that with access to capital, mentorship, networking, and support services, Creative Businesses thrive just like startups in other innovation industries," said Alice Loy, co-founder and CEO of Creative Startups. Creative Startups graduates are showing early return on investment on par with graduates of Y Combinator, a leading accelerator for the tech sector.

or purchase machinery. The loan helps to get them into a growth phase, and then they are typically able to fund continued growth with working capital. We do not see repeat borrowers among businesses in the way that we do among real estate developers."

We found three primary attitudes holding Creative Business borrowers back from tapping impact debt, and that crowdfunding is being considered as an alternative to more traditional forms of financing:

Reluctance to Borrow – The Creative Businesses we talked with prefer bootstrapping and organic growth. Many did not pursue borrowing because they did not believe they would qualify for a loan or – if they did qualify – would be required to personally secure the loan. (Not an unfounded concern given that 63% of all business owners pledged personal assets to secure a loan.)[38] When they did take on outside capital, these Creative Businesses preferred equity over debt, fearing pressure to repay the loan would interfere with their creative vision and commitment to social impact. This attitude is reflected across the Creative Business spectrum, especially among small businesses and micro entrepreneurs. "Less than 1% of all US Etsy sellers ever sought a loan and it can be a point of pride that they don't seek out that financing option," said Ilyssa Meyer, a Public Policy Analyst at Etsy, a marketplace for individual creators of handmade or vintage items, art, and supplies.

More than the Money – Many Creative Businesses expect an equity investment will come with more than just cash: public validation of the business, mentoring, networking, and support services. "We want a partner to mentor us, make introductions, and promote the business, not just a lender," said Azin Mehrnoosh of Rlty Chk, a Los Angeles-based virtual reality content developer.

No Familiarity with Impact Capital – The overarching takeaway from our conversations with entrepreneurs leading Creative Businesses is that they are unfamiliar with impact investing (especially in the form of debt) and that most had never heard of

38 Federal Reserve Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond, and St, Louis, 2016, 2015 Small Business Credit Survey: Report on Employer Firms, Report, New York: Federal Reserve Bank of New York.

Uprise Art: Loan

One Creative Business entrepreneur who did pursue a loan is Tze Chun, the artist-founder of online art gallery Uprise Art. She turned to online small business lender Bond Street when she wanted to overhaul her business's website. Chun's reasons for pursuing a loan over equity were, first, it was faster to obtain the loan from an online lender than to raise and close an equity round and, second, it was "less 'expensive' than equity since the website overhaul is really a capital improvement that we're confident will be a profitable investment."[i]

Chun's loan from Bond Street was for $75,000 for three years at 16% Annual Percentage Rate (APR). That's more expensive than a bank loan (Bond Street reports its APR at 8–25% while Small Businesses Administration loans and bank loans are 6–15%).[ii]

But what she really saved was time. Rather than months of pitching to equity investors and negotiating trms, the Bond Street application took 15 minutes and a few days later Chun was approved and starting renovations on the Uprise Art website.[iii]

i Benjamin Pimentel, 2015, Small Business Success Story: Art Gallery Startup Revamps Site with Bond Street Loan, May 7, Accessed February 28, 2017, https://www.nerdwallet.com/blog/small-business/small-business-success-story-art-gallery-startup-gets-bond-street-loan/.

ii Bond Street, 2017, Bond Street, Accessed February 28, 2017, https://bondstreet.com/.

iii Bond Street, 2017, Uprise Art's Double Exposure: Stories on Bond Street, Accessed February 28, 2017, https://bondstreet.com/blog/uprise-art/.

CDFIs or community lenders. But all the CDFIs and community lenders we talked with are already supporting small businesses in the Creative Economy (although not in a targeted way), and understand the potential of these small businesses for community wealth building.

Alternative Capital Sources – The proliferation of crowdfunding platforms has ushered in a new era where creatives can turn to their fans and future customers for capital in exchange for rewards or pre-sales rather than repayment. The only additional costs for borrowers are small commissions paid to the crowdsourcing platform on dollars raised. While most crowdfunding platforms support discrete projects as opposed to providing growth capital for businesses, the platforms are popular with creatives and offer a low-risk way to test new ideas that may have the potential to develop into a Creative Business. With the JOBS Act[39] now permitting individuals to invest in securities-based crowdfunding transactions subject to certain investment limits, this is clearly a space to watch.

39 The Jumpstart Our Business Startups Act, or JOBS Act, enables small businesses to use crowdfunding to raise investment capital. It was signed into law by President Barack Obama on April 5, 2012.

Creative Business Call Out: Digital Media

Digital media is a growing segment within Creative Businesses. In industries including video games, TV/film, and music, equity financing is key to content development and production. However, we found some interesting ways Creative Businesses are using impact debt.

E-Line Media is a specialty developer and distributor of social impact games. Financed primarily through equity, fee revenue and project grants, E-Line spends years developing a new game. Debt can play a role once the game is ready for release to fund marketing and distribution. Using debt at this late stage avoids diluting the equity in the project. (See Case Study III.)

Stockade Studios is a media hub for film, TV and technology opening in Kingston, NY with the goal to create a robust film and TV ecosystem in New York State's Hudson Valley. The 70,000-square foot facility that will contain a soundstage, production equipment, post-production facilities, and a workforce-training program. The total project budget is $12 million with capital sources including Historic Tax Credits, New Market Tax Credits, and $2 million of debt capital. (See Case Study IV.)

Conclusion

Demand for impact debt is strong among Creative Places and Businesses over the next five years throughout the U.S. Our research revealed 26 projects in 14 states with total project costs of $1.54 billion. $326 million of these costs are to be funded with the impact debt that CDFIs and other community lenders provide. Our findings are representative of the opportunities Creative Places and Businesses are generating in communities, but far from comprehensive.

We believe there is an opportunity to begin to introduce a creativity lens to impact investing. While we recognize that investment is not a viable option for all work in the creative sector and that philanthropy will continue to be essential, impact investing is significant and growing. Impact investors are seeking targeted opportunities that align with their specific values and priorities, and those looking to support innovative approaches as a way to address diverse problems see potential in creative communities.

Creative Places and Businesses are prepared for investment thanks to the risk capital philanthropy has provided to build capacity, and skilled leaders who bring their finance expertise to creative communities. While in the past investment connected to arts and culture has focused on the places where it is consumed – theaters, museums, libraries – there is now a real opportunity to invest in creativity: inside live-work and shared studio spaces, and within small businesses.

But there are barriers to be addressed. The most immediate barrier is that Creative Places and Businesses must be recognized as a segment so that investors, intermediaries, and project leaders can find one another and cooperate more easily. Once that happens, for impact capital to truly meet effective demand, the ecosystem must be in place: impact investors who recognize the potential to strengthen communities through creativity; capital-raising intermediaries that see opportunities to aggregate Creative Places and Businesses at appropriate size, volume, risk/return profiles into investable products; capital deployment intermediaries using an inclusive lens to find, underwrite and track Creative Places and Businesses with an eye towards comprehensive community development; and investable Creative Places and Businesses with sustainable business models.

What is currently missing:

- Recognition of Creative Places and Businesses as a segment of community development with shared definitions among impact investors, philanthropic funders, capital-raising intermediaries, community lenders, community development regulators, and industry associations.

- Viable financial products specifically targeting capital to Creative Places and Businesses.

- Ecosystem-wide standards, metrics, and tracking of investment in Creative Places and Businesses reflecting a greater understanding of these models.

- Technical assistance for CDFIs and other community lenders on sourcing and underwriting investments in Creative Places and Businesses.

- Technical assistance for Creative Place and Business leaders to qualify for financing and use the capital effectively; for Creative Businesses this includes Information about debt funding options, and introductions to impact investing as well as ongoing business-building advice, networking, and leadership support.

This moment of early 2017 is a crucial time for underserved communities across the United States. Because Creative Places and Businesses exist in rural and urban communities of all sizes and demographics, strengthening this segment of economic activity can have far reaching benefits. Creative Places anchor communities and help foster cohesion and engagement at a time when our nation is divided and its values are tested. Creative Businesses can be a source for quality jobs in a U.S. shifting from a manufacturing economy to an ideas economy. As public spending cuts loom on the horizon, impact capital has the potential to fill the void in support of communities and the creative solutions they deserve.

As Gary Hattem, former Managing Director and Head of Deutsche Bank Social Finance, and President of Deutsche Bank Americas Foundation observed, “Impact investors may see this emerging sector as an important way to validate our uniquely American capability to create synergy from cultural diversity — and even to monetize it.”

Appendices

Appendix I: What Creative Placemaking Can Do and How Creative Placemaking Can Do It

The framework below was originally published in Volume 10 Issue 2 of the Federal Reserve Bank of San Francisco's *Community Development Investment Review* and is reprinted with the publisher's permission.

ArtPlace America has supported 189 projects to-date across 122 communities of all sizes in 42 states and the District of Columbia. The below framework showcases some of the many different ways that creative placemaking projects are employing arts-based strategies to achieve place-based outcomes.

What Creative Placemaking Can Do

	DESCRIPTION	EXAMPLE
Strengthening Economic Development	Drive economic diversity, new investments, and new access points to participate in growing economies	The REVOLVE program of the Detroit Economic Growth Corporation has pairedartists and pop-up businesses in vacant storefronts along Livernois Ave to catalyze interest in the community's revitalization *(Detroit, MI)*
Seeding Civic Engagement	Connect community members to one another, as stewards of their place, and to a shared sense of the future of a place	International Sonoran Desert Alliance hosts traditional and contemporary Tohono O'odham and Mexican artists to create a tri- national border-themed art installations, bringing the community together around a broader vision for their place *(Ajo, AZ)*
Building Resiliency	Help re-establish normalcy, generate new community assets, and provide psyco-social relief following a natural disaster, comunity tragedy or long-term disinvestment	The new Prattsville Art Center and Residency serves as a central community hub and engages artists to reimagine the future of this rural town as it recovers from devastating 2011 floods *(Prattsville, NY)*
Contributing to Quality of Life	Create new amenities and increase access to public spaces, resources, and infrastructure to increase attachment to place	The Near Westside Initiative has increased recreational, social, and economic opportunities in for residents in their neighborhood through engaged scholarship, innovative design practices, and community coalition building *(Syracuse, NY)*

How Creative Placemaking Can Do It

	ANCHORING	ACTIVATING	"FIXING"	PLANNING
Description	Acting as the key institution in a neighborhood, providing identity, bringing jobs, generating foot traffic, and attracting patrons who support area businesses	Bringing performance, participatory activities, and interactive installations to public spaces like plazas and alleyways to make them more attractive, exciting, and safe	Ameliorating structural design problems through re-imagining use, beautification and engagement to connect people to opportunities and one another	Engaging community stakeholders in the neighborhood development process, soliciting input and suggestions through rapid prototyping and iterative design so that they may determine the future of their community
Example	The Adrianne Arsht Center for the Performing Arts has leveraged its status as a world-class arts institution to steward a neighborhood master plan and work with developers and residents to shape the future of their neighborhood. *(Miami, FL)*	The Light Brigade augments the normal flow of activities using dance, lighting, illusion, visual and sonic media, augmented reality, and poetry to bring new life to public and natural spaces *(Anchorage, AK)*	Irrigate is an artist-led initiative spanning six miles of the Central Corridor Light Rail line during the years of its construction. Artists collaborated with local businesses, changing the community's experience from disruption to destination. *(St. Paul, MN)*	The Fairmount Cultural Corridor is a collaboration of local organizations which hosts pop-up creativity labs and exhibits that allow locals to reimagine public spaces and provide input in neighborhood change processes. *(Boston, MA)*

Appendix II: North American Industry Classification System Codes for Creative Businesses

The North American Industry Classification System (NAICS) is the standard used by U.S. federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

The following NAICS codes describe businesses engaged in the inputs, production, and distribution of creative products relevant to the definition of Creative Businesses used in this research. Businesses engaged primarily in facilities development, construction, and real estate for artists, designers, makers including those using technology would be classified as Creative Places.

Sugar and Confectionary Product Manufacturing, Dairy Product Manufacturing, and Bakeries and Tortilla Manufacturing

311340	Nonchocolate Confectionery Manufacturing
311351	Chocolate and Confectionery Manufacturing from Cacao Beans
311352	Confectionery Manufacturing from Purchased Chocolate
311520	Ice Cream and Frozen Dessert Manufacturing
311811	Retail Bakeries
311812	Commercial Bakeries
311813	Frozen Cakes, Pies, and Other Pastries Manufacturing
311821	Cookie and Cracker Manufacturing

Other Food Manufacturing

311919	Other Snack Food Manufacturing
311941	Mayonnaise, Dressing, and Other Prepared

Sauce Manufacturing

311991	Perishable Prepared Food Manufacturing

Beverage Manufacturing

312120	Breweries
312130	Wineries
312140	Distilleries

Apparel Manufacturing and Leather and Applied Product Manufacturing

315210	Cut and Sew Apparel Contractors
315220	Men’s and Boys’ Cut and Sew Apparel Manufacturing
315240	Women’s, Girls’, and Infants’ Cut and Sew Apparel Manufacturing
315280	Other Cut and Sew Apparel Manufacturing
315990	Apparel Accessories and Other Apparel Manufacturing
316110	Leather and Hide Tanning and Finishing
316210	Footwear Manufacturing
316992	Women's Handbag and Purse Manufacturing
316998	All Other Leather Good and Allied Product Manufacturing

Paper Manufacturing and Printing and Related Supporting Activities

322230	Stationery Product Manufacturing
323111	Commercial Printing (except Screen and Books)
323113	Commercial Screen Printing
323117	Books Printing
323120	Support Activities for Printing

Clay Product and Refractory Manufacturing

327110	Pottery, Ceramics, and Plumbing Fixture Manufacturing

Fabricated Metal Product Manufacturing and Furniture and Related Product Manufacturing

332323	Ornamental and Architectural Metal Work Manufacturing
337110	Wood Kitchen Cabinet and Countertop Manufacturing
337121	Upholstered Household Furniture Manufacturing
337122	Non-upholstered Wood Household Furniture Manufacturing
337124	Metal Household Furniture Manufacturing
337125	Household Furniture (except Wood and Metal) Manufacturing
337127	Institutional Furniture Manufacturing

337211	Wood Office Furniture Manufacturing
337212	Custom Architectural Woodwork and Millwork Manufacturing
337214	Office Furniture (except Wood) Manufacturing
337215	Showcase, Partition, Shelving, and Locker Manufacturing

Other Miscellaneous Manufacturing

339910	Jewelry and Silverware Manufacturing
339930	Doll, Toy, and Game Manufacturing
339950	Sign Manufacturing
339992	Musical Instrument Manufacturing

Furniture and Home Furnishing Merchant Wholesalers and Professional and Commercial Equipment and Supplies Merchant Wholesalers

423210	Furniture Merchant Wholesalers
423220	Home Furnishing Merchant Wholesalers
423410	Photographic Equipment and Supplies Merchant Wholesalers

Miscellaneous Durable Goods Merchant Wholesalers

423920	Toy and Hobby Goods and Supplies Merchant Wholesalers
423940	Jewelry, Watch, Precious Stone, and Precious Metal Merchant Wholesalers
423990	Other Miscellaneous Durable Goods Merchant Wholesalers

Merchant Wholesalers, Nondurable Goods

424120	Stationery and Office Supplies Merchant Wholesalers
424320	Men's and Boys' Clothing and Furnishings Merchant Wholesalers
424330	Women's, Children's, and Infants' Clothing and Accessories Merchant Wholesalers
424340	Footwear Merchant Wholesalers
424920	Book, Periodical, and Newspaper Merchant Wholesalers

Furniture and Home Furnishings Stores

442110	Furniture Stores
442210	Floor Covering Stores
442291	Window Treatment Stores
442299	All Other Home Furnishings Stores

Food and Beverage Stores

445291	Baked Goods Stores
445292	Confectionery and Nut Stores
445299	All Other Specialty Food Stores

Clothing and Clothing Accessories Stores

448110	Men's Clothing Stores
448120	Women's Clothing Stores
448130	Children's and Infants' Clothing Stores
448140	Family Clothing Stores
448150	Clothing Accessories Stores
448190	Other Clothing Stores
448210	Shoe Stores
448310	Jewelry Stores
448320	Luggage and Leather Goods Stores

Sporting Goods, Hobby, Musical Instrument, and Book Stores; General Merchandise Stores; and Miscellaneous Store Retailers

451120	Hobby, Toy, and Game Stores
451140	Musical Instrument and Supplies Stores
451211	Book Stores
451212	News Dealers and Newsstands
452319	All Other General Merchandise Stores
453220	Gift, Novelty, and Souvenir Stores
453920	Art Dealers

Publishing Industries (except Internet)

511110	Newspaper Publishers
511120	Periodical Publishers
511130	Book Publishers
511191	Greeting Card Publishers
511199	All Other Publishers
511210	Software Publishers

Motion Picture and Video Industries

512110	Motion Picture and Video Production
512120	Motion Picture and Video Distribution
512131	Motion Picture Theaters (except Drive-Ins)
512132	Drive-In Motion Picture Theaters
512191	Tele-production and Other Postproduction Services

512199	Other Motion Picture and Video Industries

Sound Recording Industries

512230	Music Publishers
512240	Sound Recording Studios
512250	Record Production and Distribution
512290	Other Sound Recording Industries

Broadcasting (except Internet)

515111	Radio Networks
515112	Radio Stations
515120	Television Broadcasting
515210	Cable and Other Subscription Programming

Other Information Services

519110	News Syndicates
519120	Libraries and Archives
519130	Internet Publishing and Broadcasting and Web Search Portals

Consumer Goods Rental

532281	Formal Wear and Costume Rental
532282	Video Tape and Disc Rental

Architectural, Engineering, and Related Services and Specialized Design Services

541310	Architectural Services
541320	Landscape Architectural Services
541330	Engineering Services
541340	Drafting Services
541410	Interior Design Services
541420	Industrial Design Services
541430	Graphic Design Services
541490	Other Specialized Design Services

Advertising, Public Relations, and Related Services

541810	Advertising Agencies
541820	Public Relations Agencies
541830	Media Buying Agencies
541840	Media Representatives

Other Professional, Scientific, and Technical Services

541921	Photography Studios, Portrait
541922	Commercial Photography

Other Schools and Instruction

611610	Fine Arts Schools

Performing Arts, Spectator Sports, and Related Industries and Museums, Historical Sites, and Similar Institutions

711110	Theater Companies and Dinner Theaters
711120	Dance Companies
711130	Musical Groups and Artists
711190	Other Performing Arts Companies
711310	Promoters of Performing Arts, Sports, and Similar Events with Facilities
711320	Promoters of Performing Arts, Sports, and Similar Events without Facilities
711410	Agents and Managers for Artists, Athletes, Entertainers, and Other Public Figures
711510	Independent Artists, Writers, and Performers
712110	Museums
712120	Historical Sites

Food Services and Drinking Places

722310	Food Service Contractors
722320	Caterers
722330	Mobile Food Services
722410	Drinking Places (Alcoholic Beverages)
722511	Full-Service Restaurants
722513	Limited-Service Restaurants
722514	Cafeterias, Grill Buffets, and Buffets
722515	Snack and Nonalcoholic Beverage Bars

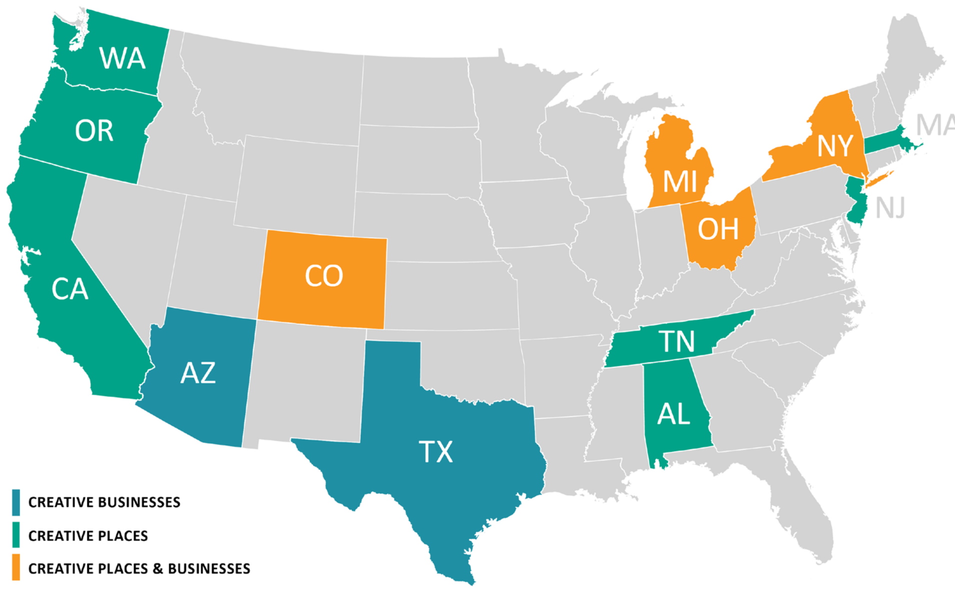
Personal Care Services

812111	Barber Shops
812112	Beauty Salons
812113	Nail Salons

Photofinishing

812921	Photofinishing Laboratories (except One-Hour)
812922	One-Hour Photofinishing

Appendix III: Creative Places and Businesses 2017-2022



	Number of Projects	Total Project Cost (in MM)	Total Impact Debt Required (in MM)	Number of States
Creative Places	17	$1,460.5	$325.7	11
Creative Businesses	9	$80.5	$12	7
Total	**26**	**$1,541**	**$337.7**	**14**

Creative Places

The Creative Place projects summarized here include affordable housing for artists; studio and workspace for artists and artisans; theaters for performing arts organizations; offices for arts organizations and creative businesses; incubator space; arts-based senior housing; and mixed-use developments anchored around the arts.

Project costs range from $750,000 to $300 million, and impact debt requirements range from $375,000 to $90 million.

Creative Places reflect projects of the following organizations: Boston Community Capital, Community Arts Stabilization Trust, Continuum Partners, Craft3, Direct Investment Development, East Bay Asian Local Development Corporation, Equinox Studios LLC, Five Points Cultural Commission, Lewis & Clark Co., Meta Housing Corporation, Midtown Detroit, New Jersey Community Capital, Nobadeer Partners, and Spaceworks NYC.

Creative Businesses

The Creative Businesses summarized here are in the fields of social impact media including video games; light manufacturing and design; traditional and digital publishing; film, TV, virtual reality and music production; art and craft sales; and immersive arts.

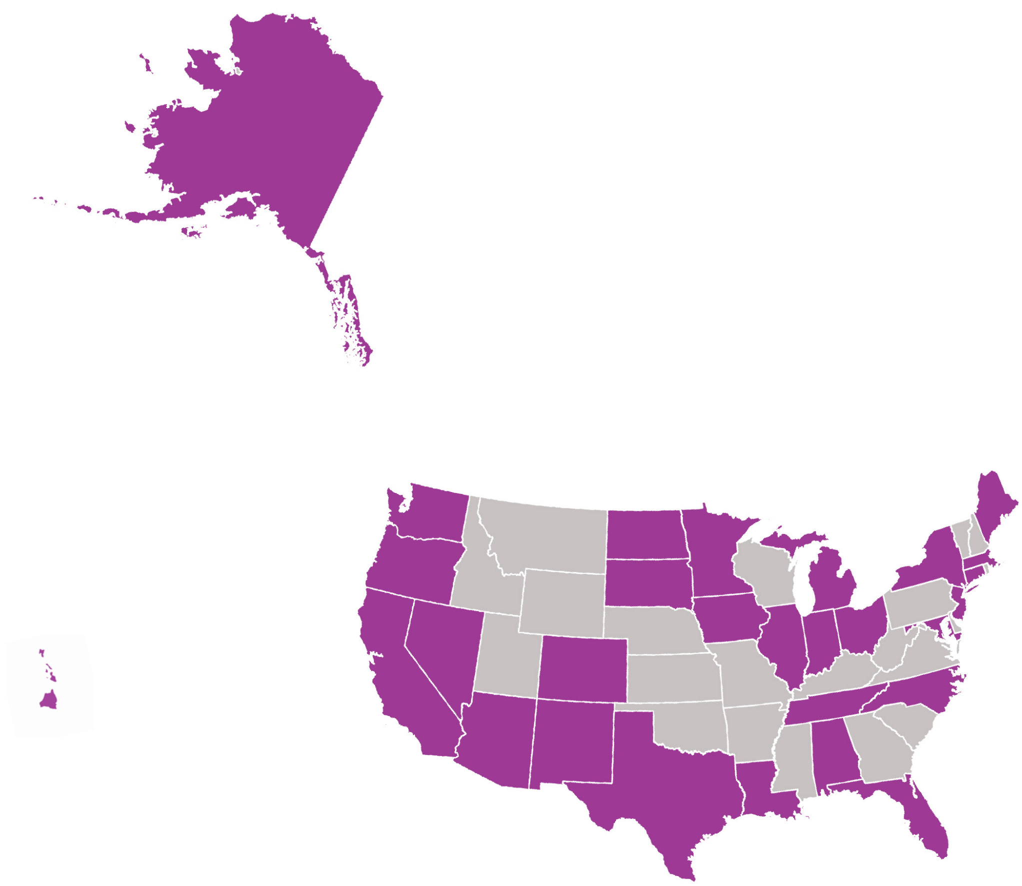
Project costs range from $300,000 million to $40 million, and impact debt requirements range from $150,000 to $4 million.

Creative Businesses: Allied Media Projects, E-Line Media, Meow Wolf, Northeast Shores Development Corporation, Pioneer Works, Stockade Studios, Urban Plough Furniture, and VirtualArts TV.

Appendix IV: Methodology

Our goal for this study was to build a pipeline of Creative Places and Businesses seeking impact debt financing for 2017-2022. We took a "bottom-up" approach—collecting data through a combination of interviews, surveys, and online research—to identify active projects based on information provided directly by the leaders of those projects. We did not endeavor to assess total market size, national demand for capital, or related trends which might be determined by working "top-down," extrapolating from existing government or industry data.

Based on our prior knowledge and additional research, we selected leaders to interview from more than 200 projects, organizations, and experts in creative placemaking, community development, impact investing, philanthropy, academia, the arts, and the emerging field of creativity and innovation. We sought diversity in terms of geographic focus, scale of operations, industry segment, and functional area.



We interviewed 75 individuals representing Creative Places and Businesses, financial intermediaries, impact investors, philanthropic funders, and thought leaders in these fields. The organizations and individuals we interviewed represent 30 states, including the District of Columbia, and communities with populations ranging from 846 to 8.4 million people:

- Creative Places — 17 organizations working across 25 states
- Creative Businesses — 19 organizations working across 11 states
- Financial Intermediaries — 10 organizations working both locally and nationally
- Impact Investors — 4 individuals and organizations
- Philanthropic Funders — 4 organizations working nationally
- Thought Leaders — 15 individuals working nationally

We supplemented our interviews with a survey to identify additional Creative Places and Businesses and assess their need for impact debt during the five year period of 2017-2022. The survey was emailed to 45 community development organizations; we received 11 responses.

We tested our findings with six experts from creative placemaking, community development, impact investing, philanthropy, academia, the arts, and the emerging field of creativity and innovation.

Appendix V: Definitions, Screening Criteria, and Metrics

This section provides background on our definition of Creative Places and Businesses and impact debt, outlines the criteria we applied when selecting projects to be considered in this study, and proposes metrics for evaluating impact investments in Creative Places and Businesses.

Summary

Our research employs three key definitions:

Creative Places: Multi-tenant affordable real estate projects (including housing, workspace, co-packing space, and retail space) targeting creatives and benefiting their neighbors.

Creative Businesses: Enterprises (focused on operation of facilities, inputs, production and distribution) in creative industries such as fashion, culinary arts, architecture, game design, and industrial design. We see creative businesses as a potential source of quality jobs.

Impact debt: Lending with the objective of generating positive social impact as well as a financial return. Our definition of positive social impact prioritizes benefits for low income, disadvantaged, and excluded communities.

The projects we considered for our research operate at the intersection of impact debt with Creative Places and Creative Business.

We explored a series of relevant social impact metrics for Creative Places and Businesses. While we recommend social impact be assessed along multiple dimensions, we suggest two primary metrics:

- **Creative Places**: square footage of new or preserved affordable creative space
- **Creative Business**: number of jobs created or preserved

Creative Places

Definition

Government and the philanthropic sector have played a catalytic role in establishing the field of creative placemaking and in growing its reach and popularity. In particular, the National Endowment for the Arts, ArtPlace America, and the Kresge Foundation have been active in defining the concept:

- The **National Endowment for the Arts** coined the term "creative placemaking," dedicated funding to it, and brought other funders into the effort. Continued field-building includes *How to Do Creative Placemaking: An Action-Oriented Guide to Arts in Community Development*, a book containing 28 essays from thought leaders in the creative placemaking field alongside 13 case studies of projects funded through the Our Town grantmaking program.

- **ArtPlace America** is a collaboration among 16 foundations that have made multi-year funding commitments to creative placemaking. Its work includes: grantmaking to individual creative placemaking projects, a three-year program that invests in six non-arts community development organizations, and research into the practices and principles of creative placemaking.[40]

- The **Kresge Foundation** has specifically targeted CDFIs, funding these organizations across the U.S. to integrate arts, culture, and creativity into community-based revitalization work[41] and has invested in technical assistance to build capacity for creative placemaking in other types of organizations.[42]

To arrive at the definition of Creative Places used in this report, we looked at how the National Endowment for the Arts, ArtPlace America, and the Kresge Foundation define creative placemaking:

- **National Endowment for the Arts**: Creative placemaking is when artists, arts organizations, and community development practitioners deliberately integrate arts and culture into community revitalization work—placing arts at the table with land-use, transportation, economic development, education, housing, infrastructure, and public safety strategies.

- **ArtPlace America**: Creative placemaking is when art plays an intentional and integrated role in place-based community planning and development.

- **Kresge Foundation**: Creative placemaking is a comprehensive community development approach that intentionally embeds arts, culture, and community-engaged design into strategies to stabilize communities.[43]

These definitions all revolve around arts and culture playing a role in community-based work. The National Endowment for the Arts and ArtPlace America consider a range of non-arts outcomes, while the Kresge Foundation focuses specifically on stabilizing communities. In addition, the SF Fed's journal on creative placemaking brings a number of scholarly and practitioner voices to this conversation.

We chose to focus on physical buildings that support and enable creatives to drive community impact. In this report, we use the term Creative Places to describe multi-tenant real estate projects targeting creatives, and benefiting their neighbors.

40 ArtPlace America, 2017, ArtPlace, Accessed January 22, 2017, http://www.artplaceamerica.org.

41 The Kresge Foundation; Surdna Foundation, 2016, "Catalyzing Culture and Community through CDFIs - Request for Proposals," Surdna Foundation, Accessed December 28, 2016, http://www.surdna.org/c4.html. In 2014, the Kresge Foundation in partnership with the Surdna Foundation launched C4: Catalyzing Culture and Community through CDFIs awarding $1.3 million in grants over two years to seven CDFIs.

42 In 2016, the Kresge Foundation and The National Endowment for the Arts launched a technical assistance program in collaboration with Local Initiatives Support Corporation and PolicyLink focused on arts-based community development.

43 The Kresge Foundation, 2017, Arts & Culture - The Kresge Foundation, Accessed January 22, 2017, http://kresge.org/programs/arts-culture.

Screening Criteria

Through our research, we found that four types of physical structures support the work of artists, designers, and makers and help them realize greater social impact:

Housing	Residential and mixed-use real estate where creatives live in community
Workspace	Commercial and mixed-use real estate where creatives work, often employing other community members
Co-packing	Commercial space where creatives prepare their products for sale and shipping, often employing other community members
Retail	Commercial space where creatives sell their products alongside other neighborhood merchants

This study focuses specifically on these four types of properties, with an emphasis on creatives living, working, and generating opportunities in the low income, disadvantaged, and excluded communities that community development seeks to serve.

Creative Businesses

Definition

In his 2001 book, *The Creative Economy: How People Make Money from Ideas*, John Howkins defined the Creative Economy as a new way of thinking and doing that revitalizes manufacturing, services, retailing, and entertainment industries. The focus is on individual talent or skill, and art, culture, design and innovation. “The Creative Economy brings together ideas about the creative industries, the cultural industries, creative cities, clusters and the creative class,” according to Howkins.

In the 2007 white paper *The Creative Economy: A New Definition*, New England Foundation for the Arts states: “Definitions of the Creative Economy diverge at the point of whether ‘creative’ should be interpreted as culturally-based or ideational in nature, using ‘creative’ as a shorthand for cultural expression on the one hand, and intellectual invention on the other.” For the purposes of our research, we decided to take the former approach and focused explicitly on businesses that have a cultural focus rather than all those that require creative thinking.

To arrive at our definition of Creative Businesses, we reviewed insights and approaches from a range of researchers, businesses, and government agencies.[44] In this report, we define Creative Businesses as enterprises in industry segments such as fashion, culinary arts, architecture, game design, and industrial design. We identified a set of relevant industry segments that meet our definition of Creative Businesses using the North American Industry Classification System. (See Appendix II.)

Screening Criteria

We found that most definitions of the Creative Economy consider the following segments:

44 National Creative Economy Coalition, New England Foundation for the Arts, Richard Florida, United Kingdom’s Department for Culture, Media & Sport, United States Department of Agriculture, and National Endowment for the Arts and Bureau of Economic Analysis under the Arts and Culture Production Satellite Account.

Facilities	Operation of the physical buildings within which creative businesses operate (e.g. production facilities, arts centers, and offices)
Inputs	The equipment and consumables necessary to develop creative products (e.g. machinery, raw materials, and electronic hardware/software)
Production	The actual generation of a creative product (typically the creatives themselves and their accompanying administrative/managerial functions)
Distribution	The dissemination of creative products (e.g. marketing, publishers, and broadcasting)
Consumption	The tools and infrastructure needed for end-consumers to engage with creative products (e.g. televisions, movie projectors, and radios)

Within Creative Businesses, this study focuses specifically on operation of facilities (with the development of facilities classified under Creative Places), inputs (defined as the products and services that enable artists, designers, and makers to do their work), production (defined as the products and services that are the outputs of creatives' work) and distribution. We excluded consumption to maintain a focus on creatives themselves. We include technology tools like design software intended to be used by creatives, and new tech-enabled forms of creative expression like social impact video games.

Impact debt

Definition

We coined the term impact debt to describe private lending with the objective of generating positive social impact as well a financial return.

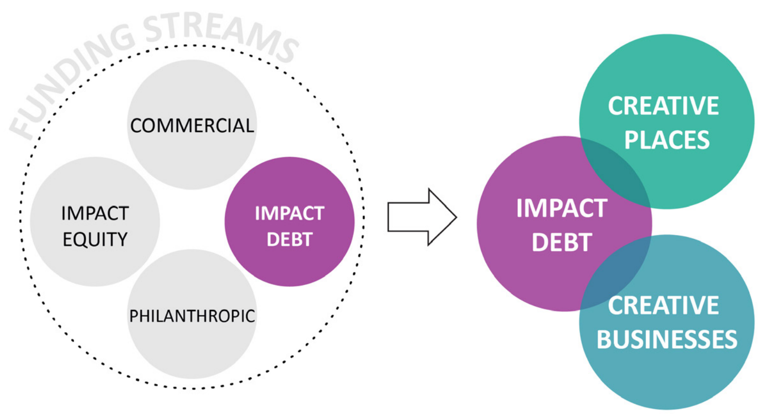
Our definition of positive social outcomes prioritizes benefits for low income, disadvantaged and excluded communities. We aligned our definition of positive social outcomes with the criteria used by Calvert Foundation:[45]

- Focus on low income communities as well as organizations with minimal access to traditional sources of capital
- Contribution to growing the local economy, expanding opportunity for low income individuals and families, creating jobs, creating or preserving affordable housing, and promoting social innovations
- Supporting diverse communities in urban and/or rural areas
- In the case of affordable housing developers, preference is given to those that use best practices in green/sustainable building, including designing developments around Transit Oriented Development concepts
- Demonstration of a consistent three-year track record with similar program activities and the ability to repay the investment based upon sound financial projections

45 Calvert Social Investment Foundation, 2016, "CF Community Investment Note Prospectus," Calvert Foundation, Accessed December 7, 2016, http://www.calvertfoundation.org/storage/documents/CF-Community-Investment-Note-Prospectus.pdf.

Screening Criteria

Creative Places and Businesses utilize funding ranging from philanthropy to impact debt and equity, to commercial investment capital. Our research focused on impact debt for Creative Places and Creative Businesses.



Metrics

We developed a range of potential indicators of short-term and long-term success for Creative Places and Creative Businesses:

	SHORT-TERM METRICS	LONG-TERM METRICS
CREATIVE PLACES	• **Square footage of new or preserved affordable creative space**	• Occupancy • Utilization • Tenant turnover
CREATIVE BUSINESSES	• **Number of jobs created or preserved** • Increase in assets, production, or scale • Increase in job quality	• Revenue growth • Client-base growth

To align our efforts with best practices, we reviewed the Impact Reporting and Investment Standards (IRIS),[46] and Calvert Foundation's annual Impact Report. We determined two primary indicators and tested them during through our research. We confirmed these metrics are a good reflection of the impact of Creative Place and Creative Businesses have in communities.

- **Creative Places**: square footage of new/preserved affordable creative space
- **Creative Businesses**: number of jobs created/preserved

46 Global Impact Investing Network, 2017, Tools & Training, Accessed January 22, 2017, https://thegiin.org/tools/. IRIS is the catalog of generally-accepted performance metrics that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry.

Case Study I: EngAGE and Meta Housing Corporation—Los Angeles, CA

In 1996, EngAGE's Founder and Executive Director Tim Carpenter was a marketing professional in the healthcare industry. Visiting senior facilities, Tim noticed residents sitting idly in chairs—not engaged in activities or connecting with one another—and he envisioned what it would look like to turn senior housing into an arts school.

With John Husky, CEO of Meta Housing Corporation (Meta), a Los Angeles-based property developer then focused on affordable senior housing, Carpenter re-imagined the programming that fills the physical building of senior communities. In 1998 Carpenter founded EngAGE, a nonprofit that turns affordable senior apartment communities into vibrant centers of learning, wellness, and creativity.

Today EngAGE works in 39 buildings in 26 cities in California, Minnesota, and Oregon. The business model offers developers a solution to programming at a fixed cost of $15 per unit per month. With an annual budget of over $2 million, EngAGE has found strong demand for its services. EngAGE programs help reduce the number of residents requiring assistance with activities of daily living or regular nursing care by 25%,[47] generating a monthly savings of $3,000 for 500 sample residents or an annual savings of over $18 million.

In 2005, EngAGE and Meta collaborated to build the Burbank Senior Artists Colony, a 141-unit senior housing facility with a theater, arts studios, digital filmmaking lab, music studio, and an intergenerational program that connects residents with students of the local public school district. Since then, EngAGE and Meta have built seven more arts communities at a cost of $1.5 billion (primarily funded by government tax credits and subsidies). They have expanded into multi-generational artist housing with three facilities targeting artist families and another for veterans.

Over the next five years, Meta and EngAGE anticipate building another ten artist communities that could use $30 million of impact debt.

47 EngAGE, n.d, EngAGE Results, Accessed January 22, 2017, http://www.engagedaging.org/who-we-are/results/.

Case Study II: Equinox Studios LLC — Seattle, WA

Equinox Studios LLC (Equinox) was founded in 2006 by Sam Farrazaino, a sculptor with significant construction experience. In the last ten years, Farrazaino has expanded Equinox to nearly 100,000 square feet of artist workspace occupied by 125 artists and artisans including glass blowers, blacksmiths, woodworkers, two painting schools, photographers, leather workers, musicians, filmmakers, and two dance companies.

Equinox is 100% artist-owned. Farrazaino seeks to build a replicable for-profit model for affordable artist workspace where the value of building improvements and growing neighborhood popularity accrue to the artists. Farrazaino created a subsidiary tenant organization that has a one-third ownership stake. Every tenant earns shares of the subsidiary by paying their rent. Tenants vote collectively on how to utilize the tenant organization's proceeds (e.g. reinvest in Equinox, payout a dividend). As Farrazaino explains, "The mission here is to create long-term affordable, long-term sustainable workspace that will always be workspace for artists. It won't ever be anything else."

Equinox has been financed almost exclusively by owner's equity and impact debt. Farrazaino's agreement for an initial 30,000 square feet building was a lease option, with the opportunity to purchase the building for $1.9 million after five years. In that time, Farrazaino made significant lease-hold improvements and the property appraised at $2.8 million. The owner agreed to finance the sale of the building to Equinox and consider the $900,000 increase in appraised value to be the down payment.

In 2013, Farrazaino purchased two additional properties by refinancing the original building plus $8.5 million in loans from RSF Social Finance and Craft3. Equinox grew to nearly 100,000 square feet. As of 2016, Equinox's annual revenue was approximately $1 million and its facilities had a net operating income of $775,000.

The waitlist for artist workspace at the time of writing was the equivalent of 60-70,000 square feet of space, and further expansion is planned. Equinox's estimated costs of acquisition and construction over the next five years are $10 million, $7 million of which to be financed through impact debt.

Case Study III: E-Line Media — Phoenix, AZ

E-Line Media (E-Line) was founded in 2008 by Michael Angst and Alan Gershenfeld as an impact investment vehicle for digital media. Angst, E-Line's CEO, brought experience as an operating executive and private equity investor. Gershenfeld, E-Line's President, brought digital media experience from his roles as Senior Vice President of Activision and co-founder of netomat, a double-bottom line company focused on mobile-web community solutions.

Originally, E-Line sought to raise impact capital from investors and deploy it in the digital media space as a venture fund. They identified compelling projects, but very few offered the necessary risk-adjusted returns. E-Line became a specialty digital publisher bringing virtual reality and mixed reality to consumer and educational games. E-Line Media's annual revenues are approximately $5 million.

E-Line's business goals are to help gamers:

- Understand a place or plight
- Engage with design and maker games
- Explore the natural environment
- Transition from playing games to real world making

E-Line often invests five years in development and testing. E-Line collaborated for two years with the Cook Inlet Tribal Council (CITC) on a game to celebrate the traditional culture of Alaska's Iñupiat people. The result was the award-winning *Never Alone (Kisima Ingitchuna)*, a puzzle platformer that gives gamers the chance to play as a young Iñupiat girl and an arctic fox as they hunt for the source of the eternal blizzard. *Never Alone* includes traditional music, is narrated in the language of the Iñupiat, and showcases traditional masks and art work.

At the time of writing, the company was preparing to raise $15 million of senior and mezzanine debt and equity to finance a slate of projects at varying stages of development. E-Line estimates that debt financing is 10% of a typical project's budget; loans are especially useful to finance marketing and distribution. "If you looked at each project, maybe 10% of financing is debt in the form of an impact investment debt vehicle. Debt widens the production financing capability for the folks who are taking most of the risk and accelerates the amount of money that can go into these digital media projects that have the opportunity for impact," said Angst.

Case Study IV: Stockade Studios and Stockade Works — Kingston, NY

In 2012, actress and director Mary Stuart Masterson moved fulltime to the Hudson Valley, two hours north of New York City. Before she knew the term “creative class,” Masterson recognized the region was home to writers, creative executives, and filmmakers; the area offered mountains, rivers, and cityscape locations; space was affordable; and the region was served by a train, an airport, and a major highway. Her motto became: “Make Local Work”.

With her business partner Beth Davenport, Masterson launched Stockade Studios (a for-profit production studio) and Stockade Works (a nonprofit education and training program for media and technology) in 2016 with the goal of creating a sustainable media economy in the Hudson Valley. They partnered with RUPCO, a local provider of affordable housing and community development programs.

Masterson’s research revealed to succeed as a media hub, the region needed a tax incentive, professional facilities, union support, and trained personnel – and set out to assemble these necessary ingredients. First, they organized support to expand the Empire State Film Production Tax Credit Program to 40%, making the Mid-Hudson Valley competitive with locations like Atlanta, Toronto, and Vancouver.

Next, they identified a vacant 70,000 square foot building in Kingston, NY[48] in a designated arts district and a Qualified Census Tract, and were awarded a $1 million grant from NYS Regional Economic Development Council Initiative to acquire and renovate the facility. The total project budget is $12 million with a capital structure that uses Historic Tax Credits and New Markets Tax Credits, plus $2 million of debt capital. Opening in 2018, the building includes soundstages, equipment rental, post-production facilities, a screening room, event space, and office space.

The majority of jobs in film and TV are blue collar production jobs, and the region is already home to union workers who work in New York City but cannot afford to live there. Masterson is seeking to create a new union zone around Kingston (i.e. a designation used by union film projects to determine per diem rates, driving distances for crew members, and other factors that meaningfully affect the cost of production.)

Lastly, Stockade Works will work with local high schools and vocational schools, and run a boot camp to provide entry level experience, allowing students to fulfill the hard-to-meet prerequisite of 800 on-set hours before sitting for the union test for studio mechanics. In this way, they plan to train a diverse workforce for the future of the entertainment industry.

48 Kingston, NY has a population of 24,000, a median household income of $31,594 with 15.8% of the population living below the poverty line.

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