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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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.