

Investing in the Creative Economy is a Boon to Artists and Communities

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A morning briefing on what you need to know in the day ahead, including exclusive commentary from Barron's and MarketWatch writers.



A performance at the La MaMa Experimental Theatre Club in New York.

Photograph by Theo Cote

It all started with a pie chart. Or rather, with what *wasn't* on a pie chart. In 2014, Laura Callanan, while serving as senior deputy chairman of the National Endowment for the Arts, was looking at a graphic representing how much impact-investment capital was targeted to

different economic sectors. There was a category for “arts and culture,” but because of rounding, its assets were 0%.

“That made me nuts,” Callanan says. “The creative economy is 4.2% of the U.S. GDP and 3% of the global GDP. How can it be zero when so many investors are looking for ways to do some good?”

Unlike popular causes that attracted some \$500 billion in impact-investing dollars in 2018—such as climate change, poverty, and gender equality—pathways to support the arts through investments aren’t always obvious. Yet the positive effects are profound. Investing in the creative economy isn’t just about benefiting artists. A thriving arts scene often breathes life into communities by attracting new businesses, creating jobs, and drawing traffic.

Creative Capital

- **4.2%**
The amount of U.S. GDP made up by the creative economy.
- **\$60B**
The amount in grants and investments the Local Initiatives Support Corp. raised and committed in its 40-year history.

Callanan was convinced that if investors understood the power of creative capital, and had on-ramps to investments, the arts-impact slice of the pie would be significantly larger. What followed was her creation of a group called Upstart Co-Lab in 2015, a nonprofit that aims to raise the visibility and accessibility of impact investing in the arts. Its first step was to clearly define the creative economy. Far from the cliché of a beret-clad artist at an easel, the definition includes 145 businesses as diverse as furniture making, nail art, apparel manufacturing, book printing, and more.

Gary Hattem, a longtime New York City resident and retired Deutsche Bank managing director, became one of the first to invest in an impact private-debt fund developed through a partnership between Upstart Co-Lab and the Local Initiatives Support Corp. (LISC), a community-development group. In its 40-year history, LISC has raised and committed more than \$60 billion in grants and investments to revitalize communities. The LISC NYC fund is its first focused on the creative economy.

“I wanted to put my capital to work in a meaningful way,” Hattem says. “To me, it made sense that the arts is a sector that could build the local economy.”

Last year, the fund exceeded its \$5 million target and raised \$6.2 million for three projects across New York, including a \$3 million revolving line of credit to the La Mama Experimental Theatre Club to renovate its facilities. LISC has a strong risk profile—it has a double-A rating by Standard & Poor’s and has made good on more than \$1.7 billion in loans since 1980.

Investing in affordable housing for artists has proven to be transformative to neighborhoods across the country.

In the early 2000s, Sam Farrazaino, a sculptor and developer in Seattle, noticed that his city was losing its artistic character—“losing its soul,” he says—as industry and developers moved in from outside. In 2006, his company, Equinox Development Unlimited, bought and renovated a World War II-era factory building in Georgetown, an industrial area of the city, to create spaces for artists to live and work.

Today the 100,000-square-foot Equinox development houses 125 tenants, and Georgetown is a vibrant center. A December holiday event in the neighborhood called The Very Open House, with sculpture installations, three marching bands, and a bonfire, drew some 8,000 visitors.

One of the best examples of how community vitality grows out of art is the impact of a Santa Fe, N.M., artist collective called Meow Wolf, says Phil Kirshman, an investor in the collective and the chief investment officer at Cornerstone Capital Group. Meow Wolf opened a 30,000-square-foot art installation in Santa Fe in 2016 and has become the biggest tourist attraction in town. It brought in 500,000 visitors last year, employs 450 artists, and is a source of funding for creative organizations.

“This is an example of a creative economy entrepreneurship model,” Kirshman says. “Its driving force was to employ artists, and it has a high social impact.”