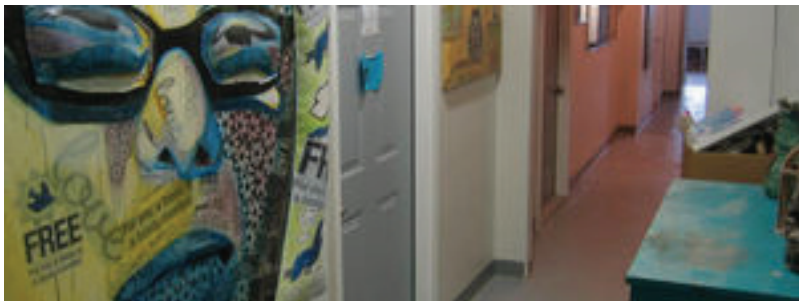
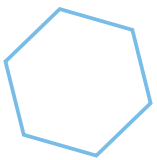


Artist Space Development: Financing



Chris Walker, Urban Institute, 2007 Leveraging Investments In Creativity

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Introduction from LINC

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

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

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

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

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

Artists in Community Revitalization: Artists Space Development and Financing

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

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

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

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

— Sam Miller, President
Leveraging Investments in Creativity

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

I. Executive Summary

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

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

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

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

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

This last question is explored in a companion research paper.

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

Artist Space Projects

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

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

Table 1. Artist Space Projects Reviewed

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

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

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

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

Developers of Artists' Spaces

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

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

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

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

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

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

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

Development Process

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

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

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

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

Project Occupancy | Affordability

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

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

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

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

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



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

Photo courtesy of Artspace Projects.

Project Financing

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

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

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

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

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

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

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

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

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

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

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

Effects of Markets and Systems

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

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

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

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

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

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

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

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

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

Recommendations

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

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

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

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