New Spaces for Living and Working in the Creative Economy

by
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Abstract:

With economic development agencies and city planners increasingly aware of the role of the arts in local economies, artist housing appears to be an essential step in the cultivation and retention of an arts community. While artists' lofts are typically thought of as converted post-industrial structures, there is a need for new construction in areas where post-industrial structures are too expensive, not suitable for conversion, or nonexistent. This thesis looks at new construction of artist housing from the developer's standpoint to discover how developers can create new live/work space for artists. It explores the development of three new artists' live/work projects (The Banner Building in Seattle WA, Laconia Lofts in Boston MA, and ARTBLOCK 731 in Boston MA) to determine how and why a developer should consider building new artists' live/work space.

The thesis begins with a brief review of the various forces which have led to the arts' recognition as a significant economic driver at the national, regional, and community levels. It then analyzes the space needs of artists at the individual level. These needs are contrasted with those of the developer who is faced with the challenge of developing new space for artists under regulatory and financial constraints.

The three case studies inform a framework of conditions under which artists' live/work space should be considered and developed. The cases indicate the need for a certain degree of government involvement in artists' live/work development, including land use policies and building codes to enable the creation of suitable spaces, as well as subsidy to incentivize the development of affordable spaces. On the other hand, too much city oversight and regulation is seen to lead to unnecessary costs and lower project-level affordability. The built case studies illustrate how new artists' projects can revitalize neighborhoods and how professional developers are best prepared to assume the challenges of developing artists' live/work space.

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Prologue

This thesis builds on the growing mountain of research concerning the contributions that the creative sector, and in particular, the arts, can play in the economic development of a city. Working under the assumption that artist housing is an essential aspect to any arts-oriented urban development strategy, I explore the construction of new artist live-work space in areas where traditional "artist loft" redevelopments are infeasible or unavailable. **The ultimate goal is to identify the opportunities and hurdles associated with new construction of artists' live-work space to discover how, where, and why it might be an attractive option for real estate developers.** To this end, I have outlined the following questions:

- What are the characteristics of live/work space for artists?
- What are the needs of developers interested pursuing live-work projects?
- How do cities' needs or policies affect the development of artist space?
- Can live/work space be developed to meet the needs of both artists and developers?

As a developer and a planner, I am interested in ways that real estate can be profitably developed while meeting the goals of the city and the neighborhood. Arts-oriented economic development is a relatively new phenomenon for city planning agencies, and it is essential to consider the role that real estate developers can and will play in its success or failure. While many factors lead to the eventual outcome of a particular project, this thesis will illustrate ways in which new live-work projects can be developed more successfully to the betterment of our communities and the achievement of bottom-line results for the developer.

While this thesis is decidedly developer-centric, it will be of practical use to anyone wishing to develop new artists' space. I believe the best city plans are those that are developed with the recognition of real estate market forces, and I hope this may be a resource for planners, community development agencies, non-profit organizations, and for-profit real estate developers alike.

I have chosen three case studies which vary widely with regards to their size, affordability, location, date of construction, degree of city involvement, and level of finish. Beyond these surface variations, the case studies reveal some surprising differences in their common goal of providing artist live-work space. An analysis of the successes and failures of each project will serve to convey the lessons learned to others wishing to pursue new construction of live/work space for artists.

Introduction and Overview 1

A city's cultural vitality and diversity are of great importance to its overall economic health. This cultural life is dependent upon the creativity of a certain sector of the population including, but not limited to, visual and performing artists.[1] Space that accommodates both living and working areas (live/work space[2]) is an essential element to a city's ability to attract and retain members of this creative sector; moreover, that space needs to be affordable[3] and suitable to their needs.

In order to be feasible, live/work projects need to comply with city regulatory requirements and obtain financing. At the city level, the project must comply with both zoning regulations and building code standards. In order to obtain equity and debt to finance development, the project must also comply with the underwriting standards of lenders and investors. Each of these requirements presents a unique obstacle to developing live/work space that really works for artists.

Gentrification[4] and/or supply constraints can severely limit opportunities to redevelop existing industrial properties into artists' space. Faced with a lack of affordable and suitable facilities in which artists can live and work, new construction becomes the only option. This thesis evaluates the new construction of artists' live/work spaces through the lenses of affordability, suitability, regulatory compliance, and finance-ability to better understand how these opportunities can become viable projects for developers and cities looking to invest in the creative sector.

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[1] "Art" is the expression of creative skill in visual media or performance. An "artist" is "a person who is regularly engaged in the visual, performing, or creative arts as demonstrated by a body of work." (City of Seattle. "Space for Artists 2002")
[2] "Live/work space" is space which can accommodate activities of both living and working; typically characterized by an open floor plan, high ceilings, and large windows. Also must contain living facilities including a kitchen, bathroom, and sleeping area at the time of occupation. A subset of the housing typology referred to as "lofts" in the some markets.
[3] "Affordable" is the condition under which housing payments (rent or mortgage plus fees and utilities) do not exceed 30-35% of an individual's income. See Chapter 2 for a more detailed discussion of affordability.
[4] "Gentrification" is the process of renovating a house or a district so that it follows middle-class taste (New Oxford Dictionary). When gentrification happens at the district scale, the increase in home and land values (and subsequently rents and property taxes) can force "native" (pre-gentrification) residents to move elsewhere in search of affordable housing.

The Economics of Culture

Once ignored by economists, the roles of cultural institutions, creative communities, and artists are coming to the forefront of economic development research and discussion. In the late 1980's, the notion that the arts "actually create wealth" was put forward by the British American Arts Association.[5] Popularized in 2002 by Richard Florida's The Rise of the Creative Class, the concept of a new creative economy is gaining acceptance and profoundly influencing ways that culture and the arts are perceived from an economic point of view. The arts and arts-related activities are no longer seen as accessories to urban life. Rather, these and other cultural elements are seen as businesses and have taken a place in the inventory of elements deemed necessary for a city's economic survival.

To be fair, the arts comprise only a portion of Florida's Creative Economy. They are, however, labeled among those professions[6] comprising the "core" of the creative sphere, surrounded by other knowledge-based industries such as law, technology, finance, health care and business management.[7]

The arts—and nonprofit arts specifically—took center stage in the 2002 Americans for the Arts report on "Arts and Economic Prosperity" which looked at the contributions of nonprofit arts organizations to the larger economy. These organizations, together with their audiences, were said to have a $134 billion total impact on the national economy while creating 4.85 million full-time equivalent jobs. These figures were obtained by surveying expenditures of nonprofit arts organizations and their audiences in 91 communities across the nation with the conclusion that, "locally as well as nationally, the arts mean business."

In June of 2000, the New England Council in partnership with six state creative councils and the Boston Symphony Orchestra released a report titled "The Creative Economy Initiative: the role of the arts and culture in New England's economic competitiveness," followed by a "Blueprint for Investment in New England's Creative Economy" the following year. Based on the

[5]Keens, William, Paul Owens, Dani Salvadori, Jennifer Williams, eds. Arts and the Changing City: an agenda for urban regeneration. British American Arts Association, 1989.
[6] Other professions in the core include: science, engineering, mathematics, computers, education, and entertainment. Rise of the Creative Class, p. 74.
[7] Rise of the Creative Class. p. 69.

"enormous and untapped potential of the arts," the Council lists its primary goal of maximizing the impact of the arts to "benefit every economic sector across New England." While the report is focused in economic development as a whole rather than specific local issues, the message is clear: in order to remain competitive, all levels of government and business need to develop policies and resources to stimulate and nurture the creative sector of their communities.

Arts and the City

Lest these ideas of culture and creativity be viewed as mere cocktail party conversation, they are playing a pivotal role in the way that cities perceive themselves and how cities formulate policies for urban redevelopment. Today, one hardly needs to convince most major cities that they should invest in their arts communities.

In 1998, over 90 cultural districts had been planned or implemented in cities in the United States.[8] Of the 50 largest cities in the United States, each had a local arts agency.[9] Of those agencies:

- 100% provided services to arts and arts organizations;
- 72% had performed an economic impact study on the arts;
- 64% collaborated with their local economic development department or agency;
- 58% had a community cultural plan;
- 50% had a cultural tourism plan;
- 42% presented an arts festival; and
- 34% planned or implemented a cultural district. [10]

Figure 1: Dallas Office of Cultural Affairs logo.

Figure 2: Boston's First Night button.

By 2002, over 4,000 U.S. cities had local arts agencies.[11] By 2004, it can be estimated that hundreds of cities had policies to stimulate the local creative economy. From renaming itself for marketing purposes (Dallas: A Great

[8] Frost-Kumpf, Hilary Anne. Benefits of Cultural Districts. Americans for the Arts, 1998. p. 13.
[9] A local arts agency (LAA) is "a community organization or an agency of local government which supports cultural institutions, provides services to artists and arts organizations, and presents programming to the public. (Americans for the Arts).
[10] United States Urban Arts Federation. "1999: An Annual Statistical Report about the budgets and programming of Arts Councils in the 50 Largest U.S. Cities (Fiscal Year 1998)." Americans for the Arts, 1999.
[11] Urban Arts Federation Survey, 2003.

Work of Art) to programming of cultural events (Boston's First Night celebration) to implementing physical planning and development strategies for a specific arts district (Worcester, MA), cities are not taking their culture lightly. Indeed, many see the arts and culture as a primary redevelopment tool or repositioning strategy.

The Importance of Space for Artists

"While most economic clusters are built around private businesses, the creative individual—or artist—is at the epicenter of the creative economy."[12] Behind the galleries, theatres, and studios are individual artists who make it their work to create the products we collectively term "art." Space for these individual "engines" of the creative economy is of great importance.

This research and the arts district movement have come at a time that has seen skyrocketing real estate values in most urban areas in the United States. Competition for space in urban centers has made it extremely difficult for artists, who traditionally have incomes far below the median, to maintain affordable spaces.

Further complicating matters for artists is their tendency to spur the gentrification process which then prices them out of the market. In fact, the mere designation of an arts district has caused land values to swell in some areas. In Providence, RI, a handful of property owners controlled most of the buildings what would become the city's arts district. When the city's interest in forming the district was publicized, these owners immediately "raised the price on the buildings beyond what could possibly be feasible for conversion to artist lofts…Instead of artist housing being built, developers have…developed luxury condominiums in several of the buildings."[13]

Clearly if cities expect to nurture their existing artists and attract new talent, they need to simultaneously protect the spaces they have, while promoting the creation of new live-work projects.

[12] "The Creative Economy Initiative: A Blueprint for Investment in New England's Creative Economy," June 2001.
[13] Schupbach, Jason. Artists Downtown: Capitalizing on Arts Districts in New England. Cambridge: MIT, 2003. Schupbach speculates that this "fast track to gentrification" was Providence's intention all along.

New Construction

In few cases, developers wishing to pursue artist live-work projects may be presented with an inventory of industrial building stock which is cheap, clean, and easily converted into artists' lofts. However, these opportunities are rare and getting rarer with the prolonged housing boom, especially in light of the rising popularity of "loft living." Ironically, this comes at a time when cities are becoming more fully aware of the benefits artists provide for the overall economy.

There are several conditions under which the renovation of existing structures is not an option for artist live-work space. First, there may be no buildings to convert. Second, available and suitable buildings may be too expensive to renovate into anything other than luxury residences. Lastly, the buildings which are available and affordable may be unsuitable for conversion due to layout issues, location, environmental contamination, or structural instability. In the face of one or more of these situations, there is a need for new sites on which to develop new live-work spaces. Indeed, recent trends seem to be necessitating this new direction.

A lack of buildings to convert may be the result of two factors: either none existed or they have been converted to residential or other uses already. In Worcester, MA, planners for the downtown arts district were disappointed to find few buildings along the main street for conversion to artist housing. Therefore, they expanded the district to include the large industrial structures located three blocks off of the major corridor. In this case, city officials were fortunate in the warehouses' proximity. In other cities, however, suitable structures may exist miles away from a planned arts district or they may not exist at all.

Figure 3: Adaptable structures in Worcester's arts district. The district was originally planned for the main corridor, but then expanded to include the industrial structures at the lower center of the map. (Master Plan for the Worcester Arts District, Community Partners Consultants, Inc.)

In the case of first-tier cities, most conversion has happened already. By renovating structurally sound buildings in locations close to the urban center, private developers have been able to significantly reduce construction costs (as compared to new construction) while selling product at prices which tap into the market demand for urban living and working. As a result, private developers have redeveloped many of the older urban industrial areas in which artists have tended to create live/work spaces for themselves.

In the late 1990's, developers found it very profitable to convert old warehouse and manufacturing buildings into office and flex space for the booming high-tech industry. With little interior construction necessary, some buildings could be affordably converted for dot-com tenants who were looking for funky, nontraditional space.

The burst of the tech bubble has not hampered the attractiveness of conversions, but merely shifted the focus to residential use. The housing boom borne of e-commerce and sustained with demographic shifts and low interest rates has taken up where the commercial conversions left off.[14] Targeting empty-nesters and young professionals, developers have snapped up most structures with any potential for conversion into luxury condominiums. The result: either there are no more buildings to convert or the market value of any available buildings is too high for artists' space.

Figure 4: The Heublein Building in SOMA, San Francisco's first loft conversion, where a 2-bedroom unit was on the market in 2004 for $1.2 million. (Greater Bay Area Multiple Listing Service)

San Francisco's SOMA (South of Market) District has become the poster child of overambitious loft development. As of December 2000, over 1,700 units of live-work development had been constructed in the neighborhood, with more than 2,500 additional units in the pipeline (under Planning Department review, approved, or under construction).[15] Following the adoption of a live-work ordinance in 1988, the city saw a "largely unmitigated disaster"[16] with the construction of blocks and blocks of overpriced lofts for sale under this umbrella legislation. Because the ordinance did not make a clear distinction between live/work and purely residential uses, the loft spaces competed with traditional condominiums on the residential market. The red-hot residential market drove SOMA's artists out of the few existing manufacturing buildings in the area, and the newly-constructed lofts in the area were unaffordable. In fact, lax building codes led to shoddy construction in many of the projects,[17] and one can question whether these new spaces could withstand the high impact of artists' uses anyway.

[14] This is not meant to imply that renovated industrial spaces were not seen as attractive places to live or work before the 1990's. The technology boom merely increased the rate by which the buildings were converted.
[15] "Analysis of Impediments to Fair Housing for HUD," San Francisco Mayor's Office of Housing, 2001.
[16] Coupland, Ken. "The death of live-work: San Francisco's recent loft-building frenzy offers painful but valuable lessons." Metropolis, June 2002, v. 21, no. 10, p. 60.
[17] Ibid.

Boston's Fort Point Channel area, once billed as New England's largest artist community with 500 artists, has attracted the attention of several developers interested in the old granite and brick warehouses along the east side of the Fort Point Channel. In late 2002, Beacon Capital Partners, a local developer, submitted plans for 1.55 million SF (SF) of new and renovated office, residential, and retail space as part of their Channel Center project which includes 14 old warehouse buildings. While construction is expected to be phased over three to five years beginning in 2003, the artists who established the district in the late 1970's were packing up and moving as their leases expired in 2002.[18]

Figure 5: Rendering of Channel Center's newly-renovated, luxury "Historic Lofts." (www.channelcenter.com)

Should one happen upon a post-industrial structure in a first-tier city which is relatively inexpensive (for the market), chances are that it is contaminated, structurally unsound, or otherwise unattractive for residential occupancy.[19] The developer's costs associated with building decontamination, structural stabilization, and/or reconfiguration would typically cancel out any cost savings associated with the purchase.

Figure 6: Rendering of Channel Center's "Modern Residences." (www.channelcenter.com)

Therefore, whether the problem be loss of existing space or the nonexistence of it, there is a need for new structures which can suit both the living and working needs of artists.

Beyond issues of supply and demand, new construction has some additional advantages over renovation or adaptive reuse. One of these is energy-efficiency and the incorporation of green building techniques. The use of green building techniques in artists' spaces would incorporate notions of environmental and social sustainability in a single development project. At the same time, energy-saving measures would result in lower operating costs and, therefore, greater affordability for artists. This topic will not be explored in depth in this thesis, but it is an advantage of new construction that could benefit artists' space projects.

[18] Diaz, Johnny. "Unmaking the point: Signs point to extinction of Fort Point artists as condos move in." The Boston Globe, 8 December 2002. City Weekly, p. 1.
[19] Factors which might make a building unsuitable for conversion into residences include: low ceilings (below code requirements) and poor or inefficient layout for subdividing into units.

Overview of Chapters

This thesis explores the challenges associated with constructing new live/work space for artists in order to provide a framework for successful development. The first three chapters focus on the current environment for constructing new live-work space for artists through the lens of both demand (artist) and supply (developer) sides. This chapter presents an overview of cities' growing awareness of the importance of the arts and cultural institutions to their overall vitality. It goes on to connect that awareness to the need for artist spaces and the barriers to their development. Focusing on the end user of these developments, Chapter 2 explores the space needs of artists. Chapter 3 operates at the other end of the spectrum, outlining the developers' concerns of regulatory compliance and financial feasibility. Chapter 4 introduces the research methodology used in exploring three artist-oriented new construction projects: the Banner Building (Chapter 6), Laconia Lofts (Chapter 7), and ARTBLOCK 731 (Chapter 8). Each case parallels the overall thesis, first explaining the overall context in which the project was conceived and developed, then analyzing it from the standpoint of both artist and developer. Chapter 9 summarizes the lessons learned from both of the cases and uses them to establish a framework for the development of new artists' live/work space. The chapter concludes with overall conclusions about this development niche before ending the thesis on a personal note in the Epilogue.

Artists' Concerns 2

Space for artists represents one of many specialized niches in the real estate market. While lofts are now an attractive housing type for many city-dwellers, artists are in fact the only profession with a *need* for open loft-style space. Many people who choose to work in their homes can merely set up an office in an extra bedroom or corner of the house. This arrangement, however, is not suitable for most artists who need large spaces to accommodate their work and work habits. While the average home office requires few changes to the overall configuration of a living space, a live/work unit is functionally and spatially distinct from a traditional home. This chapter outlines two major issues confronting artists searching for live/work space: **affordability** and **suitability.**

While there are many financially successful artists, the arts are typically not high-income professions. Affordable space is required by almost all up-and-coming and many longtime artists.[20] In addition, order to accommodate their work processes and materials, most artists have specific spatial requirements as well as amenity needs. These suitability requirements create additional challenges in the search for affordable space.

While the issues of affordability and suitability are essential considerations for developers of artist live/work space, it is important not to lose sight of the fact that many needs of artists are no different from the average home buyer or renter. Boston's 2003 artist survey found that 68% of artist respondents listed safety as one of the most important community features.[21] Access to transportation was the second most important characteristic, and 40% of artists indicated that nearby parks or open space were important features.[22]

[20] Unfortunately, while many artists qualify for low- and moderate-income housing according to federal income and eligibility guidelines, traditional low-income housing is often not suitable for their needs. Suitability is also the more pressing issue in second- and third-tier cities where space is likely to be more affordable on the whole.

[21] Boston Redevelopment Authority and Artspace Projects Inc. "Keeping Boston's Creative Capital: a survey of artist space needs." BRA, June 2003. p. 26. The survey contained a list of six community characteristics (safety, transportation, proximity to other artists, parks, art supplies/stores, and good schools) and artists were asked to list the three that were most important to them.

[22] Over half of respondents also listed *proximity to other artists* as an important characteristic, placing it second in the rankings.

A Worcester (MA) group of artists also highlighted their needs for safety and transportation when planning the local arts district in 2002.[23]

Affordability

While affordability is an issue for any person or family looking to rent or buy a home, artists are often in the unique situation of spurring gentrification which then drives them out of the local market. Historically, artists have been the "pioneers" willing to live in ignored and dangerous sections of the city in order to find affordable space. Non-artists then see the community that the artists have created and are similarly attracted to the location, its affordable spaces and, more importantly, their potential for renovation. As non-artists continue to move in, rental spaces occupied by the artists are converted to market-rate housing which the artists are no longer able to afford. The displaced artists are forced to look to other areas for yet-to-be-discovered affordable space.

Therefore, as downtown becomes an increasingly popular place to live and work, housing the creative sector becomes an even greater challenge. Although increases in land value are terrific for a city's tax base, competition for space is destroying the very essence which attracted so many newcomers to downtown or other urban areas in the first place: the creative community.

One can imagine a scenario in which the artist population in those cities, neighborhoods, and districts we now view as creative communities dwindles to a point that the community is no longer attractive to those who gentrified it in the first place. As those people leave in search of other, new creative communities, the "old" community suffers a loss of vitality. **In cities with rising land values, therefore, it is important preserve the affordability of artists spaces in order to ensure that the diversity and vitality associated with that creative community is maintained.**

Faced with increasing space costs, some artists have abandoned first-tier cities altogether. While this migration was once limited to relocation to areas on the immediate fringe of major cities such as New York, Boston, and San Francisco, places like Lowell, MA (pop. 105,176) and Pawtucket, RI (pop.

[23] Worcester Arts District Master Plan, June 2002. Community Partners Consultants, Inc.

72,958)[24] are now seeing a substantial increase in their artist populations as artists must move further and further afield to find affordable and suitable space.[25]

WHAT IS AFFORDABLE?

Defining "affordability" for spaces in which individuals live *and work* raises and interesting question, and requires one to reexamine traditional standards and guidelines. The United States Department of Housing and Urban Development (HUD) has determined that housing costs[26] are "affordable" when they comprise no more than 30% of a household's annual income. However, live/work space presents a different situation than that of space intended for living only. The "work" component of live/work space precludes the necessity of renting separate studio space and ostensibly saves the artist that cost. In addition, the workspace in a live/work situation enables the artist to engage in his/her craft and therefore profit from that space. It seems reasonable, then, to assume that artists can spend more than 30% of their income on live/work spaces, and they can still be considered affordable. In Boston, the Boston Redevelopment Authority (BRA) has determined that 35% of annual income is an appropriate ratio for determining affordability for live/work spade.

ARTISTS' INCOMES VARY WIDELY

The issue that arises for developers, then, is *what is the average income for an artist?* In order to construct a valid profile of the artist market, developers must be able to make certain assumptions about household income levels. These assumptions regarding income directly influence the sale prices that developers can expect to achieve in the market. Artists, however, have a wide range of incomes,[27,28] and determining the median income level is almost impossible. First, most artists make the majority of their income from sources

[24] Census 2000.
[25] However, in cities that are actively trying to retain a dwindling artist population, the land costs may be too high to compensate for any savings in construction cost provided by raw space. In these cases, subsidy is necessary. These cities may already be aware of the need for artist space and might be more willing to entertain the possibility of underwriting a portion of the costs. This issue is discussed in more detail in the next chapter.
[26] Housing costs include rent or mortgage payments plus utilities plus condominium fees (if applicable).
[27] This range was illustrated by the Boston survey, where 25% of respondents belonged to households that earned less than $30,000 per year, while over 25% of respondents' households earned more than $75,000 per year.
[28] It can be safely said that an area's population also has a wide range of incomes, as do many professions within that population. However, developers normally choose to build for a certain income range in an area, rather than a particular profession. It is this anomaly that further complicates artist live/work development.

The Catch-22 of Location

While the activities of living and working are artists' primary needs, the "work" element also involves the need for a place to sell their art. From a programming standpoint, it may make sense to include gallery space in an artist live/work project if it one isn't already provided in the neighborhood. From the artists' standpoint, however, the same work that is shown in high-end galleries (in expensive neighborhoods with wealthy clientele) commands higher prices. Therefore, in order for artists to be more financially successful, they must show their work in neighborhoods with high land values, and in places that are destinations for tourists and residents with disposable income. However, places for the artists to live and work cannot be developed in these neighborhoods without available land, significant financial subsidy to afford the land, and neighborhood support (which becomes increasingly unlikely the wealthier and more established the neighborhood is).

other than their art. In the 2003 Boston survey, 57% of respondents made less than 10% of their total income from art work. Less than a sixth of those surveyed made 50% or more of their income from art work. Because so many artists are forced to take on other full- and part-time jobs to support their work, it can be assumed that there are far more artists out there than those who identify themselves as such in the US Census.

To further the point, in 2000, the median income in Massachusetts was $21,178 overall for "artists and related workers" and $33,876 for year round full-time "artists and related workers".[29] Boston's artist space survey, however, painted a picture of a more prosperous profession: the median household income for artist-respondents in 2001 was approximately $49,500. In 2002, the director of Urban Artists Alliance, an artists' advocacy group in Boston, asserted that "most of" the full-time Boston-area artists she has interviewed make less than $27,000 per year.[30] Clearly these discrepancies are more than a result of small temporal and geographic differences.

There are several factors illustrated by these statistics. Census data is often unavailable and, when it is, the data is not applicable to the general artist market. For example, income by profession is not broken down any further than the state level, leaving one to extrapolate statewide information to the local level. In addition, the census does not have a category for "median household income in which one member is an artist." Many artists pursue their profession while supported to some extent by an income-earning spouse or partner. It is this combined household income which determines whether an artist household can afford to purchase a particular live-work space. This comparison merely illustrates the necessity of having an in-depth knowledge of the local artist community before determining the artist price point for affordable space.

The need for more detailed information about artists and their space and affordability needs can be seen in the many surveys of artists' needs conducted by public and private, for-profit and nonprofit organizations. A quick Google search of "artist space survey" in 2004 listed[31] 13 organizations

[29] Census 2000 data.
[30] Shannon Flattery, as quoted in Palumbo, Mary Jo. "A plea for realism: Artists fear BRA's housing plans will force them out." Boston Herald, 25 November 2002, p. 33.
[31] Among 280,000 hits.

which are currently conducting web-based artist surveys or which have published the results of recent (post-2000) surveys on the web. Each survey contained questions about household income and space needs. From the Edge Group in Lowell, MA to the International Sonoran Desert Alliance in Ajo, AZ; from the Newark Arts Council in Newark, NJ to the Santa Cruz City Redevelopment Agency in Santa Cruz, CA, people are realizing that it is hard to peg the "average" artist.

Suitability

Artists' requirements for live/work space vary greatly with the type of work that they do. Just as there are visual and performance artists, there are distinct spatial needs associated with the creation of visual versus performance art. There are, however, some unique requirements which apply to most artists.

SPATIAL REQUIREMENTS

The first of these common requirements is space. While specific spatial requirements vary between individuals, a unit which provides for both living and working areas needs to have more square footage and possibly more rooms than a simple studio or efficiency apartment which provides for living only. The Boston artists' survey found that half of the artists interested in live/work space needed less than 500 square feet for the work-only portion of their space, while a third needed between 500 and 1,000 square feet.[32] This space is in addition to their needs for living—over a third of the artists' interested in live/work space needed at least one bedroom to accompany their studio space, while over half needed at least two bedrooms or more.[33] Unfortunately for most artists, this need for space runs counter to affordability requirements—all other things equal, a larger space will cost more than a smaller one.

DESIGN REQUIREMENTS

Several specific design features are also commonly needed by artists. The first of these is natural light. Natural light is more than a desirable feature for visual artists;[34] it is essential for their work. In fact, three-quarters of the respondents to Boston's survey indicated natural light as one of their top

[32] Boston Redevelopment Authority and Artspace Projects Inc. "Keeping Boston's Creative Capital: a survey of artist space needs." BRA, June 2003. p. 21.
[33] Ibid, p. 22.
[34] The overwhelming majority of respondents to each artist survey referenced in this thesis identified themselves as visual artists. Of these, painters are the most predominant group.

three desired live/work space features. The Boston Redevelopment Authority's live/work design guidelines state that "the ideal source of light for workspace is from the north."[35] High ceilings are related to the need for and are an amenity sought by nearly half of Boston's respondents. High ceilings serve several functions. First, they can accommodate large equipment, large works, and lighting systems. They also create space for performing artists' vertical movements. Second, when accompanied by large windows, high ceilings can create a sun-bathed room ideal for the production of visual art. Finally, in some cases, high ceilings in conjunction with large, operable windows can provide a substantial amount of the air movement necessary to ventilate noxious fumes. In other cases, a dedicated venting system is necessary. Nearly 30% of the respondents to the Boston survey expressed a need for special ventilation systems to clear fumes from their live/work spaces.

Other design requirements outlined by the Boston survey were: additional storage (31%), soundproofing (28%), oversized doors (16%), and high load-bearing floors (7%). Sound dampening construction is essential between performing artists' spaces, as well as visual artists whose work is noisy. Floors capable of carry large loads are needed by some performing and visual artists to accommodate both high-impact activities and overweight pieces. Oversized doors and wide hallways allow for large works to be moved in and out of the units. At the building level, freight elevators are a necessary complement to load-bearing floors and wide doors and hallways, allowing for oversized and overweight objects and deliveries.

TECHNICAL REQUIREMENTS

In addition to ventilation systems, many artists have other technical requirements for live/work space. Approximately 15-20% of the Boston artists expressed a need for high-speed data lines and/or special electric wiring. Just under 10% desired special plumbing, and 5% were interested in sprung floors.[36]

Beyond these unit-level features, artists' live/work projects should consider providing additional dumpster capacity for the artists as well as an established procedure for disposing of toxic and hazardous materials. Insulation and fire

[35] Boston Redevelopment Authority. "Artist Live/Work Specific Design Guidelines." BRA, 19 June, 2003.
[36] This corresponds to the 5% of respondents who were dancers.

safety systems should be designed with the ability to respond to accidents in the artists' spaces (the BRA recommends industrial-strength).

While many of the non-technical features outlined in this section—large spaces, natural light, high ceilings, soundproofing—are shared desires of both artists and the average home-seeker, it is important to keep in mind that these are not just aesthetic features for artists. These features create an environment which is necessary for them to perform their work. If not provided with desk space and a semi-private, lit work area, the average office would most likely find his or her work suffering. Similarly, artists are unable to work to the best of their abilities without many of these features. With the space, design, and technical requirements of artists in mind, developers of new artists' live/work space can meet or exceed their basic requirements.

Developers' Concerns

3

From the developer's perspective, artist live/work projects provide a host of challenges. Major hurdles to any project's success include permitting, regulatory compliance, financing, and profitability. Live/work space presents challenges at each of these steps in the development process. In order to get a development project built, a developer must first have the explicit or tacit approval of the City in terms of zoning and building code compliance. Next, all construction projects are undertaken with some degree of debt financing, and construction lenders must be able to estimate a project's return and future value and must be comfortable with the level of risk before providing capital. Unusual projects, such as live/work, can be problematic for the risk-averse banking community, which all too often exhibits a "follow the herd" mentality, avoiding innovation and its attendant risk at all costs. This underwriting process assumes regulatory approval. Finally, the developer and his or her equity investors expect a certain degree of financial return (which varies from developer to developer) on their investment in order to make a project worth pursuing.

Compliance: Zoning

In many cities, zoning laws prohibit individuals from living and working in the same space and/or preclude habitation in industrial areas. At the heart of such "Euclidian" zoning[37] is the segregation of uses to protect from "nuisance uses" and to preserve land values. In many parts of the United States, areas are exclusively designated as residential, commercial, *or* industrial, and it is illegal to blur the lines between the three activities. Since the mid-19th century, however, artists in urban America have been notorious for occupying abandoned industrial buildings with brazen disregard for these city policies regulating against such behavior.

UNDER THE RADAR IN SOHO

In 1960's New York, artists began to establish live/work spaces in buildings vacated by SoHo manufacturing firms as upper Manhattan space became scarce. SoHo, however, was exclusively a manufacturing and commercial district. Because residential occupancy was forbidden, many artists employed elaborate devices to hide evidence of their habitation from building inspectors:

[37] Euclidean zoning divides a jurisdiction into zones based on type and intensity of use. Each zone is reserved for one particular use, typically residential, commercial, or industrial.

> *It took all kinds of evasive actions to live the life of the loft dweller, which made it seem even more isolated. Stoves were beautifully boxed in beaver boards and explained away as model stands. Beds were rolled under painting racks and sliding doors built to conceal them. (One prominent artist swung his up on pulleys behind a large air duct.) Some artists put up blackout curtains; others encouraged dust to accumulate as thickly as possible on windows, to create an illusion of tenantlessness.*[38]

Beyond physical devices, artists living in SoHo were known to register to vote under other people's addresses, have their mail sent to friends, abandon their telephones, and register their children in school districts associated with a relative's address. There were health and safety issues associated with this "underground living," too. Universal fire protection[39] and sanitation services were not provided until 1971, when state and city government officially sanctioned the SoHo live/work spaces.[40]

Similar stories abound in other artist enclaves across the United States, although most major cities caught on to (and made legal) the artist live/work trend significantly later than New York. In Boston, policies concerning live/work spaces weren't adopted until 1989 with the addition of the "Artists' Mixed-Use" designation in the Zoning Code. Defined as a subcategory of industrial use involving "the use of all or a portion of a building for both art use and habitation," the code articulates "art uses" as:

> *the creation, manufacture, or assemblage of visual art, including two- or three-dimensional works of fine art or craft, or other fine art objects created, manufactured, or assembled for the purpose of sale, display, commission, consignment, or trade by artists or artisans; or classes held for art instruction.*[41]

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[38] Millstein, Gilbert. "Portrait of the Loft Generation." New York Times Magazine, 7 January 1962, p. 28, as quoted in Wilkie Farr & Gallagher, Housing for artists: the New York experience. New York: Volunteer Lawyers for the Arts, 1976.
[39] As early as the late 1950's, firefighters could identify artists spaces by an A.I.R. (Artist in Residence) sign in the doorway. These tags were essentially a nonconforming use permit, but allowed no more than two artists per building.
[40] New York did pass an enabling act (Article 7-B, an amendment to the New York State Multiple Dwelling Law) in 1964 to allow for "the combined purposes of pursuit of their artistic endeavors and residences," but the extensive restrictions tacked onto the amendment negated its applicability to most SoHo artists. (Wilkie Farr & Gallagher, 1976)
[41] Boston Zoning Code, Article 2.

Artists' mixed-use is allowed by right in all of the city's industrial zones and by right or by conditional use permit in 11 of the city's 16 neighborhoods.

In cities without specific legislation concerning live/work spaces, artists are left in the same situation as SoHo residents in the 1960's. Their options are limited to obtaining a zoning variance or violating the zoning code. Developers, too, are precluded from creating new space for artists without an overall zoning provision or site-specific variance allowing for both living and working in the same space. On the other hand, in cities with designated arts districts and/or artist policies, live/work zoning codes are among the first policy changes to be enacted.

At the project level, the process of obtaining a variance is risky and onerous. Faced with mandatory public review, variance proceedings can drag on for 4-6 months, and the outcome is uncertain. This risk will be only undertaken if the developer is reasonably assured of approval and/or the project stands to make a high profit. However, if variances are easily obtained in a particular area, then that area may be quickly gentrified. Therefore, site-specific variances are not the best tool for promoting permanent artist live/work space.

ZONING VARIANCES = ADDED RISK

Zoning for live/work space is an area that needs to be addressed by municipalities with the needs of the artists and the developer in mind. Amendments to the zoning code or land-use variances are necessary to allow for the development of live/work space for artists.

Compliance II: Building Codes

In addition to zoning issues, live/work space presents a unique set of challenges in terms of building code compliance. The intent of a building code is to ensure the public health, safety, and welfare with regards to property. Embodied within this purpose are regulations which establish minimum standards for the following:

- materials and construction methods
- structural loads and stresses
- size and location of rooms
- windows and ventilation
- electrical work, including lighting
- plumbing, heating, appliances, and equipment

- fire safety, including separations and warning and protection equipment
- access, including hallway length and width, exits, and stairwells[42]

Because of safety concerns, particularly with regards to fire, traditional building codes do not allow for a mix of living and working uses within a single space. The Universal Building Code (UBC)[43] requires that each space in a building be allocated to a particular use (occupancy) and that "each part of the building comprising a distinct 'occupancy'[44]…shall be separated from any other occupancy." The code does not anticipate different uses within the same occupancy. Specifically, separation is accomplished through fire-rated walls, "vertical or horizontal or both or, when necessary, of such other form as may be required to afford a complete separation between the various occupancy divisions in the building." Clearly, these regulations don't anticipate one's living room, or any other room in a residence, from doubling as a working studio.

Live/work zoning amendments are therefore useless in the absence of substantial revisions to the building code. The fact that artists engage in a wide variety of media and working styles further complicates the matter. While a painting studio can be classified as business occupancy, a welding studio clearly falls under the industrial category. Ventilation and loading requirements in residential codes are often not sufficient for the creation of large works of visual art and the use of heavy materials and equipment, while commercial and industrial building codes may not be adequate to protect sleeping residents. While safety concerns must remain paramount, there is some leeway which can be imposed on the strict separation rules in traditional building codes to allow for live/work space. Building codes typically do not have live/work provisions, but developers and design professionals employ a strategy of designing each element of live/work spaces to the more stringent of the residential or commercial codes, paying particular attention to structure,

[42] Adopted from Kartes, Cheryl. Creating Space: a guide to real estate development for artists. New York: American Council for the Arts, 1993.
[43] Most state building codes are based on the UBC.
[44] Section 301 of the Code states that "every building, whether existing or hereafter erected, shall be classified by the building official according to its use or the character of its occupancy…as a building of *one* [italics mine] of the following assembly groups." The groups which are most applicable to artists' mixed use space are R (Residential), F (Factory and Industrial), and B (Business).

fire safety systems, electric and plumbing utilities, and cooking and bathroom facilities. Building code officials tend to approve of this "belt and suspenders" approach to code compliance.

Financing

The layers of financing that are necessary in real estate projects have a direct impact on both the developer's ability to do the project and the buyer's ability to buy/finance property. A residential for-sale project requires financing at two levels. First, the developer must secure a construction loan to fund the project during the construction period.[45] In order to repay that loan upon construction completion, the developer must sell the units in the project. Therefore, repayment of the construction loan is dependent upon the second layer of financing: end loans (purchaser mortgages) and buyers' ability to obtain them. Commercial banks are the typical venue for both short-term construction financing and end loans. These institutions, however, tend to be quite conservative, while affordable live/work projects are decidedly unconventional.

One reason for banks' conservative nature is their need to, above all else, preserve capital. If the developer defaults and the bank is forced to foreclose on the property, the bank needs to be confident that the project can be sold for the value of the outstanding loan balance plus the expenses associated with the foreclosure.[46] Unconventional products, by definition, have not been extensively tested in the market. Therefore, while they might have the potential to be lucrative investments, they have the same potential to be near-worthless in the market. Because banks are not willing to risk being stuck with a non-sellable building at the end of foreclosure proceedings, they prefer to finance conventional real estate products. If they do decide to offer loans to a nontraditional development, the bank is likely to compensate for the project's risk with lower loan-to-value (LTV) ratios[47] than they would for a conventional product, thereby shifting more risk to the developer.

[45] In many cases, developers need an additional layer of financing to fund the project's predevelopment expenses (legal, architectural, permitting, etc.).
[46] Typical foreclosure expenses include legal fees, marketing costs, and sales commissions.
[47] Loan-to-value ratios represent the proportion of the loan value to the estimated (completed) property value of the project.

Another reason for banks' conservative nature rests on their need to maintain liquidity. Banks achieve this by preserving their ability to sell the mortgages they issue on the open market. In the lending community, mortgages are a commodity that can be organized into classes based on their risk and return profiles. This classification is largely dependent upon the terms of the mortgage—loan to value ratio, term length, interest rate, financing fees, etc. as well as the type of real estate product serving the debt. While these terms are certainly not the same for every project, much of the legal language behind them is boilerplate fare. This allows for the term variations between mortgages to be easily quantified and represented (by price) on the secondary mortgage market. Nontraditional development products often require nontraditional loan provisions that are difficult to quantify and package for resale in the high volume market for mortgages. One can easily understand how unique products like live/work space for artists don't easily fit into the secondary mortgage market.

While new artists' live/work space remains fairly unconventional, new market-rate loft residences have been proven to be very popular in urban markets of the late 1990's and early 2000's. The "quintessential...loft dweller has evolved from an artist renting cheap live/work space to a well-heeled buyer investing in an urban dream home."[48] Because live/work spaces can sometimes be used as market-rate residential lofts where zoning permits, banks may be able to underwrite an artists' live/work project on the value of the units at market rate. For this to occur, however, banks have to be assured that the sale restrictions on artists' units can "burn off" in the event of foreclosure. Provided that the project can be marketable and profitable at market rate, most developers are able to negotiate a construction loan for an artists' live/work project on the basis of its market rate value.

RESTRICTION "BURN OFF"

The problem with this "burn off" situation is that affordability is destroyed in the event of foreclosure. This is often an issue between city regulatory agents and developers. The city would like to insist that affordability restrictions run with the unit and remain in place for its entire useful life. On the other hand, developers are pressured by lenders to ensure that any foreclosed units can be sold on the free market. If the city wins the debate, the developer often

[48] Yonan, Joe. "Divide and conquer: Lofty ideas and a creative floor plan can turn a space into a home." The Boston Globe, 22 April 2004, p. H1.

has no choice other than to accept a construction loan with less favorable terms, such as a lower LTV ratio.

Some banks may balk at the idea of a project relying on artists' abilities to obtain end loans to purchase units. Because many artists are self-employed, often implying an unsteady income, they can be viewed as high-risk borrowers. Some lenders may charge artists a higher interest rate or more closing costs than the average borrower (see Chapter 5: A Word about the Cases), or they may refuse to lend to them altogether. Such perceptions of artists, however, are changing. As banks begin to recognize artists' ability to revitalize urban districts *and* pay their bills, they are becoming more comfortable with the notion of financing artists' space. Following the success of Laconia Lofts in 1999, Jack McLauglin asserted that "all sorts of bankers want in on these [arts-related] development deals."[49]

Feasibility

The limited income of the average artist means that market-rate space for living or working is often unaffordable. If a developer is to build spaces for living and working that are affordable to most artists, the selling prices of these spaces often needs to be far below the cost of developing them. Particularly in areas with high land costs, it is rare that a developer of *affordable* artist live/work space will be able to make a reasonable return on investment without some sort of subsidy to fill the gap. In many areas, conventional housing subsidies at the federal, state, and local level can be utilized to make a project feasible. Private funding can sometimes be found through arts-oriented foundations and organizations. Regulatory approval, density bonuses, and land cost write-downs also provide some measure of value to the developer and can be considered important public contributions toward artist live/work space.

Three major sources of public subsidy for below-market housing are federal Low Income Housing Tax Credits (LIHTC),[50] Community Development Block

Table 1: Potential subsidy sources for new live/work development.

Source	Dist. Level	Notes
LIHTC	state	-Rental only -Tax credits of 4% or 9% of construction costs -Competitive per state QAP
CDBG	state, local	-Competitive per state Action Plan
HOME	state, local	-Limit determined by state
linkage	local	-typically only avail. In large urban areas
private foundations	foundation	

49 McLaughlin also qualified that statement by saying, "they [bankers] move too slowly for my taste…they're always a year late into a less commonly structured deal and by that time, the profit margins have dried up." As quoted in Villani, John. "Money for the Arts." Urban Land, Mar 2000, v. 59, n. 3, p. 60.

50 LIHTC is available for rental projects only, as the syndication process relies on a depreciable basis which can be held by the buyer of the credits.

Grants (CDBG), and HOME Investment Partnerships Program (HOME) funds. Each of these subsidies are distributed by individual states or cities on a competitive, project-by-project basis. One issue surrounding the distribution of funds for artist housing is a misconception of how such space does or does not comply with the federal Fair Housing Act, which prohibits "discrimination in sale or rental of housing and other prohibited practices" and "discrimination in residential real estate-related transactions."[51] While the Act classifies discrimination as being "based on race, color, religion, sex, handicap, familial status, or national origin"[52] each state interprets the *intent* of Fair Housing in its Qualified Allocation Plan (QAP), used for LIHTC, and its Action Plan, used for CDBG and HOME funds.

THE FAIR HOUSING ISSUE

As of 2004, Massachusetts the only state to deny LIHTC to artists' housing projects.[53] It was one of the few, if not the only state to deny HOME and CDBG funds based on its interpretation of the Fair Housing Act.[54] Although no specific mention of artists or occupation is made in the Commonwealth's QAP or Action Plan, there is a debate in the affordable housing community which revolves around two arguments concerning the distribution of federal housing funds to artists' live/work projects:

- because live/work projects contain a "work" component, do they qualify as "housing?"
- can housing that is designated specifically for artists be interpreted as discriminatory?

Minneapolis-based Artspace Projects, Inc., a national developer of affordable rental live/work space for artists, has worked with states to convince them that their artist-oriented projects comply with Fair Housing requirements.[55] The organization has been successful in gaining approval and tax credit benefits for their developments based on a tenant selection preference for artists which is "a preference and not a condition of tenant applicants." The selection statement asserts:

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[51] Fair Housing Act, Section 804.
[52] Ibid.
[53] Community Partners Consultants, Inc. "Creating Artist Space: Report to the Boston LINC Working Group," October 2003.
[54] Conversations with local and national developers of artists' space have not resulted in the identification of any state other than Massachusetts which does not award federal funds to artist housing. As of May 2004, lobbying efforts at the state level are working to change this.
[55] Phone conversation with Stacey Mickelson, 13 April 2004.

> *It is Artspace Project's understanding that a person's occupation is not a protected status under federal law. For example, neither artists nor non-artists, and neither HUD officials nor non-HUD officials are protected classes, and thus, housing criteria based on occupation is not discriminatory. Artspace is not aware of any state or local law that treats a person's occupation as a protected status. The use of an applicant's occupational status as an artist as a preference complies with the Fair Housing Act and the requirements of HUD Handbook 4350.3.*[56]

Some cities have their own separate process for disbursing federal housing funds. Having deemed (independent of the state) that their selection process is in compliance with Fair Housing requirements, each city distributes a portion of its allocated federal funds, which can include CDBG and HOME, to the development of artist housing projects. For example, while the Commonwealth of Massachusetts has yet to commit to funding artist live/work projects, the City of Boston has decided that these projects are indeed eligible for local-level distribution of federal funds.[57] Cities also may have other local funding sources, such as linkage fees, available for affordable housing projects, including artist live/work space.

INDIRECT SUBSIDIES

Aside from direct subsidy, the inclusion of affordable artist live/work space can provide a developer with leverage in communities that recognize the value of their artists. By providing a certain amount of artist space, a developer could obtain density bonuses, conditional use permits, and other approvals for which the project, without artist space, might not ordinarily be considered. These bonuses, in effect become a quantifiable government subsidy for the project and are analogous to incentives for producing traditional affordable housing.

Along similar lines as these "regulatory subsidies," projects offering artist-affordable live/work space may be eligible for purchasing government property at significantly below-market rates. Certain cities have stockpiles of land that are owned by the local government for conservation purposes, unrealized city-sponsored redevelopment projects, or other reasons. If the

[56] Artspace Projects, Incorporated. Minneapolis, MN.
[57] In contrast to the Massachusetts/Boston example, Michael Byrd at Artspace asserts that Houston is the only city in which their attempts to develop artist space have been foiled on the basis of the city's Fair Housing interpretation.

city can be convinced of its need for artist space, local government may be willing to dispose of the land at below-market rates for this "public purpose."

CROSS-SUBSIDY

Cross-subsidization with market-rate units allows for unique opportunities in the creation of artists' space. When the sale prices of market-rate units exceed the total cost of developing them (including developer profit), this spread can be used to contribute to the gap between developing and selling the affordable units. Therefore, if a developer can increase the profit on the market-rate units, he or she is able to provide more affordable units, either in number or in degree of affordability. In some projects, the presence of artists can add a "sense of hipness,"[58] further increasing the value of the market-rate units. One Boston loft dweller "likes living near the 'real artists' and artist wannabes like himself."[59] He's a 48-year old attorney. However, if a loft project is as-of-right, the added panache of "real artists" in a project is little reason for a developer to include more than a token number of affordable units in the project, if any at all. Marketing efforts can easily portray a project as artist-oriented much more cheaply than actually selling below-market units reserved for artists.

In summary, developers of artists' live/work space are faced with several layers of challenges in meeting the affordability and suitability requirements of artists. These challenges include: complying with zoning codes, adhering to building codes, obtaining financing, and achieving financial feasibility for the project. Without these pieces falling into place, artist live/work projects will not get built. Meeting these challenges requires initiative on the part of both the developer and the city, as neither could create live/work space without the cooperation of the other.

[58] David Hacin, architect of Laconia Lofts, as quoted in Kellogg, Craig. "Artists catch a break in Boston with subsidized loft spaces." Architectural Record, 1 October 1998. p. 58.
[59] Fairclough, Julia. "More exposure: Lured by open floor plans and flexible lifestyles, city folks and suburbanites are flocking to lofts." Boston Globe, 18 April 2004, p. H4.

Methodology

4

The intent of this thesis is to evaluate the development of new artists' space. As customers, artists' perspectives are of particular significance to this discussion. As regulatory agent, the city's role in the permitting and approvals process as well as potential subsidy allocation is equally important. Given the extensive research already undertaken on the economic value of the arts, this thesis does not try to determine whether or not it is sound policy for a city to invest in its arts community. Rather, it takes the approach that presupposes a need for artists' live/work space and asks how developers might meet that need.

In order for artist live/work projects to be attractive to developers, however, they must be financially feasible. *Without feasibility, artist live/work development will not occur in quantities sufficient to fulfill the needs of all artists looking for affordable and suitable space.* The focus of this research, therefore, revolves around conversations with developers of artists' space and the logistics behind their projects.

Within this framework, background research and interviews provided the context in which to evaluate the cases. Artists, planners, and developers—from nonprofit to luxury—each offered their unique perspectives on real estate. Speaking with each of these groups highlighted both the common and divergent goals of each stakeholder group.

Case Study Research

The cases are meant to highlight some of the advantages and pitfalls of developing new living and working space for artists. While the selection of available cases was extremely limited, the three highlighted in this research display a breadth of characteristics with regards to initiation (artist versus developer versus city), size (between 30 and 86 units), location (west versus east coast), and city involvement (minimal to substantial). While a single characteristic cannot be cited as the sole indicator or determinant of a development project's success or failure, the unique attributes of each case are used to make some generalizations about how, when and why developers might pursue new construction for artist housing.

Each project was evaluated from both the consumer's and the developer's perspective to make some generalizations about its successes and failures. Specifically, the income required to afford a unit in each development was calculated and compared against both the area's overall average income as well as that for artists in order to determine its level of affordability. While difficult to generalize, some initial judgments about suitability were made from both current residents' assessments of the space as well as realtors' experiences with selling them. "Success" from a developer's perspective is a bit easier to judge. Often, it boils down to a simple question of whether he or she would pursue the project again if given the chance.

The Banner Building and Laconia Lofts were chosen as case studies because they were the only two KNOWN artist-oriented, new construction projects which had been completed by 2004. ARTBLOCK 731, scheduled for completion in late 2005/early 2006, is included because it provides an interesting perspective on the state of new live/work development in Boston. In 1994, the Banner Building was documented as the first new construction in the country aimed at creative individuals. By 1999, however, Laconia Lofts is cited as the "first new artists' live/work space to be built from the ground up in over 75 years"[60] and articles mention only an unnamed development in San Francisco as a precedent. ARTBLOCK 731 is one of two new artists' new construction projects underway as of May, 2004.[61]

Information about each project was gathered from a variety of sources. Because the nitty-gritty behind most development projects is confidential, the majority of helpful information was gleaned from interviews with parties involved in the process. The developers for each project, as well as equity partners, architects, and government officials were interviewed, some on several occasions. In some cases, the alliances in the project were obvious. In others, the interviewee seemed fairly objective in his/her assessment of the project. Past and current residents provided personal insight on the usability of the spaces and community dynamics within the projects. A thorough search of newspaper articles, journal articles, and Internet webpages was

[60] Hacin + Associates website, www.hacin.com. Another article cites Laconia as the "first housing in the Northeast for artists to live and work," (Associated Press newswires, 4 March 1998) but it is assumed the article means "first new housing." Fenway Studios, constructed in the early 1900's, was the last new construction of artists' space on the East Coast.
[61] Another is underway in Prince Georges County, Maryland, developed by ArtSpace Projects of Minneapolis.

performed for background information on the projects and their neighborhoods. Public records were another invaluable source of information. Both Suffolk County (Boston) and King County (Seattle) have searchable databases of public records which allowed for checking and double-checking the information gathered through each of the aforementioned methods.

The results of these efforts are profiles of three very different development projects, which, on the surface appear to be very similar in orientation. What follows in the three case study chapters are accounts of each project from the developer's standpoint: the context under which they were conceived, the conditions under which they were permitted, the reasoning behind the equity partners' and lenders' decisions to finance the projects, and the process of marketing and selling the units.

The lessons learned from the Banner Building, Laconia Lofts, and ARTBLOCK case studies are then used to construct a framework of recommendations for the development of additional new artists' live/work projects.

Summary Matrix

There are certain key characteristics to every development project, and artist live-work developments are no different. In order to summarize and easily compare these attributes between projects, a matrix is presented for each case study which lists the items of importance to this study. This matrix is presented on the following page. The case studies of the Banner Building, Laconia Lofts, and ARTBLOCK follow a similar structure as the matrix.

General Information	Banner Building, Fall 1994	Laconia Lofts, Spring 1999	ARTBLOCK 731*, Winter 2005|6
Location	Belltown, Seattle WA	South End, Boston MA	South End, Boston MA
Neighborhood condition	marginal	marginal	somewhat established
Developer	Koryn Rolstad | Hadley Holdings	Jack McLaughlin	New Atlantic Development Corporation
Degree of government involvement	low	medium	high
Total Units	31	86	54
Total square footage	65,000	129,000	74,270
Artist Needs: Affordability			
Proposed # of artists' units | actual # of artist-restricted units | # of affordable units	31 - condominiums and rental apts | 0 | 3 - apartments	45 - condominiums | <23 - condominiums | <23 - condominiums	32 - condominiums | TBD
Median Sale Prices			
artist unit | income to afford	$185,000 | $55,000	$109,000 | $31,000	$185,000 | $49,000
market unit | income to afford	$212,500 | $69,000	$291,000 | $82,000	$485,000 | $119,000
Median family income	$50,400	$62,700	$82,600
Effective APR (with artists' premium)	9.81%	7.81%	6.69% (May, 2004)
Artist Needs: Suitability			
Unit size (artists' units)	1,000 - 1,600 SF	700 - 2,000 SF	1,000-1,200 SF
Level of finish	no finishes - owners responsible for bathrooms, kitchens, stairs, HVAC	"throwaway" kitchen and bath	simple kitchen and bath
Other amenities	high ceilings, large windows, storage units, enclosed parking, terrace, private decks (in some units), double-height units on upper floors	high ceilings, large windows, enclosed parking, private decks/patios (in some units), double-height units on upper floors	high ceilings, large windows, increased electrical capacity, individual ventilation systems, enclosed parking, courtyard space, private decks (in some units)
Developer Needs: Compliance			
zoning prior to construction	mixed residential-commercial	light manufacturing	multifamily residential
zoning change necessary?	no	no	yes
C of O issues	units not up to code when delivered	(none)	(none)
Resolution	blanket certificate of occupancy issued for entire project	2 certificates: first when unit delivered, second when fit-out complete	units delivered in habitable condition
Developer Needs: Financing			
Equity Partners	unit purchasers, Hadley Holdings	Mohawk Real Estate|O'Connor Group	state and city subsidy
Lender	West One Bank	Fleet Bank	pending
Financing Structure	30% equity / 70% debt	35% equity JV / 65% debt	25% subsidy equity / 75% debt
Developer Needs: Return			
Total Development Cost	$5,800,000	$20,000,000	$19,216,000
Per Unit Development Cost	$187,097	$232,558	$355,852
Subsidy(ies) used	affordable housing bonus	land cost write-down; cross-subsidization	BRA (grant and reduced land price), affordable housing subsidies (state and city), cross-subsidization
Value of cash and land subsidies	$500,000	$1,275,000	$3,897,860
Subsidy per Affordable Unit	$166,667	$55,435	$121,808
Construction Cost	$4,200,000	$16,500,000	$13,545,000
PSF construction cost | Boston 2004 equivalent	$65 | $90	$128 | $144	$182 | $182
Project-level IRR	-8.6% (est)	profitable	unknown

**new construction figures only*

A Word About the Cases

5

Both of the completed case study projects are fairly old (Laconia Lofts is five years old at the time this was written in 2004 and the Banner Building, ten), and some information, in particular hard numbers, was spotty at best. In addition, many of the major players have moved on from the organizations that originally were involved in the developments. Jack McLaughlin, the inspiration and developer behind Laconia Lofts, passed away just as the building project was nearing completion. Hadley Holdings, the principal developer of the Banner Building, no longer exists as an organization. As with many real estate development projects, centralized information is unavailable altogether, but, in these cases, even consistent information was difficult to obtain.

Each case is rife with bias. There is a sense that those involved in the development of Laconia Lofts would like to preserve the developer's memory as an untiring advocate for the arts. In addition, the transformation of Washington Street since Laconia Lofts was completed has been so astounding that most current accounts of the project have a bit of a gloss to them. This is not to say that there was no negative information conveyed about the project—Heidi Burbidge at the BRA has said that a similar project would "probably never happen again" in Boston—but the generally positive attitude about Laconia merely highlighted the controversy created by the Banner Building.

In contrast, there are still bitter feelings over the development of the Banner Building ten years after the project was completed. The partnership between Hadley Holdings, the principal developer, and Koryn Rolstad, the visionary behind the project, did not survive the project. Discussions about the other party still hold a tinge of bitterness, and it is difficult to sort through fact and exaggeration.

With those qualifications, all information presented in this thesis has been cross-checked whenever possible. If any information could not be verified, it is noted as such (i.e. noted as one person's assertion). In all cases, data collected from public documents supercedes that gathered in interviews, although gross inconsistencies were questioned and may be footnoted.

Sales data

All sales data, including unit area, was obtained from local county online records databases. For the Banner Building, sales prices and dates, unit sizes and condominium documents, option agreements, and zoning bonus information were obtained from excise tax records and official public records on the King County Recorder's Office website.[62] All information regarding the sale prices, unit sizes, and restrictions for Laconia Lofts was obtained from the Suffolk County Registry of Deeds website[63] as well as the assessment information available through the Boston Redevelopment Authority's online mapping application.[64]

Income requirements

In order to determine the household income level required to purchase a unit in one of these projects, "typical" artist units (artist-restricted or artist-targeted units[65]) were identified, and the median sale price was taken to determine the general price level an artist should expect to encounter if looking to purchase at either of the case studies when they were built. The typical downpayment[66] was then subtracted from this median sale price to obtain the expected mortgage amount.

This mortgage amount was then used to calculate monthly payments. National average interest rate and fees/points data (by month) for 30-year fixed-rate mortgages was obtained from Freddie Mac. Averaging the interest rate and points/fees data for the four months comprising the quarter in which the project was delivered yielded a reasonably accurate calculation of the effective annual yield for the "average" mortgage.

Recognizing that the profession of "artist" often implies an irregular income and, therefore, additional risk for the lender, and an "artists' premium" was

[62] http://www.metrokc.gov/recelec/records
[63] www.suffolkdeeds.com
[64] http://www.mapjunction.com/places/Boston_BRA
[65] Artist-restricted units are designated by the Suffolk County Assessor's Office (Laconia Lofts, Boston), and the presold units at the Banner Building were assumed to be artist-targeted (based on conversations with Koryn Rolstad).
[66] Prepurchase of a unit at the Banner Building required a $25,000 option payment, which served as the units' downpayment. At Laconia Lofts, artists were able to obtain mortgages with 5% downpayments (3% in some cases, but 5% is used here).

added to the annual yield calculation.[67] This premium was assumed to be around 50 basis points, or one-half of one percent. The effective yield plus the artists' premium was applied to standard mortgage payment calculations for a 30-year fixed-rate mortgage to obtain the required monthly payments.

An "assumed expenses" charge which would include the condominium fees and utilities associated with owning a typical unit in the building[68] was added to the required payments, resulting in a total monthly housing cost for the unit. Using the BRA's definition of artist live/work affordability, this cost was multiplied by 0.35 to obtain the minimum income under which the unit could be considered "affordable" (see Chapter 2).

Construction Costs

Construction costs vary with regards to place and time, and these variations are not directly correlated with inflation. It was therefore necessary to adjust the construction costs in each project so that they could be directly compared with one another. In order to accomplish this, R.S. Means Construction Cost Index data was applied to the per square foot construction costs only.[69] Using the respective Boston and Seattle data for the quarter in which the Banner Building and Laconia Lofts were delivered as well as the first quarter Boston 2004 data, a "Boston 2004 Equivalent" value was determined. ARTBLOCK's construction cost estimate was assumed to be a valid estimation for the first quarter of 2004. The equivalent values are meant only to be a rough guide for comparison between the three projects, as the index varies over the course of the construction period.

These standards are consistently applied to all three cases to yield the most objective analysis possible. On the other hand, the dynamics surrounding the development of the projects certainly make the stories more interesting and, therefore, are included in the text. The cases progress according to the year they were built: first, the Banner Building in the mid-1990's, followed by

[67] Because the premium could have been charged in the form of a higher interest rate or additional points and fees, the premium was added to the effective yield rather than categorized into one of these two variables.
[68] Based on information obtained from residents.
[69] R.S. Means publishes a quarterly construction cost index for each construction trade, broken down into materials, labor, and total cost, for each of the major cities in all 50 states. The index uses the average for the 30 largest U.S. cities as of January 1, 1993 as its datum.

Laconia Lofts in the late 1990’s and ARTBLOCK in the early 2000’s. It is important to keep this progression of time in mind when comparing the two, as there are interesting differences that can be partially attributed to an institutional learning curve in the construction of new buildings for artist live-work space.

General Information	Banner Building, Fall 1994	Laconia Lofts, Spring 1999	ARTBLOCK 731*, Winter 2005|6
Location	Belltown, Seattle WA	South End, Boston MA	South End, Boston MA
Neighborhood condition	marginal	marginal	somewhat established
Developer	Koryn Rolstad | Hadley Holdings	Jack McLaughlin	New Atlantic Development Corporation
Degree of government involvement	low	medium	high
Total Units	31	86	54
Total square footage	65,000	129,000	74,270
Artist Needs: Affordability			
Proposed # of artists' units | actual # of artist-restricted units | # of affordable units	31 - condominiums and rental apts | 0 | 3 - apartments	45 - condominiums | <23 - condominiums | <23 - condominiums	32 - condominiums | TBD
Median Sale Prices			
artist unit | income to afford	$185,000 | $55,000	$109,000 | $31,000	$185,000 | $49,000
market unit | income to afford	$212,500 | $69,000	$291,000 | $82,000	$485,000 | $119,000
Median family income	$50,400	$62,700	$82,600
Effective APR (with artists' premium)	9.81%	7.81%	6.69% (May, 2004)
Artist Needs: Suitability			
Unit size (artists' units)	1,000 - 1,600 SF	700 - 2,000 SF	1,000-1,200 SF
Level of finish	no finishes - owners responsible for bathrooms, kitchens, stairs, HVAC	"throwaway" kitchen and bath	simple kitchen and bath
Other amenities	high ceilings, large windows, storage units, enclosed parking, terrace, private decks (in some units), double-height units on upper floors	high ceilings, large windows, enclosed parking, private decks/patios (in some units), double-height units on upper floors	high ceilings, large windows, increased electrical capacity, individual ventilation systems, enclosed parking, courtyard space, private decks (in some units)
Developer Needs: Compliance			
zoning prior to construction	mixed residential-commercial	light manufacturing	multifamily residential
zoning change necessary?	no	no	yes
C of O issues	units not up to code when delivered	(none)	(none)
Resolution	blanket certificate of occupancy issued for entire project	2 certificates: first when unit delivered, second when fit-out complete	units delivered in habitable condition
Developer Needs: Financing			
Equity Partners	unit purchasers, Hadley Holdings	Mohawk Real Estate|O'Connor Group	state and city subsidy
Lender	West One Bank	Fleet Bank	pending
Financing Structure	30% equity / 70% debt	35% equity JV / 65% debt	25% subsidy equity / 75% debt
Developer Needs: Return			
Total Development Cost	$5,800,000	$20,000,000	$19,216,000
Per Unit Development Cost	$187,097	$232,558	$355,852
Subsidy(ies) used	affordable housing bonus	land cost write-down; cross-subsidization	BRA (grant and reduced land price), affordable housing subsidies (state and city), cross-subsidization
Value of cash and land subsidies	$500,000	$1,275,000	$3,897,860
Subsidy per Affordable Unit	$166,667	$55,435	$121,808
Construction Cost	$4,200,000	$16,500,000	$13,545,000
PSF construction cost | Boston 2004 equivalent	$65 | $90	$128 | $144	$182 | $182
Project-level IRR	-8.6% (est)	profitable	unknown

**new construction figures only*

The Banner Building (1994)

6

The Banner Building is an artist-focused, mixed use development constructed in Seattle's Belltown neighborhood in 1994. The project has three components: light industrial "custom craft"[70] condominiums, live-work loft condominiums, and rental apartments. It was constructed in 1994, the product of a local artist's frustration with housing options for herself and her peers. The ten custom-craft condominiums were sold for anywhere between $31 and $141 per square foot, while the sixteen live-work condominiums were sold for $100 to $270 per square foot. All of the spaces except for the rental apartments were sold completely bare, with access to all utilities at two hookup points in the apartment wall.

Figure 7: The Banner Building (Weinstein Copeland Architects)

City, Neighborhood, and Site

Seattle's Belltown is the product of a massive earthworks project. Originally, the area north of Seattle's Central Business District comprised a steep grade known as Denny Hill fronting the Puget Sound. At the end of the 19th century, Seattle's city engineer decided that the hill would be flattened to create the next business district in the city. Unfortunately, the great "Regrade"[71] project took more time and effort than originally expected, and by the time it was complete, the nation was in the throes of the 1930's Great Depression.

Figure 8: Seattle neighborhoods. (http://seattlepi.nwsource.com)

Contrary to the original plan of a grand new civic center, various "gritty" industries gradually began to take root in Belltown. Fish canneries, printing presses, and shoe, can and box factories settled on the waterfront, and workers built small cottages on the inland blocks. Several brick residential hotels constructed for the Exposition of 1909 served as apartment buildings. World War II brought a transformation to the waterfront as Navy yards and maritime industry provided a boost to the Seattle economy. From the 1950's to the 1960's, the area was (dis)reputed as Seattle's red light district; bordellos had bells on doors instead of lights and the neighborhood saw a

[70] Custom-craft is a commercial zoning designation which allows light industrial activities. According to the Seattle Land Use Code, "'Custom craft work' means food processing and craft work use in which nonfood, finished, personal, or household items, which are either made to order or which involve considerable handwork, are produced. Examples include but are not limited to pottery and candlemaking, production of orthopedic devices, printing, creation of sculpture and other art work, and glassblowing. The use of products or processes defined as high-impact uses shall not be considered custom and craft work."
[71] Belltown is also called the Denny Regrade for this reason.

Figure 9: Cafes along Second Avenue in Belltown. (www.citywalks.com)

Figure 11: Site location. (maps.yahoo.com)

Figure 10: Cabins at Vine St. and Western Ave., c. 1915 (William Hainsworth)

steady stream of sailor-customers. In the 1970's, Belltown became the location of choice for artists displaced by the redevelopment of Pioneer Square and the loss of cheap loft space west of the Central Business District.

> *Sure, there are lots of Seattle coffeehouses, but for that gritty, way-out funky thing, Belltown is the place to go. The reputation followed the artists who 20 years ago began taking advantage of cheap workspace among the red brick pockets of history, joining a mix that included the working poor, the elderly, a transient maritime crowd, social services, and warehouse businesses like car repair shops and Murphys' Publishing. (1992)*[72]

In the early 1990's, Belltown was a study in contrasts. A decade earlier, senior citizens were comfortable in the neighborhood and content in its affordability. By the time the Banner Building was conceived in 1992, however, Belltown had become simultaneously too dangerous and too expensive for many of the seniors who still called it home. Over 15 social service agencies catered to the needs of the homeless, the unemployed, and the drug addicts in the neighborhood, while those catching the early end of the technology boom were fixing up the neighborhood's existing housing stock or moving into luxury condominiums on the waterfront.

The Banner Building was constructed on a challenging site two blocks from the Puget Sound waterfront. Both the lot size and slope made development difficult, as the site area was only 14,000 SF (120' x 115') and sloped upwards away from the water, approximately 10 feet over the width of the site. On the plus side, the slope allowed for exceptional water views from heights of 30 feet or more.

The site is located at the north corner of Vine Street and Western Avenue, along a significant northwest-to-southeast corridor linking Downtown Seattle with Belltown and the other northwestern neighborhoods of Queen Anne and Magnolia.[73] The Millionair's Club, one of Belltown's social service agencies, is

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[72] Keene, Linda and Marc Ramirez. "Belltown – One step forward, two steps back – de evolution." Seattle Times, 18 October 1992, p. 7.
[73] Just south of the site, Western Avenue links with Route 99, Seattle's waterfront highway.

located one block away from the project, and dozens of the city's unemployed and homeless population loiter around the area each day.[74]

The Banner Building site was home to several of the working-class bungalows that were built in Belltown in the early 1900's. Facing Vine Street, these wood-framed, shot-gun style homes stood until the later half of the century, when all that remained on the site was a one-story warehouse. In 1992, the dilapidated warehouse was demolished to make way for the Banner Building.

Figure 12: Aerial view of Belltown in the 1950's. (Museum of History and Industry). Banner Building site is marked with arrow.

Housing Trends

In the City of Seattle, the average home value in 1990 was $137,900, increasing approximately 8% to $148,000 in 1994.[75] In the Downtown/ Belltown area, the average home price was a bit higher—$168,900 in 1990.[76] Conservatively extrapolating Seattle's growth rate to this neighborhood yields an estimated home value of $182,400 in Belltown.[77]

Over the same period, rents in Seattle were growing much faster. From a median rent of $425/month in 1990, rates grew by 21% to $514/month in 1994 in the city.[78] In 1990, rents in the Downtown/Belltown area were significantly lower—median rent was $289 per month. By 2000, average rents in Seattle had reached $721/month, an overall increase of 70% since 1990. Rent growth in Belltown was significantly higher than that of the City of Seattle during this period, as rents more than doubled from 1990 levels to $589/month in 2000. No statistics are available to indicate whether Belltown's growth was in the early or latter part of the decade, but assuming that Belltown rents grew proportionately to Seattle rents, we can estimate the district's rents at $382/month in 1994.

Table 2: Seattle and Belltown Median Statistics

	1990	1994	2000
Seattle			
Home Value	$137,900	$148,000	$234,430
Rent	$425	$514	$721
Income	$29,400	$38,000	$45,700
Belltown			
Home Value	$168,900	$182,400*	$300,642
Rent	$289	$382*	$598
Income	$11,900	$22,500*	$31,900
*estimated			

[74] The Millionair's Club provides day-to-day job placement to Seattle's unemployed manual laborers. Under the system, employers stop by the facility each morning and "hire" as many workers as they need for the day. However, this process requires both the employer and the worker to register with the Club. Many workers choose to bypass the system and wait for work on the street instead.
[75] King County Planning Department, US Census data.
[76] City of Seattle Planning Department.
[77] In 1994, the City of Seattle grouped Downtown and Belltown in its subarea profiles. The growth in home values in Belltown versus that of Seattle between 1990 and 2000 (70% growth in Seattle and 78% growth in Belltown) indicates that this extrapolation is reasonably accurate, if a bit on the conservative side.
[78] King County Planning Department.

The increase in household incomes showed trends similar to the rental market. In Seattle, the median household income in 1989 was $29,400 per year, increasing nearly 30% to $38,000 per year in 1994. Belltown's median household income in 1990 was less than half of Seattle's--$11,900 per year. However, while Seattle's median household income increased 55% between 1990 and 2000 to $45,700 per year, median household income in Belltown increased 168% to $31,900 in 2000. Once again assuming that Belltown's relative growth mimicked that of Seattle's, we can estimate the neighborhood's 1994 median household income at $22,500, an increase of 89%.[79]

Figure 13: Belltown's community garden with the Banner Building in the background. One can see the contrast of old and new structures as well as the high- and mid-rise development in the area. (www.seattlecitywalks.com)

Artists' Situation

Accounts differ on the history of artists in Belltown. Although conventional wisdom holds that the 1960's first saw a significant artist population take hold in the neighborhood, some contend that history of artists in the neighborhood stretches back at least two decades to the 1940's. According to one gallery-owner, "Practicing artists were native" to Belltown.[80]

The first record of an artists' space crisis dates from the spring of 1989, when a Belltown artist used birdhouses to evoke the neighborhood's housing issues.[81] By 1991, the word "gentrified" is used to describe the occupation of the area's once-cheap brick apartment buildings.[82] The neighborhood's wood-framed houses no longer littered the landscape as they once did, and the ones that remained stood side-by-side with new luxury condominiums and office buildings along Western and First Avenues.

Within this gentrified context, housing and studio options did still exist. In 1991, for $700 a month at 66 Bell Street, three artists could share a 1,300 square foot loft space with 20-foot ceilings and room to create an additional sleeping level.[83] Or there was the Apex cooperative, with space for 20 artists

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[79] While Seattle's median household income increased 55% between 1990 and 2000 to $45,700 per year, median household income in Belltown increased 168% to $31,900 in 2000.
[80] Larry Reid, as quoted by Rose, Cynthia, "Jell-o building shaky? Belltown quivers with activism over artists' HQ." The Seattle Times, 18 December 1996, p. D1.
[81] Parrish, Linda W.Y. "In city's trees, artist evokes the homeless." The Seattle Times, 20 April 1998, p. B3.
[82] Kreisman, Lawrence. "Belltown inside out—this festival celebrates the art of regrade living." The Seattle Times, 29 September 1991. p. 16.
[83] Ibid.

at a $1300 annual fee and $250 and up for monthly dues. That year, studio and one-bedroom apartments at the affordable Rivoli Apartments, a brick structure built in the 1920's, were renting for $225 to $300 per month.

Spaces like these, however, were increasingly hard to find. The "available and affordable artists' playground" was beginning to lose its security.[84] Condominiums at the newly-constructed Continental Place, the tallest residential tower in the Pacific Northwest as of 2004,[85] were selling for $200,000 to $1.5 million. Apartments at Elliot Bay Plaza were renting for $770 to $2,400 per month.[86] And the artists were moving away—to SoDo (south of Downtown), to Beacon Hill, to Rainier Valley, and to Tacoma.

Figure 14: The Banner Building, Western Avenue frontage. (Weinstein Copeland Architects)

Project Overview

The Banner Building was the brainchild of Koryn Rolstad, a local architectural artist who had several aims for the project: to create spaces where creative individuals could live and work, to foster a community of both established and up-and-coming artists, and to accomplish these goals in a high-style, urban environment. Her vision was a "glorious warehouse."[87]

In 1992, Rolstad secured an 18-month option (with a renewal) to purchase the 14,000 square foot parcel in Belltown at the corner of Vine and Western with no down payment. There are two possible reasons for this zero down-payment arrangement, depending on one's perspective. From Rolstad's view, the economy at the time was in a severe recession, and people were "desperate"[88] to sell land in the neighborhood. Because there was "no hope" in Belltown, the value of the option was merely the owner's optimism in selling the land. This view, however, seems slightly misguided as the Seattle Post-Intelligencer described the area as a rising "residential mecca" in

[84] Keene, Linda and Marc Ramirez. "Belltown—one step forward, two steps back—de evolution." The Seattle Times, 18 October 1992, p. 7.
[85] www.skyscrapers.com
[86] These are high-rise developments which were enabled by Seattle's 1985 comprehensive plan for growth. Under this legislation, Belltown was designated a high-density housing area (now referred to as an "urban village")
[87] Conversation with Koryn Rolstad, 1 April 2004.
[88] Ibid.

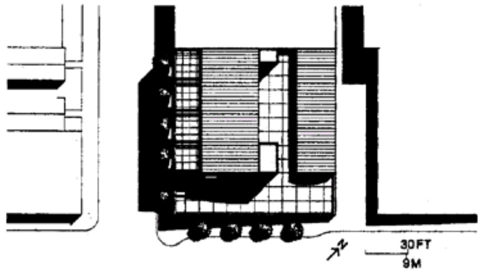

Figure 15: Site plan. (Weinstein Copeland Architects)

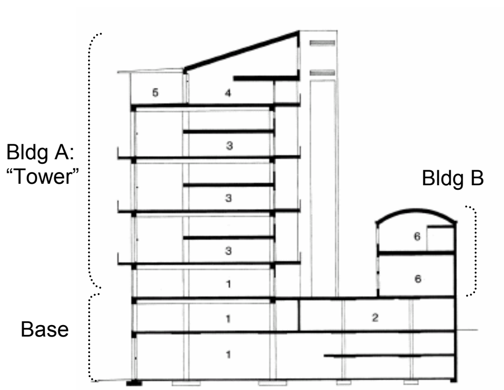

Figure 16: Building Section. (Weinstein Copeland Architects)

September of 1992.[89] The article cites "several hundred" units of housing under construction and "at least a dozen projects…in the works."

Second, one can speculate that the $1.152 million price of the land included seller compensation for the option period. From Hadley Holdings' view, The $65 per square foot that Rolstad paid for the land was significantly higher than market rate.[90] Enamored with the property,[91] Rolstad's decision to purchase the land may have been based more on an impulse than a carefully conducted survey of available properties. Taking advantage of this, the owner could have charged a premium for the site while being psychologically, but not legally, assured of Rolstad's eventual purchase.

The building was conceived as three parts—the base, a "tower" ("Building A") and a smaller apartment building ("Building B"). The base of the structure houses two levels of custom-craft units (8 total) as well as 22 parking spaces. Upon this platform are a terrace, a courtyard and two separate buildings: a tower containing two additional custom-craft units and sixteen live-work units, and a smaller structure housing six rental apartments. Each of the live-work units is two stories (approximately 20 feet) in height with a mezzanine level. The units are accessed off of a single-loaded, outdoor corridor on the east side of the building.

The building's exterior design reflects the spare spaces inside and recalls the neighborhood's industrial history. The concrete frame is exposed and floor-to-ceiling windows comprise the Vine Avenue façade. Each of the live-work lofts has an angled metal balcony which allows for views of the ocean.

Rolstad's original plan was to develop the project until the beginning of the construction phase, at which point she would sell it to a developer with more experience than herself. Her profit expectations were not directly financial in nature, but rather the ability to retain ownership of two spaces for herself—

[89] Erickson, Jim. "Regrade Reborn just blocks from downtown, a residential mecca is rising." Seattle Post-Intelligencer, 7 September 1992, p. C10. The same article refers to the overall economy as "slow" and "bad" and the retail market as "difficult," but it paints a very positive picture of the residential market in Belltown with only a touch of caution.
[90] Conversation with Mark Glass, 24 March 2004. Glass asserts that the market value of similarly-zoned land in Belltown didn't reach $65 per square foot until 1996, four years after Rolstad secured the option at 80 Vine Street.
[91] Conversation with Koryn Rolstad, 1 April 2004.

custom-craft unit for her banner-making business, and a live/work loft for her home. Throughout the predevelopment period she marketed the Banner Building units to potential buyers for a $25,000 nonrefundable [92] option payment. The payment can be perceived of in two ways, either as an equity investment in the property or a deposit on a unit. Several Canadian holding companies had shown interest in the Seattle real estate market, and one of them, Hadley Holdings, purchased the project in 1993 and became the Banner Building's principal developer through the project's completion.

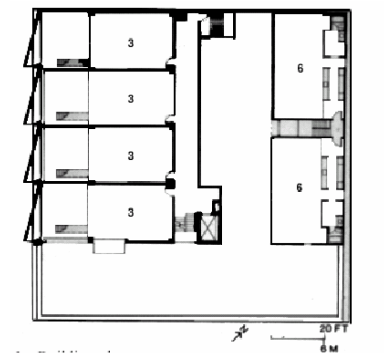

Figure 17: Typical Floor Plan, upper floor (Weinstein Copeland Architects)

Affordability

Although none of the units were formally or legally reserved for artists, the initial marketing strategy was almost exclusively targeted to those in Rolstad's arts-oriented community. Rolstad's unconventional approach to marketing included distributing flyers with hand-painted angels on them to promote the building. Clearly, these tactics weren't meant to appeal to mainstream buyers.

In the pre-construction stage in late 1991, most units were priced between $120,000 and $200,000.[93] These initial prices increased after the project was sold to Hadley Holdings. Concerned about the profitability of the project, Hadley did not restrict its marketing approach to the arts community and raised the asking prices for the units. Therefore, while Rolstad's presales had a median price of $185,000 ($110 per square foot), units sold after the project's completion had a median price of $245,500 ($148 per square foot).[94]

As the presold units were the ones targeted to artists, these units are used as indicators of affordability. In 1994, the average rate for 30-year fixed rate mortgage was 9.1% with an average of 1.8 points,[95] yielding an effective rate

[92] According to Rolstad, nonrefundable option payments were permitted at the time, but are now illegal. Mark Glass, Hadley Holdings' representative on the project, asserts that the arrangement never existed—there were no deposits on the units and nonrefundable deposits have always been illegal. The existence of deposits, however, was confirmed by Sharon Parmenter, a realtor who took over the marketing of the project after construction had been completed. Parmenter went on further to say that $25,000 marked only the beginning of some buyers' downpayments, as they were required to contribute more capital to Rolstad to keep the project moving forward.
[93] Paynter, Susan. "1992 will be banner year for artist housing." Seattle Post-Intelligencer, 16 December 1992, p. B1.
[94] It should be noted, however, that the location of the units sold also had an impact on their selling prices. Many of the presold units were located in the lower levels of the tower (floors three, four, and five), while units on the upper floors (floors six and seven) took longer to sell.
[95] www.freddiemac.com.

of 9.21%. The "artists' premium" of 50 basis points approximates the penalties charged to mortgagors with less-than-stable incomes (like artists). This resulted in an annual yield of 9.71%.

Assuming that condo fees and utilities averaged $225 per month[96] and that each pre-purchaser's down payment was the $25,000 option price on the unit, buyers would need to have an income of $55,000 to afford[97] the average pre-sold unit at the Banner Building. This is, of course, assuming a savings account with at least $25,000 to cover the "down payment." In 1994, the median income for a two-person family in the Seattle SMSA was $40,300.

Banner Building (1994)			
	least expensive unit	median presold unit	average live/work unit
Price	$155,000	$185,000	$212,500
Downpayment	$7,750	$25,000	$10,625
Mortgage Amount	$147,250	$160,000	$201,875
30-year fixed mortgage			
Average rate	9.10%	9.10%	9.10%
Average fees/points	1.8	1.8	1.8
Effective APR	9.31%	9.31%	9.31%
Artists premium	0.50%	0.50%	0.50%
Artists effective yield	9.81%	9.81%	9.81%
Mortgage Payment	($1,271)	($1,381)	($1,743)
Assumed Expenses	($185)	($225)	($275)
Total Housing Cost	($1,456)	($1,606)	($2,018)
% of Income to housing	35%	35%	35%
Required income	**$49,924**	**$55,069**	**$69,177**

The chart also illustrates the required income for the least expensive live-work unit in the building as well as the average live-work unit. In contrast to the pre-sold units, these calculations assume a 5% down payment and a range of

[96] A 1996 article quotes condominium fees as ranging from $125 to $325 per month.
[97] See definition of "affordability," Chapter 2.

expenses to correlate with variations in the units' sizes. The least expensive unit in the project, priced at $155,000 requires an income of nearly $50,000 to be affordable. The average live/work unit requires an income of $69,000 to afford the $212,500 price.

Surprisingly, the asking prices at the Banner Building were roughly in line with the Belltown condominium market a year after its completion,[98] where the average unit was sold fully fit-out, albeit smaller in square footage. Therefore, while units at the Banner Building may have been more suitable to artists than other new development in the neighborhood, they certainly weren't more affordable.

Figure 18: A finished live/work unit. (Lane Williams Architects)

The project's architect, Ed Weinstein, estimates that buyers invested anywhere from $10 per square foot to $300 per square foot (in the case of one of the penthouses) in fitting out their units. Even the minimal fit-out in the least expensive unit implies an additional investment of $10,000, increasing the necessary income to $53,000 to achieve affordability.

A "CONCRETE WAREHOUSE"

The mantra of the design process was "simplify, simplify"—to the point where everything was stripped down to the bare bones. Buyers into the Banner Building had agreed to forego certain luxuries associated with new construction in order to make the units more affordable, and the architects were instructed to take that to the extreme. At a basic level, the units had absolutely no finishes in them and no utilities extended beyond the walls. Each unit had two areas of "stubbed in" utilities in the wall where the buyer could hookup the plumbing required for a kitchen and bathroom and the main electric distribution for the unit. While each unit had access to a main fire protection, heating, and hot water system for the building, air conditioning was not provided and had to be installed by the buyer via window units, if desired.

Beyond the unit level, the building was designed to be highly efficient, and nearly all space was designed to be included in the sellable square footage. Utilities were not distributed in chases as would be typical in this type of project; rather, they were sleeved and run entirely through structural and

[98] According to real estate agents, the average price of a condominium in the neighborhood was $180,000 in 1995. Higgins, Mark. "Denny Regrade: Where downtown mingles with change, diversity." Seattle Post-Intelligencer, 2 November 1996, p 1.

demising walls between the units. Access to each unit was via exterior corridors, which allowed them to be eight feet wide yet not present the economical burden of enclosure. Exterior cladding consisted of inexpensive materials like corrugated metal, off the shelf glass window assemblies, and concrete. Poured-in-place concrete was chosen for the structural frame because it was deemed cheaper than steel for this project.

Suitability

The live-work units range in size from 1,071 SF for a third floor unit (without mezzanine) to a 3,159 SF penthouse. The majority of the live-work units, however, are on the fourth through sixth floors and encompass around 1,670 SF apiece. They are double-height (20 feet) spaces with a 600-square-foot mezzanine or loft level which extends from the rear wall over two-thirds of the length of the space. Each has an angled deck allowing for views of the bay. The two penthouse units on the seventh floor measure approximately 3,000 SF apiece, with similar mezzanine levels and expansive private terraces.

Figure 19: Unfinished live/work unit. (Koryn Rolstad)

The units were left completely unfinished. There was no staircase between the main and mezzanine levels, and all utilities (plumbing and electricity) were accessed through one of two points in the wall. Each buyer had to design his or her space around these utility access points (i.e. the kitchen and bath would typically be located there) and provide all of the necessary fixtures and appliances. The floors were concrete and the demising walls between units were exposed, unprimed and unpainted sheetrock.

Work-only units were similarly unfinished. Located on the first, second, and half of the third floor (two of four units), the work units (or custom craft, as they were called in the condominium documents) did not offer a uniform layout as did the live-work units above them. On the first floor, four work units ranging in size from 1,600 SF to 6,500 SF had the double-height ceilings and mezzanine levels similar to the live-work units. Units on the second and third floors were single-height spaces with 11-foot ceilings and ranged in size from just over 1,000 SF to 2150 SF.

Amenities in the project were few, but significant. On the first floor, twenty-one storage units were provided and conveyed via deed along with the condominium units, as were the twenty-two enclosed parking spaces on the second floor (accessed via an alley off of Vine Street). The base level created by the first two floors created a platform for the two buildings (the live-work tower and the apartment building), while leaving room to comply with the City's maximum coverage limits. On this platform, a 3,250 square foot terrace created the necessary 25 foot view corridor setback along Vine Street, while a similarly-sized courtyard separates the two buildings. Both the tower structure and the apartment complex are accessed via the courtyard; the tower has elevator service.

In late 1995, the condominium association adopted an amended condominium declaration which allowed for the work-only units on the second and third floors to be converted to live/work condominiums. Under the custom-craft designation in the mixed-use zone, only active artists were allowed to live in the spaces. With this change, any individual, artist or non-artist, could live in these units.

Compliance

According to the 1986 Seattle Zoning Code, the Banner Building parcel was zoned "DMR/C 125/65." This designation indicates a Downtown Mixed Residential/Commercial[99] zone with height maximums of 125 feet for the residential portion of the property and 65 feet for the commercial portion of the property (i.e. one can build up to 65 vertical feet of commercial space, and the total height of the building cannot exceed 125 feet). The floor area ratio (FAR)[100] limit for the zone was 4.0. A setback restriction along Vine Street preserved the view corridor to the water. Every intersection within three blocks of the waterfront in Downtown Seattle was subject to this legislation, which had varying requirements based on its proximity to the water and distance from the Central Business District. At the Banner Building's site at the corner of Vine and Western, the Code mandated that any portion of a building above 35 feet be set back at least 25 feet from the street property lines.

[99] According to the Zoning Code, "The DMR/C designation shall apply to those areas containing housing or having housing potential where larger scale, non-residential serving commercial development exists and is likely to remain." This designation is in contrast to the DMR/R zones where "non-residential uses may be present but should be of modest scale, likely to change in the future, or neighborhood serving in character."

[100] Floor area ratio (FAR) measures the area of built floor space to the area of the site. For example, if a 10,000 SF site is built to all lot lines with a 2-story structure, the resulting FAR is 2. Also, if the same site is used for a 4-story building which only has 5,000 feet to each floor (total building area: 20,000 SF), the FAR is also 2.

Weinstein designed the building to fit within these zoning constraints. The total building height was 122 feet, while the main commercial component rose 2 floors to 30 feet in height. The entire commercial component was designed with a zero setback from the sidewalk, and it was in compliance with view corridor requirements.

Because it was substantially as-of-right, the project needed very few approvals from the city. At the time, the city had yet to institute its design review process for downtown projects. The only part of the permitting process subject to the city's discretion involved a density bonus for the construction of low- and moderate-income housing on the site. The bonus allowed for the inclusion of 8,100 SF of additional commercial space in exchange for providing three units of low and moderate-income rental housing on the site. This raised the total potential floor area of the project from 56,000 SF (14,000 SF at 4.0 FAR) to 64,100 SF.

Having been drawn up in 1981, live-work regulations for artist space were already in place at the time of the Banner Building's construction. An artist's "studio/dwelling" is defined as a residential use that is

> *a combination working studio and dwelling unit for artists, consisting of a room or suite of rooms occupied by not more than one (1) household.*

The Code goes on to define a "live-work unit" as:

> *A structure or portion of a structure: (1) that combines a commercial or manufacturing activity that is allowed in the zone with a residential living space for the owner of the commercial or manufacturing business, or the owner's employee, and that person's household; (2) where the resident owner or employee of the business is responsible for the commercial or manufacturing activity performed; and (3) where the commercial or manufacturing activity conducted takes place subject to a valid business license associated with the premises.*

As a residential use, these spaces were allowed as-of-right in all residential zones and all residential-commercial zones. Live/work was also allowed as a conditional use in industrial zones, and as a permitted or conditional use in commercial zones, depending on the neighborhood.

These Land Use Code provisions allow artists to live in their workspaces so long as their work is allowed by code and the artist has a business license. Live-work units are taxed as residential spaces.

While artist's live-work was allowed in the city, there was no official economic or land-use policy to promote the creation of artists' space. Artists, like everyone else, could qualify for low-income housing if they were within certain income guidelines. There were, however, no restrictions in place at the time that could reserve the units for low-income artists exclusively.

BUILDING CODES

The Banner Building's unfinished interior spaces necessitated a variation from the normal residential code certification process. Seattle's inspectional services department was able to issue a building-level blanket certificate of occupancy based on the elevator, fire, and life safety systems that were in place when the base building was completed. In addition, the building had to show means of access and egress, structural compliance, ventilation systems, and three-foot egress doors for each unit.

In this manner, the developer could close on the sales of the units while buyers could obtain mortgages for their units based on the value at fit-out. Each of the buyers had to submit a building permit application with the city for the fit-out in their units. Because the zoning, land use, and building-level compliance was already in place under the blanket certificate, however, buyers had an expedited process for obtaining their permits. Permits for improvements were based on the plans each buyer submitted to the city—kitchens and bathrooms were required. Certificates of occupancy for the individual units were issued after the fit-out work was completed.

Feasibility

The total project cost was $5.8 million, not including the cost of financing beyond the initial sales stage. The land was purchased for just over one million dollars ($1.152 million), predevelopment costs were around $500,000, and the construction cost was $4.2 million.

"EQUITY"

Having conceived of the project in early 1991, Rolstad worked for twenty months through the design and permitting phases. With no carrying costs associated with the option on the land, she could afford to spend this time negotiating the details of the development before closing on the property.

She also pre-sold ten of the twenty-six total units in the form of options to purchase for $25,000 apiece. This $250,000 sum formed the project's working capital in the preconstruction phases.

Hadley Holdings bought the entire project from Rolstad in early 1993 for the price of the land and the outstanding soft costs incurred to date. In addition to this compensation, Rolstad had the options to purchase a deeply discounted, prime commercial unit on the first floor[101] and a residential unit on the fifth floor.[102]

The project was set up as a limited partnership—Banner Building Development Company, LP—with a general partner consisting of two entities: Hadley Banner Company (another limited partnership) and Hadley Holdings Corporation. The limited partner in this arrangement is unknown. The entirety of the equity was provided by Hadley, a total of around $1.7 million, or 30% of the total project cost.

DEBT FINANCING

The construction debt was financed by West One Bank of Boise, Idaho.[103] The loan was a "fairly straightforward"[104] construction loan of $4.2 million at a 10% interest rate. This amount represented approximately 70% of the total development cost. There were no significant issues in obtaining the loan, as the assessed value of the final project exceeded that of the loan amount.[105]

The construction loan was repaid with proceeds from the sale of the condominiums. Building B, the 6-apartment complex, was sold immediately, as one condominium with rent restrictions in place, for $410,000.[106] The individual live/work and custom-craft condominium units were sold over the following four years, with the last one (a work unit on the first floor) not sold until fall of 1998.

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[101] The unit was purchased for $275,000 for over 6,500 SF of space, or $42/square foot. The value of this option can be estimated at approximately $450,000, calculated by taking the difference in square foot price between the optioned unit and a similar corner unit on the first floor (which sold for $111 per square foot) and multiplying it by the square footage of the unit.
[102] This option was sold to Claudia Ebling for two payments of $25,000 and $22,000 in addition to the purchase price of $188,000.
[103] West One no longer exists under that name.
[104] Phone conversation with Mark Glass, 24 March 2004.
[105] The project was assessed at $8.3 million as of December, 1995.
[106] According to Rolstad, the buyer was able to purchase the complex for less than market value through connections with Hadley.

"SUBSIDY"

Because the Banner Building was not restricted to the arts community nor was it conceived as an affordable housing project, direct housing subsidies were not pursued as a funding source. Although Rolstad asserted in 1991 that the City was a "big help" in supplying a "relatively short shopping list of requirements," in fact the project was substantially as-of right.[107] The city could have made the permitting process smoother than usual, but the affordable housing density bonus was the only aspect of the project that could have been considered a form of subsidy. While this option was available to all developers of downtown property as part of the Zoning Code, approval was required by the City through an administrative process.

By constructing three low-income housing units in Building B, the project gained an additional 8,141 SF of developable area. Of this, 1,545 SF were used for the affordable units themselves—three 512 SF studios, two reserved for individuals earning between 30% and 50% of median income, and one reserved for an individual earning 50% to 80% of median income. Therefore, the net bonus area was 6,595 SF. According to the Land Use Code, the bonus was to be applied to the commercial portion of the project.

When the commercial units were sold in 1995, the average price per square foot was $103. Multiplying this by the bonused area yields a "subsidy" value of $680,000 in sales. Subtracting estimated development costs[108] for the affordable units yields a net value of approximately $500,000.

RETURNS

According to Mark Glass, Hadley Holdings' representative on the project, the Banner Building was developed at a significant loss—somewhere in the range of six figures, "and the first one was a five." On a $5.8 million project, that implied $500,000 loss represents 8.6%.

Slow absorption was the primary reason for the project's financial failure. Initial unit sales dragged on for four years following the completion of the project, and Hadley was forced to substantially discount some of the condominiums on the upper floor in order to sell them. Different parties offer

[107] Paynter, Susan. "1992 will be banner year for artist housing." Seattle Post-Intelligencer, 16 December 1991, p. B1.
[108] Total development costs per livable square foot in the building were $107. Due to the full-fit out in the affordable units, these were assumed to cost slightly more, approximately $120 per square foot.

Banner Building Timeline

early 1991	-	Project conceived by Rolstad
early 1992	-	Option on parcel secured
early 1993	-	Project sold to Hadley Holdings
6/11/1993	-	Land closed; construction begins
8/25/1994	-	Construction complete; condominium established
9/1/1994	-	First unit sale closed
1/9/1996	-	Condominium documents revised; custom-craft phased out
9/30/1998	-	Last initial sale closed

different reasons why this was so. According to Rolstad, the slow economy was the only reason for the project not selling as quickly as anticipated. Glass tells a different story. As part of Hadley Holdings' agreement with Rolstad, she was to be in charge of marketing the units throughout the project. Because she didn't want to get involved with a marketing company,[109] Rolstad took on the task of finding buyers for all of the units. By the winter of 1995, one year after construction had been completed, sales had slowed to a trickle, and six units, including both of the penthouses, remained vacant.[110] Glass's reasons behind the slow sales include Rolstad's poor marketing efforts, Seattle's limited market for lofts, and the high prices of the remaining units. Glass also blames the artist orientation of the project for deterring many potential buyers who didn't understand the resident-artists' work.

In late 1996, the Windermere realty firm was hired by Hadley to finish selling the project. Susan Parmenter at Windermere was charged with the project's final sales which were completed in January of 1998. She contends that a lack of "vision" among Seattle buyers at the time led many to look for finished condominiums instead of raw space, and that a model unit would have boosted sales in this respect. There was a "little downturn"[111] in the economy at the time, but it didn't appear to be the primary reason for the market's lack of interest. A major liability for the buyers was the fact that the land parcel across Western Avenue was zoned for high-density construction that would block the water views from the Banner Building. While Rolstad insisted to buyers that this would not happen,[112] The Vine Building, a 12-story residential complex, was completed in June of 2002 on the site directly across the street.

Looking back

Despite disagreements and contradictions concerning the Banner Building's financial situation and sales shortcomings, nearly everyone involved in the project agrees that it is a very unique and special building. The project won

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[109] According to Glass. Phone conversation 5 April 2004.

[110] According to Glass, Rolstad's compensation—a commercial and a live/work unit in the building—was dependent upon her successfully selling the remaining units in the project. The lack of sales at the project and disagreement over the terms of the deal forced both parties into mediation. Rolstad asserts that her compensation was dependent upon the project's returns, which she says were misstated by Hadley to shortchange her.

[111] Conversation with Sharon Parmenter, 8 April 2004.

[112] Conversation with Sharon Parmenter, 8 April 2004.

an AIA design award and it is a distinctive feature in the Belltown landscape. In a developer's mind, however, these qualities usually take a backseat to the bottom line, especially if the project results in a financial loss.

There are many lessons to be learned in this project. First, and most importantly, a developer must clearly identify the market for which he or she is going to build and ensure that all aspects of the project suit that market. The Banner Building missed its market because it was neither accessible to the creative community nor attractive to the community at large. While the building's wide open spaces and industrial aesthetic were desirable to and needed by the Seattle artists' community, most couldn't afford to purchase units and finance their fit-out. While there was certainly a segment of Seattle's creative community which could afford to buy at the Banner Building, this segment was not large enough at the time to absorb even the 26 units delivered in the project. On the other hand, the residential market at large lacked the creativity necessary to see the building's raw spaces and marginal location as desirable.

Rolstad was conscious of her inexperience in construction matters—she was quoted as saying she "didn't know 'nuthin' 'bout birthin' no buildings,"[113] but she was not as aware of the necessity of market experience in real estate development. While all projects need to have a well-developed market assessment and sales strategy, nontraditional development is even more highly dependent upon professional market knowledge throughout the development and sales stages. When a project such as the Banner Building has no obvious precedents, the developer will find it well worth the time and effort to seek out experienced professionals who can project sales prices, absorption rates, and overall success from a market perspective. This, however, is not meant to discount the value of a developer's dream. Optimism is essential for success in many aspects of real estate development; that optimism just needs to be tempered with the realities of the market.

Several interviewees said that the Banner Building was ahead of its time. By 2004, the idea of loft living and the industrial aesthetic was nothing new to most urban markets, but in 1994, the Banner Building was truly revolutionary. This project epitomizes real estate lenders' aversion to innovative

[113] Paynter, Susan. "1992 will be banner year for artist housing." Seattle Post-Intelligencer, 16 December 1991, p. B1.

development—the Banner Building attempted to push the boundaries of conventional residential development and fared poorly from a financial perspective. Had Rolstad held on to her dream for a couple of years longer, she would have had the experience of seeing other loft developments in Belltown and learning from their successes and failures.

One method for mitigating potential losses from innovation is to have an exit strategy which repositions your product as competitive with similar development. While this loss of individuality might come as a blow to the project's "visionary," it is often essential in order to prevent a financial loss. In the case of the Banner Building, the marketing efforts were repositioned to target those beyond the artists' community, but no other changes were made. Additional post-construction investment in fully finishing those units which were difficult to sell may have resulted in quicker absorption. Parmenter suggested that Hadley construct a model unit to help potential buyers with the visioning process, but this advice went unheeded. These or other exit strategies might have moved units more quickly and substantially improved the project's bottom line.

These marketing and innovation concerns boil down to the fact that financing costs can kill a project. When units aren't absorbed into the market quickly, the costs of carrying the construction loan can eat away at any profits the project is poised to make.

While the Banner Building was not the financial success for which Hadley Holdings had hoped, it was one element in the beginning of a neighborhood renaissance in Belltown. Numerous new residential loft projects have followed the construction of the Banner Building, although none have tried to recreate the degree of rawness which Rolstad and Hadley delivered. While the building will continue to stand out for its architecture, perhaps more notable is the way in which it was developed. With little more than her own determination, an artist managed to develop new spaces which were tailor (un)-made for the creative class.

Lessons Learned from the Banner Building

1. **Distinctive projects don't have to be expensive.**

   The building, which cost $65 psf ($90 psf in 2004 Boston dollars) to construct, has won numerous design awards.

2. **Research the market. Ensure that your product is attractive and affordable to it.**

   While the Banner Building was designed for artists, it wasn't priced for them.

3. **Marketing strategy is very important in unconventional projects.**

   Rolstad would have been more successful by collaborating with a marketing professional.

4. **Financing costs can kill a project's bottom line.**

   Slow absorption at high interest rates resulted in a financial disaster for Hadley.

5. **Use city policy to your advantage.**

   The affordable housing density bonus provided a substantial amount of "subsidy"

   View corridor setbacks (seen as a liability to other developers) were used to create a terrace.

6. **Presales can be used to get an unconventional project off the ground.**

   Rolstad used buyers' commitments to finance the project's predevelopment stages.

   Presales were essential in selling the project to Hadley and to the construction lender.

General Information	Banner Building, Fall 1994	Laconia Lofts, Spring 1999	ARTBLOCK 731*, Winter 2005|6
Location	Belltown, Seattle WA	South End, Boston MA	South End, Boston MA
Neighborhood condition	marginal	marginal	somewhat established
Developer	Koryn Rolstad | Hadley Holdings	Jack McLaughlin	New Atlantic Development Corporation
Degree of government involvement	low	medium	high
Total Units	31	86	54
Total square footage	65,000	129,000	74,270
Artist Needs: Affordability			
Proposed # of artists' units | actual # of artist-restricted units | # of affordable units	31 - condominiums and rental apts | 0 | 3 - apartments	45 - condominiums | <23 - condominiums | <23 - condominiums	32 - condominiums | TBD
Median Sale Prices			
artist unit | income to afford	$185,000 | $55,000	$109,000 | $31,000	$185,000 | $49,000
market unit | income to afford	$212,500 | $69,000	$291,000 | $82,000	$485,000 | $119,000
Median family income	$50,400	$62,700	$82,600
Effective APR (with artists' premium)	9.81%	7.81%	6.69% (May, 2004)
Artist Needs: Suitability			
Unit size (artists' units)	1,000 - 1,600 SF	700 - 2,000 SF	1,000-1,200 SF
Level of finish	no finishes - owners responsible for bathrooms, kitchens, stairs, HVAC	"throwaway" kitchen and bath	simple kitchen and bath
Other amenities	high ceilings, large windows, storage units, enclosed parking, terrace, private decks (in some units), double-height units on upper floors	high ceilings, large windows, enclosed parking, private decks/patios (in some units), double-height units on upper floors	high ceilings, large windows, increased electrical capacity, individual ventilation systems, enclosed parking, courtyard space, private decks (in some units)
Developer Needs: Compliance			
zoning prior to construction	mixed residential-commercial	light manufacturing	multifamily residential
zoning change necessary?	no	no	yes
C of O issues	units not up to code when delivered	(none)	(none)
Resolution	blanket certificate of occupancy issued for entire project	2 certificates: first when unit delivered, second when fit-out complete	units delivered in habitable condition
Developer Needs: Financing			
Equity Partners	unit purchasers, Hadley Holdings	Mohawk Real Estate|O'Connor Group	state and city subsidy
Lender	West One Bank	Fleet Bank	pending
Financing Structure	30% equity / 70% debt	35% equity JV / 65% debt	25% subsidy equity / 75% debt
Developer Needs: Return			
Total Development Cost	$5,800,000	$20,000,000	$19,216,000
Per Unit Development Cost	$187,097	$232,558	$355,852
Subsidy(ies) used	affordable housing bonus	land cost write-down; cross-subsidization	BRA (grant and reduced land price), affordable housing subsidies (state and city), cross-subsidization
Value of cash and land subsidies	$500,000	$1,275,000	$3,897,860
Subsidy per Affordable Unit	$166,667	$55,435	$121,808
Construction Cost	$4,200,000	$16,500,000	$13,545,000
PSF construction cost | Boston 2004 equivalent	$65 | $90	$128 | $144	$182 | $182
Project-level IRR	-8.6% (est)	profitable	unknown

**new construction figures only*

Laconia Lofts, Boston MA (1999) 7

Laconia Lofts is a 99-unit loft development on Washington Street and Harrison Street in Boston's South End neighborhood completed in 1999. A product of the Boston Redevelopment Authority's[114] land disposition process, the project includes 40 units reserved for artists who qualify professionally and economically to purchase the live-work spaces at below-market rates ($100 per square foot or less). The remainder of the units were sold at then-market rates of around $200 per square foot. All of the units were constructed with very basic bathrooms and minimal kitchens with the anticipation that these facilities would be removed and replaced by the market-rate buyers. Artists who purchased affordable units were given a fit-out allowance to supplement the spare interiors.

Figure 20: Laconia Lofts, view down Washington Street. (Hacin + Associates)

City, Neighborhood, and Site

Like most of Boston, the South End was created by filling tidal flats with soil from the hills surrounding the city. In the mid 1800's, the South End was laid out as Boston's first residential community for the merchant class, with blocks of Victorian townhouses surrounding park squares. When the Back Bay was filled a half-century later, however, this new district became the neighborhood of choice for wealthy residents, and the South End took on a working-class character. By the 1890's, the character of the South End was aptly described a "City Wilderness" in Robert Woods' study of the area.

In the early 1900's, the Boston subway system constructed an elevated Orange Line down Washington Street (then Orange Street), connecting Downtown Boston to Forest Hills. While the train provided transportation for the workers in the South End, its physical presence was an eyesore and a source of significant noise. By the 1970's, the elevated subway and the flight to the suburbs created Boston's "Skid Row" on Washington Street. With the Greyhound Bus Terminal, lodging houses and liquor stores, the area was one known for prostitution, gambling, and drugs.[115] In the 1950's, the South End was selected as an urban renewal area based on its blighted condition,

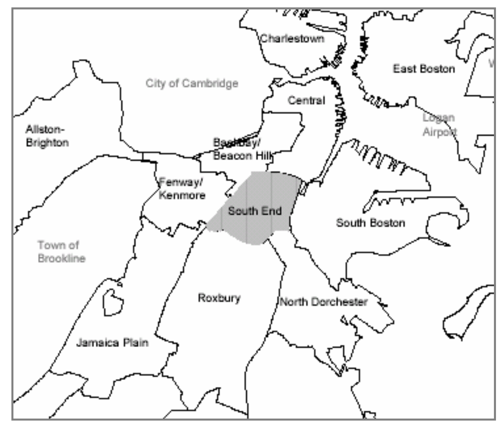

Figure 21: Boston's neighborhoods. (BRA)

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[114] The Boston Redevelopment Authority (BRA) is the planning and economic development agency for the City of Boston. Created through a vote of City Council in the 1970's. The BRA is the official owner of all land which is referred to as "city land."
[115] Keyes, Langley. "Urban Renewal in Boston's South End: Case Study." 1998.

Figure 22: The elevated Orange Line along Washington Street. (Kelly Wise)

Figure 23: Rowhomes along West Springfield Street in the South End. (southend.org)

and the neighborhood saw the construction of affordable housing projects as well as the razing of many of its historic Victorian structures.

Cut off from the rest of the city by the elevated train tracks, Harrison Avenue was a sketchy place for most of the 20th century, inhabited by "squatters and hookers loitering amid abandoned mill buildings."[116] Ignored by the city, the pavement on Harrison Avenue deteriorated to a dirt path for lack of maintenance.[117]

Washington Street did not see quite the deterioration that adjacent Harrison Avenue did. During the mid- to late-1900's, the buildings were of a "vibrant and diverse"[118] nature with retail on the street level and residential above. The area, however, did not see much investment during those decades. New development was not seen on Washington until the late 1980's with the construction of 1140 Washington Street—two brick bowfront buildings with retail and commercial use on the first floor and residences above—and the City Lights building with dance studios on the first floor and residential uses above.

The entire South End was listed on the National Register of Historic Places in 1973 as the country's largest collection of Victorian townhomes. To prevent further loss of the area's historic building stock, it was designated a Landmark District by the Boston Landmarks Commission in 1983. In 1987, the elevated Orange Line was razed, opening Washington Street to the sun after nearly a century in the shadows. In 1997, the Washington Street Corridor was named a Boston Main Street as part of the National Trust for Historic Preservation Main Streets Program, a neighborhood-based initiative to revitalize commercial districts.

The Laconia Lofts project was constructed on two lots totaling 53,000 sf at 1180-1200 Washington Street. The site is located in the middle of the block bounded by East Berkeley Street, Washington Street, Perry Street, and

[116] Diaz, Johnny. "SOWA's in a name? Change. Once seedy, a slice of south end tones up." The Boston Globe, 12 October 2003, p. 1.
[117] Sculptor Leslie Wilcox, who moved to the area in the late 1970's, as quoted in McQuaid, Cate. "The new art neighborhood: Open studios showcases SOWA gallery boom." The Boston Globe, 12 September 2003, p. C17.
[118] Laconia Associates. "Laconia Condominiums, BRA Parcel SE-120." Cambridge: Laconia Associates, 14 February 1996.

Harrison Avenue. The Harrison Avenue frontage faces the Pine Street Inn, a shelter and soup kitchen which serves about 500 homeless individuals daily. Originally planned for one 40,000 SF BRA-owned vacant site, the project added an adjacent, privately-owned 13,000 SF parcel in 1997 following an extensive public review process. Laconia Associates received tentative designation as the site's developer from the BRA in May of 1996.

From the late 19th century into the mid-20th, the original 40,000 square foot project site was fully built out with small hotels on Washington Street, row houses on the now-closed Laconia Street, and various industrial buildings along Harrison Avenue. Beginning in the 1950's, these uses were gradually abandoned, the buildings deteriorated, and the structures were demolished. In the 1960's, Laconia Street was discontinued as a public way and by the early 1980's the site was completely vacant. At that time, Harrison Avenue's warehouses housed a substantial artist population on the upper floors, giving rise to some arts-related commercial uses nearby at 450 Harrison Ave and Thayer Street.

Figure 24: Site Location. (maps.yahoo.com)

Housing Trends

During the project's design and development in 1997,[119] the median sales price of a home in the city of Boston was $142,000, a number that would increase to $182,000 (28%) in the two years it took to complete construction. Over the course of the three years from 1995 to 1998, median advertised rents in the city had skyrocketed 82% to $1500 for a two-bedroom apartment, reaching $1550 in 1999.

In 1997, the median sale price of a home in the South End was $179,000, increasing to $269,500 (51%) by 1999. Between 1998 and 1999, the South End saw the highest increase in home prices (23%) of any Boston neighborhood. Condominium sales had a median sale price of $175,000 in 1997. By the time of the project's delivery in 1999, that number had risen to $260,750, an increase of 49%.

Although these statistics indicate the degree to which the South End was already gentrifying in the late 1990's, the influx of new investment was

Table 3: Boston and South End Median Statistics

	1997	1999
Boston		
Home Prices	$142,000	$182,000
Condominium Prices	$150,000	$175,000
Rent	$1,500	$1,550
HH Income	N/A	$36,629
South End		
Home Prices	$179,000	$269,500
Condominium Prices	$175,000	$260,750
Rent	N/A	$1,750
HH Income	N/A	$41,590

[119] This is the earliest year for which homesale data is available. From City of Boston Department of Neighborhood Development. "Real Estate Trends," revised annual report 1998.

primarily along Tremont and Columbus Streets and seemed to stop just north of the Washington Street corridor. In the mid-1990's the Laconia site was considered to be "pioneering" at best, in spite of the grand visions of the mayor and Boston City government.

Artists' Situation

Boston's artists were beginning to feel the pressure of rising home prices. The city's peripheral neighborhoods of Jamaica Plain, South Boston, East Boston, and Allston/Brighton were seeing substantial increases in sales prices and rents in the late 1990's; these "rent refuges" for artists were being lost to the market.

According to the Laconia Project Notification Form (PNF),[120] artists had a presence in the South End for more than 25 years before the project's proposal. The PNF notes that displacement had been ongoing in the area since the mid-1980's. In 1987, a group of local artists, under the leadership of Jack McLaughlin, acted as their own developers in the renovation of the Harry the Greek's building at the corner of East Berkeley and Washington Streets.

Figure 25: Site Plan for Laconia Lofts showing Washington Street, Peters Park (adjacent) and Franklin and Blackstone Squares (southwest). (Hacin + Associates)

Project Overview

In December, 1995, the BRA issued a Developer's Kit (now called a Request for Proposals, or RFP) for the development of a 40,000 square foot vacant parcel at 1200 Washington Street. The RFP mentioned that the proposals should "contribute to the revitalization of the neighborhood by creating residential uses which will provide opportunities for neighborhood housing." Artist housing was not required for developer designation, but it was mentioned, along with low- and moderate-income housing, as an option for achieving this goal. RFP selection criteria also included "the extent to which the proposal creates housing opportunities for low and moderate income first-time homebuyers, defined as having household incomes at or below 80% of the median family income for Greater Boston, adjusted for household size. At

[120] The PNF is a document submitted by the developer to the BRA which initiates a public review process for projects totaling 50,000 SF or more (see footnote 9). The form describes the major features of the project and is available for public viewing and comment before the BRA issues a statement outlining any features of the project that must be studied in greater detail prior to approval.

least 25% of units should be available to low/moderate income households; these units should be integrated into the development."

Although the need for artist housing in the city was mentioned only in five words in the RFP, Jack McLaughlin chose to focus on that market segment in his proposal. A local developer, McLaughlin had worked with and for artists in the Boston area for years, developing projects such as the Brickbottom Studios in Somerville, the artists' renovation on East Berkeley and Washington in the South End, and a proposal for the historic Opera House on Washington Street in Downtown Boston. These projects were all renovations, and Laconia Lofts would be McLaughlin's first foray into new construction of artists' space. In his initial proposal, McLaughlin cited the artists' important role in the "vitality and stability" of the South End. The project was anticipated to provide for artists' "continued presence" with affordable studio homeownership opportunities.

Because the BRA's Artist Space Initiative[121] was not implemented until 2001, there was very little guidance for the artist-specific aspect of Laconia Lofts. The BRA, however, retained significant control of the project through the developer designation process and the sale terms of the land. The BRA requires developers of city-owned land to have all permits in hand before the final project requirements are settled and the land is conveyed. Therefore, by controlling the parcel of land throughout the predevelopment stages, the BRA retained effective control of the project. In addition, Laconia was required to undergo development review under Boston's Article 80 process which was required of virtually all large developments in the City.[122] This process is highly community-oriented, with three layers of public comment and two public meetings required before the project receives certification of compliance and construction can proceed.

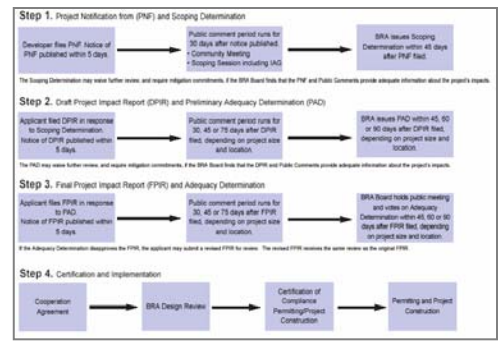

Figure 26: Boston's Article 80 Large Project Review Process. (BRA)

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[121] The Initiative has been guided in large part by the lessons learned from Laconia Lofts.

[122] "The Boston Zoning Code requires that the Boston Redevelopment Authority review, through a public process, the design of real estate developments and their effect of the surrounding community and the City as a whole, and requires appropriate conditions for approval of such projects. The procedures and standards for this review appear in Article 80. "Article 80 development review" actually refers to four separate types of review: Large Project Review, Small Project Review, Planned Development Area (PDA) Review, and Institutional Master Plan Review." From the BRA website, www.cityofboston.gov/bra.

Figure 27: Laconia's tower element. (www.laconialofts.com)

The Laconia Lofts project that exists today is quite different from McLaughlin's first submission to the BRA. His original proposal suggested the construction of two buildings—one smaller building fronting on Washington Street (19,350 SF), and a larger, five-story warehouse-style structure facing Harrison Avenue and occupying most of the mid-block space (109,836 SF). The proposal provided 108 residential units in five layout options. The details of the original proposal included:

1. Artist lofts (approx. 55 units): These were designated as affordable to artists and priced according to incomes. Each was a studio unit with a finished bathroom and a "small, open set of kitchen cabinets." Other unit features included concrete floors, soundproof side walls, and oversized windows along the exterior wall. Only the ceilings were painted.
2. Lofts (approx. 29 units): The non-artist-specific lofts had a higher level of finish in the kitchen and bath and were not reserved for any particular market segment.
3. Penthouse units (12 units): These units offered the same higher-level of finish with an allowance for increased finish quality. These units had exterior decks.
4. Two bedrooms (16 units): These units were offered on the upper floors along Washington Street with full finishes and two bedrooms, closets, bath, kitchen, dining, and living areas. Not reserved for artists, the two-bedroom units were intended to dispose of the perception that Laconia was to be an artist-only project, and they were anticipated to appeal to the homeownership needs of the local residents.
5. Retail/commercial (4 units): At street level on Washington Street, traditional retail shells were proposed, with fit-out at the expense of the tenant.

The project also included gallery space (1,194 SF) to be owned and managed by the condominium association and an underground garage with 96 parking spaces.

Following initial meetings of the Article 80 process, the project was substantially revised to reflect much of the criticism expressed by the Boston Civic Design Commission and the community. McLaughlin's next step was to hire a local architect, David Hacin, to replace the Chicago-based firm of Daniel Coffey and Associates.

Although the basic concept for Laconia Lofts remained the same, the project was redesigned as one five-story building to allow it to significantly address Washington Street and provide a "gateway" entrance to the new arts district that was being created. Reflecting the massing and architectural style of old New England mill buildings, Laconia Lofts was designed as a long structure punctuated by prominent stairwells. Penthouse units were given higher ceilings to make the spaces more desirable to market buyers.

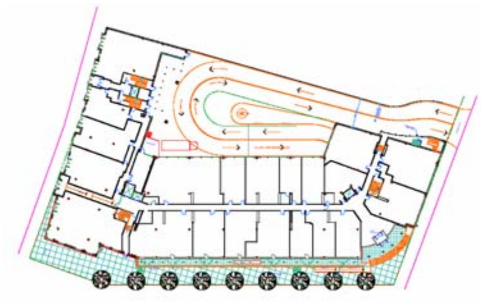

Figure 28: First floor plan showing subgrade garage entry (Hacin + Associates)

Despite the fact that the parcel at 1180 Washington Street was acquired, the building did not change significantly in terms of floor area. The number of units, however, was reduced by thirteen. The finished project has 86 loft units and significantly fewer (28)[123] units reserved for artists with incomes below 80% of the area median. Two-bedroom units were abandoned in favor of an all-loft project, and all units received the same minimal interior treatment. The gallery was retained as an essential piece of the project, as were the four retail spaces, and the underground garage was reduced in size to park 71 cars.

Figure 29: Second floor plan. (Hacin + Associates)

The artists' affordable units were clustered on the first two floors, while the upper three were reserved for market units and penthouses.[124] The spaces range in size from 693 SF to 4,511 SF (created by joining three adjacent units), and the average single unit is around 1,000 to 1,200 SF. Per square foot sales prices ranged from $77 per square foot to $378 per square foot. The median artist-affordable unit was 1,200 SF and sold for $109,000 ($90 per square foot), while the median market unit was 1,470 SF and sold for $291,000 ($216 per square foot).

Affordability

Over 30% of the units at Laconia Lofts were reserved for moderate-income artists. Although the BRA now has its own selection process for artist-reserved housing, it appears that Laconia Lofts had to establish its own

[123] The number of restricted residential units, as recorded by the Suffolk County Registry of Deeds, is 35, counting the five double-purchased affordable units (see below) as one unit each. Reports of the number of affordable units which were sold to artists range from less than 20 to 45.

[124] Ironically, the units for artists, who need a high amount of natural light, are subsidized to the greatest degree by the units on the upper floors which are the most expensive because of the amount of natural light (and views) they receive.

screening process. According to McLaughlin's original 1996 proposal, "buyers will be judged as artists based upon their portfolios, schooling, and references by other artists, teachers, or gallery owners."

The median sale price for a subsidized unit at Laconia Lofts was $109,000 in 1999, a significant savings over the average South End condo price of $260,750 in that year. At that time, 30-year fixed rate mortgages were being issued with an average interest rate of 7.21% with 1.0 points,[125] yielding an effective rate of 7.31%. The "artist premium"[126] was estimated at 50 basis points above this rate, yielding 7.81%. Taking into account monthly condominium fees[127] and utility payments, a 5% downpayment, and closing costs, the median subsidized unit at Laconia Lofts required an annual household income of $31,000 to be considered affordable (see chart).

Laconia Lofts (1999)

	least expensive unit	median artist unit	average market unit
Price	$66,000	$109,100	$291,000
Downpayment (5%/10%)	$3,300	$5,455	$29,100
Mortgage Amount	$62,700	$103,645	$261,900
<u>30-year fixed mortgage</u>			
Average rate	7.21%	7.21%	7.21%
Average fees/points	1.0	1.0	1.0
Effective APR	7.31%	7.31%	7.31%
Artists premium	0.50%	0.50%	
Artists effective yield	7.81%	7.81%	
Mortgage Payment	($452)	($747)	($1,797)
Assumed Expenses	($150)	($150)	($250)
Total Housing Cost	($602)	($897)	($2,047)
% of Income to housing	35%	35%	30%
Required income	**$20,635**	**$30,751**	**$81,900**

125 Freddie Mac website. www.freddiemac.com.
126 see definition in Chapter 2: Introduction to the Case Studies.
127 Estimated to be $100/month in the 1996 proposal.

There was a range of selling prices for the subsidized units from $66,000 for a 700 SF unit to $226,580 for a 2,400 SF unit. The average market-rate unit was priced at $291,000. Assuming a 5% downpayment on the affordable units and a 10% downpayment on the market-rate units, these prices required a household income ranging from less than $21,000 to $82,000 yearly.

By the time the Laconia Lofts project was completed in 1999, the median family income in Boston (by family members) was:[128]

1 person: $43,900
2 people: $50,200
3 people: $56,400
4 people: $62,700

Under the conditions outlined above, one can see that the subsidized units were affordable to one-person households earning less than 50% of median income as well as four-person households earning up to 100% of median income. The typical unit, however, targeted one- and two- person households earning 80% of median income.[129]

In order to preserve the level of affordability at Laconia Lofts, the artist units were sold with deed restrictions valid for 50 years. Selling prices for the restricted units are capped at a 5% yearly appreciation rate, and artists can sell units only to other artists who qualify professionally and economically.

The artists were allowed to add up to $10,000 to the base purchase price in calculating the resale values to account for their investment in the interior fit-out. The $10,000, however, only appreciates at a 1% yearly rate, as opposed to the 5% of the unit purchase price. To capture this benefit, the extra work had to be performed within the first two years of occupancy, and the artists were required to submit proof of the improvements to the BRA. This resale "allowance" could go toward specific extra work done by McLaughlin, such as

[128] United States Department of Housing and Urban Development, www.hud.gov. Information for Boston-NH MSA.
[129] These calculations do not take into account the cost of any improvements the buyer may have wished to make to his/her unit.

Figure 30: A market-rate unit at Laconia with custom finishes. (D-BD Architects)

the installation of air conditioning, walls, ceiling wiring, and kitchen cabinets, or it could be applied toward work performed by outside contractors. Typically, because of the expense associated with outside labor, the artists employed McLaughlin's assistance. Many, however, spent more than $10,000 to create units that, in their minds, were suitable.[130] Sarah Hutt, an artist at Boston's Office of Cultural Affairs, estimates that some affordable-unit buyers spent between $50,000 and $60,000 (approx. $50-$60 psf) in interior fit-out.[131] Market-rate buyers, on the other hand, tended to use outside contractors and, in some cases, architects, to perform design and interior work in their units. Some invested up to $200 per square foot in the process.

McLaughlin's commitment to artists and artist housing extended to buyer-level financing. He had many personal connections throughout the Boston arts community and he had promised units to several artists when the project was still in the conceptual stages. Because of these ties, he played a very active role in assisting the artists with their mortgages and ensuring that they were able to actually buy the spaces they were promised. McLaughlin worked with some of the artists to fill out mortgage applications and, through an agreement with Fleet Bank—also the construction lender—arranged for some of the artists to purchase units with downpayments as low as 3%.[132]

MORTGAGE DYNAMICS

An interesting twist to the lending dynamics of the project is the fact that mortgagees (or end-loan lenders) are exempt from the artist resale restrictions which were placed on the reserved units. In this manner, lenders were able to overcome the risk of lending to some artists with low down payments, unsteady incomes, and/or questionable credit history because the value of the unit was so much higher than the artist was paying for it. Should an artist-buyer default on his/her loan, the lender could take back the property and resell it at market rates (which were upwards of $100,000 greater than the artists' purchase prices), thereby recouping the additional expenses (legal fees, etc.) associated with repossession and avoiding the additional effort required to sell it to another qualified artist. This made it

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[130] Restuccia, Paul. "Laconia artists seek deed restriction relief." Boston Herald, 16 August 2002, p. 46.
[131] Phone conversation with Sarah Hutt, 14 May 2004. Although not involved at the city level, Sarah was a participant in the community review process surrounding the project.
[132] Solomon, Caleb. "For subsidized housing, only artists need apply." The Wall Street Journal, 21 October 1998, p. NE1.

easier for McLaughlin to arrange for the artists to get mortgages, as the banks were well assured of the value of any foreclosed units.

The unit sales agreement, however, assured the BRA that there would be no loss in the number of artists' units in the event of a foreclosure. The BRA, under all conditions, retained the first right of purchase on any of the artists units. The purchase price was calculated at 5% over the initial unit price, compounded annually, plus the cost of any added bedrooms and/or bathrooms, plus the cost of any other improvements up to 1%/year of the original purchase price. Therefore, in the case of foreclosure, a lender would have to sell the unit at the reduced rate to a purchaser (the BRA) who was guaranteed to pay at least the value of the defaulted loan. If the BRA chose not to exercise its option, the unit could be sold on the open market for far more than the value of the outstanding loan.

CONSTRUCTION COST SAVINGS

The primary cost savings in construction came with the loft concept. The minimal interior finishes in the units cost only about $4,500 per unit, compared with more than $15,000 for a traditional project[133] in the South End market. In total, the raw unit finishes can be estimated to represent over $1 million in savings for the project. Lobbies and common spaces were also kept to a very minimal level of finish.

HISTORIC DISTRICT STANDARDS

As opposed to the raw interior concept, the building's exterior was of high quality and not any more or less expensive than comparable new construction. Brick cladding was mandated by the Historic District standards, and although the brick that was used was not the most expensive available at the time, it was still a costly exterior cladding option. In addition, much of the savings from the less-expensive brick was reinvested in the large windows and storefront systems that were employed, thereby negating its value in terms of net savings.

Affordability in this particular project was also affected by the labor union presence in Boston. In larger projects in the city, developers are pressured to

[133] These finish calculations are based the inclusion of items such as granite countertops, wood baseboards, finished ceilings, full kitchen appliances (range, microwave, dishwasher, disposal, refrigerator), wooden cabinets, ceramic tile flooring in the bathroom, and enclosed mechanical and sprinkler systems.

use union-signatory contractors during the approvals process.[134] The hourly wages of union subcontractors exceed those of nonunion laborers by as much as 50%. Although the structure for Laconia Lofts was constructed with union labor, tenants secured their own, typically nonunion, contractors for unit fit-out, thereby saving the premium paid for union labor in the interior spaces.

TIME SAVINGS IN RAW SPACE CONSTRUCTION?

According to Brune Levering, Mohawk's representative on the Laconia project, the minimal interior fit-out also provided a time savings over traditional construction. In allowing tenants to perform their own fit-out, the building was delivered three to six months earlier than it would have been with traditional finished units.[135] For a $10.5 million construction loan at 10% interest, a six-month time reduction represents approximately $500,000 in cost savings.

Suitability

Having lined up several buyers before even submitting his proposal to the BRA, McLaughlin surveyed them and other prospective owners to find that their minimum space requirements ranged from 750 SF to 1200 SF.[136] These requirements were also found to be within the affordability range for most of the artists.

When the project was delivered, however, several buyers purchased two adjacent units to make larger spaces. In fact, half of the fourteen units[137] originally laid out with less than 1,000 SF were combined with adjacent units.

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[134] Union signatory contractors are general contractors who have guaranteed that they will hire union laborers and carpenters on their projects. Union representatives are present at all public zoning appeals meetings and Boston Redevelopment Authority meetings. Although not required, a project which has committed to union labor can avoid the union's vocal opposition at these meetings and experience a smoother and more successful approvals process than one which has not.

[135] Phone conversation with Brune Levering, the equity partners' (Mohawk Investments) project representative, 20 February 2004. This seems to be a bit of an exaggeration, as the units did require some finish work.

[136] This information was presented in McLaughlin's original proposal, submitted in early 1996. It runs directly counter to his quote in a November, 1997 Seattle Times article in which he asserted the need for a minimum artists' unit size of 1,000 SF. One can infer that (a) prospective buyers for this project had different needs than the general artist population; (b) cost constraints precluded the development of affordable spaces greater than 1,200 SF; or (c) McLaughlin learned from this original under-estimation, but not in time to change the project.

[137] Of the 14 smallest units, 12 were affordable.

Five of the affordable units were merged in this way, as well as three of the market-rate units. The situations involving the sale of multiple units to artists who qualified for affordable space are touchy issues for the BRA.[138] Although this example illustrates that McLaughlin failed to provide unit sizes that met the needs of several of his customers, it also attests to the fact that some people see this degree of flexibility in the floor plan as added value. In this project, demising walls did not limit the imagination of several buyers.

The minimal fit-out in the lofts was another shortcoming of the project from the artists' suitability standpoint. Although the units were delivered in accordance with the residential building code, the artists found that they had to invest a substantial amount of extra money in order to make the units livable. Typical extra expenditures that were necessary in an artists' unit were a refrigerator, kitchen cabinets, and tile flooring in the bathroom. For the artists with limited incomes, these costs in conjunction with the required downpayment created a substantial financial burden.

Compliance

Prior to the development of Laconia Lofts, Jack McLaughlin had worked closely with the City of Boston to rewrite legislation surrounding artist live/work spaces. In the 1980's, the city added an "artists' mixed-use" category to the zoning code, in part prompted by McLaughlin's involvement with the artists in the Brickbottom Building in Somerville. Before these changes were instituted, artists' had to individually apply for permits to live in non-residential zones.

At the time of the proposal, the site was in an M-2 district (light manufacturing). Because M-2 was an industrial classification and artists' mixed-use was an allowed industrial use, artists' mixed-use was allowed as-of-right. Light manufacturing uses also included: "*the manufacture of such products as:*

- *Ceramic products, including pottery and glazed tile;*
- *Construction equipment and products;*
- *Gas, diesel, and electrical machinery, equipment, or supplies;*
- *Electronic and communication products, including, but not limited to, computer equipment, sound equipment, and household appliances;*

[138] The author was referred to the Communications division of the BRA after inquiring about this occurrence. Calls were not returned.

- *Fish or other food products, except processing;*
- *Instruments for engineering, medical, dental, diagnostic, scientific, photographic, optical, or other similar professional use;*
- *Metal and wood products;*
- *Office equipment or machinery;*
- *Pharmaceutical or diagnostic products;*
- *Cosmetics and toiletries;*
- *Textile products including, but not limited to, products from the following: canvas, burlap, cotton, knit goods, rope, and twine;*
- *Photographic supplies, including processing solutions; and*
- *Supplies related to printing or engraving."*

While the artists' work uses were protected by the light manufacturing designation alone, their ability to live in the units was preserved under the artists' mixed-use classification. In addition, multifamily uses were allowed on the site as a conditional use.[139] This gave McLauglin the ability to propose a mix of artist-exclusive and general residential uses on the site, but still required him to go to the Zoning Board of Appeals (ZBA) for a conditional use permit.

The building codes in Boston did not allow the raw residential spaces which McLaughlin originally proposed. He had envisioned near-completely empty spaces. Massachusetts State Sanitary Code regulations for kitchens, however, state:

> *(A) Every dwelling unit, and every rooming house where common cooking facilities are provided, shall contain suitable space to store, prepare and serve foods in a sanitary manner.*
>
> *The owner shall provide within this space:*
>
> *(1) A kitchen sink of sufficient size and capacity for washing dishes and kitchen utensils; and*
>
> *(2) a stove and oven in good repair (see 105 CMR 410.351) except and to the extent the occupant is required to do so under a written letting agreement; and*
>
> *(3) space and proper facilities for the installation of a refrigerator.*
>
> *(B) The facilities required in 105 CMR 410.100(A) shall have smooth and impervious surfaces and be free from defects that make them difficult to keep clean, or creates an accident hazard.*

[139] Residential uses were subject to the requirements of the nearest residential district which, in this case, was H-2, a high-density district.

Bathroom regulations require that:

(A) For each dwelling unit:

(1) A toilet with a toilet seat in a room which is not used for living, sleeping, cooking or eating purposes and which affords privacy to a person within said room.

(2) A wash basin in the same room as the toilet, or if the wash basin cannot be placed in the same room as the toilet, it shall be placed in close proximity to the door leading directly into the room in which the toilet is located. The kitchen sink may not be substituted for the wash basin required in 105 CMR 410.150(A).

(3) A bathtub or shower in the same room as the toilet or in another room which is not used for living, sleeping, cooking or eating purposes and which affords privacy to a person within said room.

(4) Each room which contains a toilet, bathtub or shower shall be fitted with a door which is capable of being closed.

Over the course of the project's evolution, the building code requirements were met by "throwaway kitchens" with 6 feet of cabinets, a sink, and a stove, and "utilitarian bathrooms"[140] with a sink, toilet, tub, and shower. Each unit received a certificate of occupancy when it was delivered to the buyer, and was inspected again after the buyer had completed his or her fit-out work.

Feasibility

Although originally projected to cost only $11.4 million, substantial changes over the course of the project's design and development increased the total cost of the project 75% to nearly $20 million. These changes included the additional lot purchase at 1180 Washington Street. Approximately $7 million (35%) of the project's cost was equity-financed by a 50/50 joint venture between Mohawk Partners, a Concord, MA-based firm, and The O'Connor Group, a New-York based REIT. The remaining 65% of the project was financed with debt by Fleet Bank.

As in most development projects, the equity financed the predevelopment stages—design, legal fees, and project permitting. In this case, however,

[140] Phone conversation with David Hacin, 26 March 2004.

equity was substantial enough to begin financing the construction of the project as well. Debt financed the rest of the project. As condominium sales began to close, the proceeds from the sales went to pay down the construction loan until it had a zero balance. The proceeds from any sales on top of those necessary to pay off the construction loan went to the equity joint venture. McLaughlin had no equity in the project; initial cost estimates submitted to the city set his development fee at 8.3% of construction costs.

As far as the equity was concerned, Laconia Lofts was an "easy sell."[141] The Mohawk JV liked the concept and was interested in the South End neighborhood. Perhaps even more significantly, the security provided by 50% presales (before any financing was secured) made the project particularly attractive to the investors. McLaughlin's extensive experience with arts-related real estate development[142] added another layer of security to the project. And the projected returns were attractive: McLaughlin saw the potential for a "high rate of return on their [the investors'] investment, albeit a long-range type of return that not every investor would find acceptable."[143] One can speculate that this "long-range type of return" involved the potential for future development on adjacent parcels in the neighborhood, as Mohawk/O'Connor also invested in the development of Wilkes Passage, a market-rate condominium project across Washington Street. Mohawk's investment in Wilkes Passage, was not secured until after Laconia Lofts had been completed and therefore, this cannot be confirmed.

Negotiating the construction loan was not as easy as the equity arrangement. Because of the project's unconventional nature at the time—new loft construction with affordable artists' units—lenders required a higher LTV ratio than more traditional development projects. The project was financed by only 60% debt, a ratio which is much lower than the 75% level which could have been anticipated in a conventional development project. Additional terms of the loan were a bit more complicated and difficult than a traditional project might require and, therefore, took more time to work out between the lender and development team.[144] These difficulties were primarily the result of

[141] Phone conversation with Brune Levering, 20 February 2004.
[142] Prior to Laconia Lofts, Jack McLaughlin had developed numerous projects for artists (all rehabilitations), including the Harry the Greek building in the South End, Brickbottom Lofts in Somerville, and the Opera House restoration in the South End.
[143] Villani, John. "Money for the Arts." Urban Land, March, 2000, v. 59, no. 3, p. 60.
[144] Phone conversation with Brune Levering, 20 February 2004.

Fleet's (and the Boston area's) unfamiliarity with the loft concept, especially as it related to new construction and a project of Laconia's size. Fleet's second concern was the fact that the South End was still a "blighted"[145] area in the late 1990's, and this was the first new large-scale construction project to be pursued there in nearly a century.[146]

SUBSIDIES

The only subsidy that Laconia Lofts received was the below-market land price, as agreed-to by the BRA. Laconia Associates purchased the original parcel (40,000 SF) in 1998 for $405,000, or $10.10 per square foot. To compare, the additional 13,000 square foot parcel at 1180 Washington Street was acquired at "market value" for $620,000. This is the equivalent of $47.70 per square foot, or nearly five times the unit cost for 1200 Washington Street. Therefore, the *Boston Globe* assertion that the original parcel was purchased for "less than half its market value" is a bit of an understatement.

While the parcel on Washington Street had a marginally better location than the portion of the original 40,000 SF parcel which fronted on Harrison Street, the fact is that neither street was considered desirable in the early 1990's. Because both parcels had identical floor area ratio (FAR) development potential, the market value of the original 40,000 SF site can be estimated at $42 per square foot ($1.68 million total), reflecting a small discount for location. The value of the BRA subsidy, therefore, was approximately $1.28 million.

RETURNS

Due to the intense scrutiny which still surrounds the project, actual return numbers are unavailable. However, despite the project's problems, Levering stated that, "It was profitable. We [Mohawk] would do it again."[147] One can assume that Mohawk's profit was significant: the market price for a house in the South End skyrocketed between the project's conception and completion and all of the units were presold before construction was finished.

[145] Phone conversation with Brune Levering, 23 March 2004.
[146] Although Laconia was the first new construction project in the South End, there had been several smaller rehabilitations that had recently been successfully completed.
[147] Phone conversation with Brune Levering, 23 March 2004.

Laconia Lofts Timeline		
December, 1995	-	BRA issues Developer's Kit for parcel
May, 1996	-	Laconia Associates receives tenative BRA designation
December 4, 1997	-	Laconia Associates receives final BRA designation
January 30, 1998	-	2 parcels sold to Laconia Associates; construction begins
July 1, 1999	-	Building receives partial certificate of completion
August, 1999	-	First unit deeds recorded
March, 2000	-	Last unit deed recorded

Looking Back

In short, Laconia Lofts was a developer-initiated artist project which was assisted in large part by the City of Boston. It offered several novelties in the city:

- arts-oriented new construction;
- semi-raw space intended for fit-out by the (market-rate) buyer; and
- mixing artists' and market-rate condominiums.

Because Laconia was breaking new ground in several respects, there was a learning curve to overcome in all of these respects. First, there was a bit of uncertainty about what size spaces artists actually needed, and several of the affordable lofts were too small to accommodate both living and working areas.

Second, the fit-out process was not a smooth one. Many artist and market-rate buyers alike at Laconia were inexperienced in construction issues such as code compliance and contractor selection, adding another layer of complication to the fit-out process. The additional "chaos"[148] caused by multiple fit-out contractors on the site, McLauglin's death, and several building code violations delayed the building's opening and forced some artists to retain leases elsewhere for the interim. The fit-out process at Laconia was not very structured, and the project's "guardians"—Mohawk/O'Connor and Suffolk Construction[149]—had little to no control over the outside contractors hired to fit-out the units. Although most of the contractors were reputable, a small few were unconcerned with getting proper building permits and building the interiors to code. Things got so difficult that, at one point, an ISD (Boston's Inspectional Services Department, the entity in charge of enforcing the City's building codes) official once referred to the project as "the Wild West"[150] of tenants and contractors. This lack of control led ISD to shut down the project for a week in order to straighten out the code issues. With time and money flowing down the drain over this period, tenants and contractors were collectively forced to bring their interiors up to code before proceeding.

Finally, since the project's completion, there has been tension between the lower-income (artists) and upper-income groups, effectively dividing the

[148] Phone conversation with Heidi Burbidge, 26 January 2004.
[149] Following McLaughlin's death, the equity investors and the general contractor had to assume many of the developer's responsibilities in completing the project.
[150] ISD official, as quoted by Brune Levering, 23 March 2004.

project in to "haves and have-nots."[151] The wealthier owners on the top floors have pushed for higher-end finishes in the lobbies and a 24-hour management presence in the project, while the artists on the lower floors have argued that their limited incomes can't support the increase in condominium fees that such changes would require. Another point of controversy between the artists and market-rate residents in Laconia Lofts lies in the exceptionally high resale values in the project. While the artists are restricted to 5% increases in sale value each year, some market-rate residents have been able to take advantage of skyrocketing real estate values and sell their units for up to three times the original selling price. While the artists contend they weren't looking for similar "windfalls,"[152] they do want to be able to capitalize on the sweat equity they invested in their units when they sell.[153] While the finish and management have largely been resolved, the Laconia example illustrates some of the issues that are faced in mixed-income projects, particularly when there is such a disparity between the income groups.

While the project has been put under a microscope in some respects, it is safe to say that it was successful in creating both artist live-work space and a profit for its investors. Reasons for its success include fast absorption, the boom in the South End housing market, the willingness of wealthy buyers to purchase homes in the once-unconceivable area south of Washington Street, and the value of the subsidy provided by the BRA. The project's shortcomings can be attributed to the BRA's lack of a developed system for creating and supporting artists in their home purchases and the developer's lack of a system for controlling the fit-out process in the units. In addition, the BRA contends that the level of fit-out provided in the artists' units was a bit too low for habitation. The process of upgrading the artists' units, however, proved to be a layer of headache and complexity for which neither the BRA, the artists, nor McLaughlin were not prepared.

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[151] Phone conversation with Brune Levering, 20 February 2004.
[152] Restuccia, Paul. "Laconia artists seek deed restriction relief." Boston Herald, 16 August 2002, p. 46.
[153] Current resale restrictions limit the artists to 5% annually plus an additional 1% for capital improvements. At Laconia, negotiations between the artists and the BRA have resulted in an additional $10,000 increase over the base resale price for work done in the units.

Lessons Learned from Laconia Lofts

1. Projects that offer "something special" can attract wealthy buyers to neglected areas.

Wide-open, customizable loft spaces were a new concept in the South End.

2. Artists are a valuable marketing tool.

The artists were seen as "better neighbors" than the average lower-income buyer.

3. Artists have minimum space needs.

The units less than 1,000 square feet were too small for some artists.

4. Historic district requirements are expensive.

Despite the cost savings of minimal fit-out, the project would cost $144/sf to build in 2004.

5. Don't expect lower-income buyers to be able to afford custom fit-out.

The artist-buyers were unskilled in the fit-out permitting and construction process.

6. Strictly manage any fit-out contractors.

Chaos was caused by having multiple fit-out contractors on site.

7. Mixing incomes can cause tension in a project.

The artists and market-rate buyers have very different priorities for the building, and the artists are envious of the market-rate buyers' ability to capitalize on the South End housing market.

General Information	Banner Building, Fall 1994	Laconia Lofts, Spring 1999	ARTBLOCK 731*, Winter 2005|6
Location	Belltown, Seattle WA	South End, Boston MA	South End, Boston MA
Neighborhood condition	marginal	marginal	somewhat established
Developer	Koryn Rolstad | Hadley Holdings	Jack McLaughlin	New Atlantic Development Corporation
Degree of government involvement	low	medium	high
Total Units	31	86	54
Total square footage	65,000	129,000	74,270
Artist Needs: Affordability			
Proposed # of artists' units | actual # of artist-restricted units | # of affordable units	31 - condominiums and rental apts | 0 | 3 - apartments	45 - condominiums | <23 - condominiums | <23 - condominiums	32 - condominiums | TBD
Median Sale Prices			
artist unit | income to afford	$185,000 | $55,000	$109,000 | $31,000	$185,000 | $49,000
market unit | income to afford	$212,500 | $69,000	$291,000 | $82,000	$485,000 | $119,000
Median family income	$50,400	$62,700	$82,600
Effective APR (with artists' premium)	9.81%	7.81%	6.69% (May, 2004)
Artist Needs: Suitability			
Unit size (artists' units)	1,000 - 1,600 SF	700 - 2,000 SF	1,000-1,200 SF
Level of finish	no finishes - owners responsible for bathrooms, kitchens, stairs, HVAC	"throwaway" kitchen and bath	simple kitchen and bath
Other amenities	high ceilings, large windows, storage units, enclosed parking, terrace, private decks (in some units), double-height units on upper floors	high ceilings, large windows, enclosed parking, private decks/patios (in some units), double-height units on upper floors	high ceilings, large windows, increased electrical capacity, individual ventilation systems, enclosed parking, courtyard space, private decks (in some units)
Developer Needs: Compliance			
zoning prior to construction	mixed residential-commercial	light manufacturing	multifamily residential
zoning change necessary?	no	no	yes
C of O issues	units not up to code when delivered	(none)	(none)
Resolution	blanket certificate of occupancy issued for entire project	2 certificates: first when unit delivered, second when fit-out complete	units delivered in habitable condition
Developer Needs: Financing			
Equity Partners	unit purchasers, Hadley Holdings	Mohawk Real Estate|O'Connor Group	state and city subsidy
Lender	West One Bank	Fleet Bank	pending
Financing Structure	30% equity / 70% debt	35% equity JV / 65% debt	25% subsidy equity / 75% debt
Developer Needs: Return			
Total Development Cost	$5,800,000	$20,000,000	$19,216,000
Per Unit Development Cost	$187,097	$232,558	$355,852
Subsidy(ies) used	affordable housing bonus	land cost write-down; cross-subsidization	BRA (grant and reduced land price), affordable housing subsidies (state and city), cross-subsidization
Value of cash and land subsidies	$500,000	$1,275,000	$3,897,860
Subsidy per Affordable Unit	$166,667	$55,435	$121,808
Construction Cost	$4,200,000	$16,500,000	$13,545,000
PSF construction cost | Boston 2004 equivalent	$65 | $90	$128 | $144	$182 | $182
Project-level IRR	-8.6% (est)	profitable	unknown

**new construction figures only*

ARTBLOCK 731, Boston MA (2005/6)

8

ARTBLOCK 731 is Boston's second BRA-sponsored artist live/work project. It is located on Harrison Avenue in the South End neighborhood, six blocks from Laconia Lofts. Similar to Laconia Lofts, ARTBLOCK is the product of the Agency's land disposition process. In the planning process as of May 2004, ARTBLOCK is proposed to contain 54 total condominium units, a mix of artist-affordable and market rate lofts and market rate townhouse-style units. Artists are qualified to purchase the 32 affordable units, which will be priced between $165 and $180 per square foot, through the BRA's artist certification process. Twenty-two market-rate units will be priced between $425 and $500 per square foot. Finishes in the loft units will be minimal, although each will contain full, permanent bathroom and kitchen facilities, heating and air conditioning, and exhaust ventilation systems.

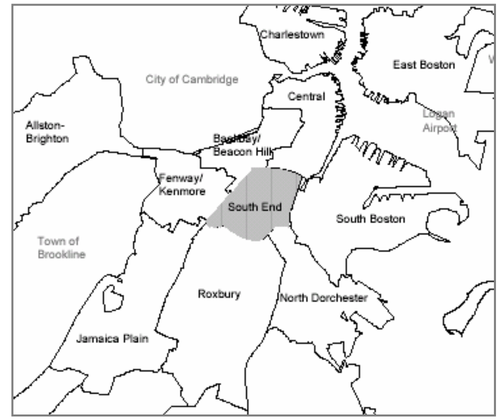


Figure 31: Map of Boston's neighborhoods. (BRA)

Figure 32: ARTBLOCK's Harrison Ave elevation (prior to height change). (ICON architecture)

Figure 33: Location map. (maps.yahoo.com)

City, Neighborhood, and Site

ARTBLOCK 731's location on Harrison Avenue in the South End marks the rapid change that the area south of Washington Street experienced at the beginning of the 21st century. Following designation as a Main Street by the National Trust for Historic Preservation in 1997,[154] the Washington Street corridor benefited from hundreds of millions of dollars in public and private investment in the past seven years, including:

- construction of the Silver Line bus rapid transit line in 2002;
- streetscape improvements;

[154] See Chapter 8 for neighborhood information prior to 1997.

Figure 34: View down Public Alley 710. The Bates School is on the left. (New Atlantic Development, 2004)

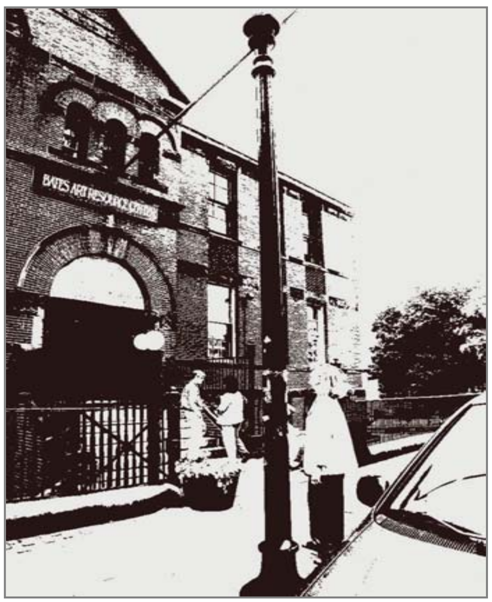


Figure 35: The Joshua Bates School, Harrison Avenue frontage. (date and origin unknown)

- storefront renovations and new retail construction; and
- new construction or renovation of 1,686 housing units[155] as of March, 2004 with
- over 400 additional housing units planned or under construction.[156]

This influx of capital has transformed Washington Street into a vibrant place to live, work, and shop in Boston. South of Washington Street, the recently-dubbed SOWA district, is undergoing a similar renaissance. With its influx of artists' studios, galleries, and lofts (as well as architectural and graphics firms) in the past five or six years, SOWA has been quickly established as a new arts district in Boston.

The ARTBLOCK site is comprised of three BRA-owned parcels at 731 Harrison Avenue, one block south of Washington Street. Totaling 35,000 SF, the parcels comprise an entire half-block which is split by a public alley. The other three sides of the site are bounded by Harrison Avenue, East Brookline Street, and East Newton Street. The site faces the New England Medical Center across Harrison Ave, the Cathedral Public Housing Project across East Brookline Street, and the former Boston College High School across East Newton Street.[157] The middle parcel houses the historic Joshua Bates School which is currently being used as rental work-only studio space. The parcels on either side are currently used as a parking lot and a community garden.

The site benefits from close proximity to two of the largest open spaces in the South End--Franklin and Blackstone Squares. In addition, transportation and service amenities along Washington Street are only a block away. On the other hand, the aesthetics of the New England Medical Center and the traffic it causes along Harrison Street are significant disadvantages. The adjacent public housing project and its outdated and institutional appearance also detracts from the value of the site.

The former Joshua Bates School is located in the center of the ARTBLOCK site. Built in 1884, the Bates School is a two-story building constructed in the

[155] Diesenhouse, Susan. "A street in full bloom." The Boston Globe, 27 March 2004, p. F10. Of these 1,686 units, 910 are affordable to low- and moderate-income households, and 776 are market-rate.
[156] The Harrison (36 units), Gateway Terrace (136 units), Harrison Commons (190 units), Allied Bolt Lofts (51 units).
[157] The school is also slated for redevelopment into condominiums and apartments.

Richardsonian Romanesque style and is listed in the State Register of Historic Places. The building operated as an elementary school until 1974 and was repositioned as artist work-only space in 1976. The space currently houses 14 artist work-only studios. The building is leased to an outside manager (HOME, Inc.), who in turn subleases the individual studios to the artists. The two parcels abutting the historic school each contained rowhouses facing East Newton and East Brookline Streets until the mid-20th century.

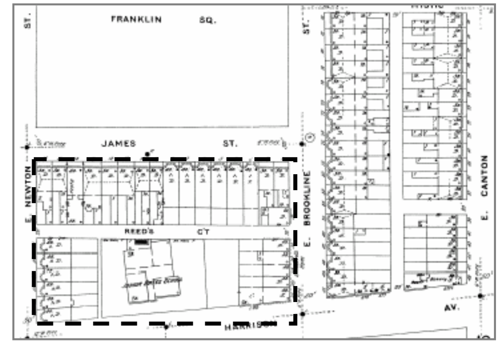


Figure 36: 1895 Sanborn map of area. The site is indicated by the dashed line.

Housing Trends

Between 1999[158] and 2003, housing prices[159] in the Boston area skyrocketed. In the city, the median sales price for residential property nearly doubled from $182,000 to $340,000, an 87% increase.[160] The average condominium price rose 78% from $175,000 in 1999 to $312,500 in 2003. Over that same period, median rent for a two-bedroom apartment dropped from $1550 per month to $1400. The softness in the rental market is the result of two forces. First, low interest rates have spurred higher-paying renters to invest in homes or condominiums. Second, the downturn in the economy has caused many renters to move away or move in with roommates or parents.

In the South End, home prices increased 60% from $269,500 in 1999 to $431,425 in 2003. Condominium prices increased 51% from $260,750 in 1999 to $395,000 in 2003. While the volume of condominium sales (802) in the South End exceeded every other neighborhood in the city, the median sales price for a condominium actually dropped slightly between 2002 and 2003 from $400,000 to $395,000.

The South End's volume of condominium sales reflects the enormous amount of new residential construction around Washington Street. With Tremont and Columbus Streets approaching build-out capacity, developers saw an opportunity to tap the demand for South End condominiums by constructing new projects on vacant lots in the newly-revitalized Washington Street

Table 4: Boston and South End Median Statistics

	1999	2003
Boston		
Home Prices	$182,000	$340,000
Condominium Prices	$175,000	$312,500
Rent	$1,550	$1,400
Median HH Income	$39,629	$60,612*
South End		
Home Prices	$269,500	$431,425
Condominium Prices	$260,750	$395,000
Rent	$1,750	$1,900
Median HH Income	$41,590	N/A

*2002 figure

158 1999 was the year that Laconia was built. For real estate information prior to 1999, see Chapter 7.
159 Includes single-, two-, and three-family residences and condominiums.
160 "Real Estate Trends." City of Boston Department of Neighborhood Development, 2004.

corridor. South of Washington Street, Harrison Avenue is not considered "pioneering," but it does push the edge of the neighborhood.[161]

Artists' Situation

Artists' space situation in the City of Boston became even more dire between 1999 and 2004 after the construction of Laconia Lofts. The Boston Artists Survey found that the City contained about 3,000 total artist spaces in 2002, only 300 of which provided stability for the tenant in the form of ownership or a lease under a non-profit institution.

The City sought to address the challenge of affordable space for artists with the adoption of the Artists Space Initiative in 2001. Intended to preserve existing live/work and work-only space while promoting construction of new artist spaces, the initiative promotes projects that:

- "are permanently dedicated to artists through deed restrictions or similar legal mechanisms;
- are located in buffer zones between industrial and residential neighborhoods in locations that do not support traditional family housing;[162] and
- offer live/work spaces (space where artists combine their residence with their work area, typically in an open floor plan offering large, flexible work areas) or work-only spaces (where residential use is not allowed) for rent and for purchase at a variety of prices with a preference for Boston residents."[163]

Although the implementation of this policy was in the early stages in 2004, the City has required artist space to be included in several new construction projects as a condition for approval.[164]

Despite the Initiative, Boston artists were still being forced out of the City altogether. Even finding affordable space in inner industrial suburbs was

[161] This "edginess" is only temporary. Plans are in the works to develop an old manufacturing building facing Albany Street, located parallel and a block south of Harrison Street. It is likely that Albany will become the new edge of the neighborhood.
[162] The Bates School site, while a buffer between an institutional (Boston Medical Center) and a residential neighborhood, is not necessarily unsuitable for "traditional family housing."
[163] From www.cityofboston.com/bra.
[164] These spaces have served to satisfy the city's inclusionary housing guidelines for the provision of affordable housing in large new development projects.

becoming difficult, as evidenced by several market-rate loft projects under construction in those cities such as Chelsea, Everett, and Lowell.[165]

Overview of Project

The 731 Harrison Avenue project was initiated by the BRA as part of a program to increase available live/work space for artists in the Boston.[166] The first exclusively artist-oriented RFP in the City's history, the 731 Harrison Avenue proposals were to "maximize artist live and work space and may include ground floor retail space and limited conventional residential housing"[167] on the open parcels. The redevelopment of the Bates school was to "provide artist work [-only] space and may also include complementary cultural, management office, theater, and/or retail space."[168]

Before designating a developer, the competing proposals for the project were subject to community review. Two proposals were submitted, and following a 45-day period of public comment, the BRA tentatively named New Atlantic Development Corporation as the designated developer for the parcel in December, 2003. New Atlantic has extensive experience in affordable and assisted housing development in the Boston area. Another 45-day community review process will follow the filing of an Article 80 Project Notification Form (see Chapter 6) in late March, 2004.

ARTBLOCK's program includes the construction of two new buildings adjacent to the Bates School and the renovation of the school itself. Historic preservation standards preclude the Bates from being physically attached to either the new construction. The new buildings, first proposed to be four and six stories in height, have been revised to five stories each. The two newly-constructed buildings will contain 54 condominium units, of which 32 will be affordable for artists earning less than 80% of the Area Median Income. The remaining 22 market-rate units will be divided between loft-style

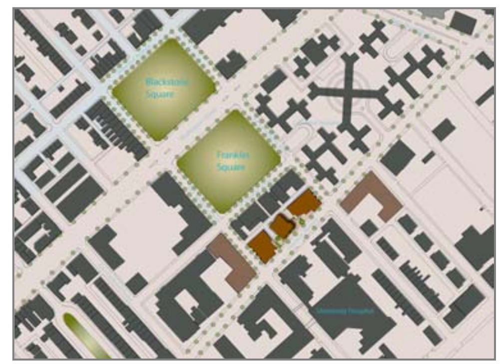


Figure 37: ARTBLOCK neighborhood plan. (ICON architecture)

[165] Spencer Lofts in Chelsea, completed in 2003, is asking $230,000 for 900 SF of space ($255/SF).
[166] The BRA's Artist Space Initiative is a partnership between the BRA, the Mayor's Office of Cultural Affairs, and the Department of Neighborhood Development which seeks to "retain existing spaces for artists and create new ones." www.cityofboston.gov/bra.
[167] "Request for proposals: Harrison Avenue project." Boston Redevelopment Authority, May, 2003. p. 4.
[168] "Request for proposals: Harrison Avenue project." Boston Redevelopment Authority, May, 2003. p. 4.

condominiums similar to the artists' and two-story townhouse-style units on the first and second floors facing outward along East Newton and East Brookline Streets. One of the two new buildings will contain a 2,000 square foot art gallery. A multi-level courtyard is designed to connect the two buildings and the school.

Figure 38: Sidewalk-level plan. (ICON architecture)

Figure 39: East Newton Street elevation (prior to height change). (ICON architecture)

The Bates School will be renovated according to historic preservation standards and will include an elevator, ramp access, and an upgraded fire safety system. The historic school will remain as below-market artists' work-only space following the renovations.

The project's lead architect, Nancy Ludwig of ICON architecture, created a frontage along East Newton and East Brookline Streets which is intended to reflect the rowhouses which once stood there. The building facades along these streets are brick with individual street-level entries, bays and canopies. To contrast, the interior-facing facades of both structures are designed with metal cladding and atelier-like windows and bays to provide a foil to the historic school at the center of the site.

Affordability

A high degree of affordability, based on the BRA's artist affordability guidelines, was mandated by the RFP:

> *…a minimum of sixty percent (60%) of the total housing units in the project must be affordable to artists whose incomes are at or below 80% of the Boston Area Median Income (AMI)…Additional consideration will be given to projects that include units that are affordable to households who earn less than 50% of the AMI and for households who earn between 80% and 120% of the AMI. Conventional market-rate housing should be included in the project only as to maximize affordable artists units.*

Although neither of the two proposals submitted for the project achieved these affordability standards, New Atlantic's proposal came within one percentage point of the 60% goal.

The ARTBLOCK 731 proposal contains 32 artist-affordable units, or 59% of the 54-unit total. On average, the units are priced to be affordable to artists earning 80% of AMI. Based on the 2004 BRA Income Limits,[169] the smaller units (1,000 SF) have prices of $179,900, while the larger units (1,200) will be priced at $199,900. This represents a per square foot price range of $170 to $183. Although market-rate prices have not been disclosed, it is expected that the units will sell between $400 and $450 per square foot, well over twice that of the affordable units.[170]

[169] The BRA Income limits are based on the following assumptions:
- -35% income spent on housing
- -5% downpayment
- -7% fixed interest rate, 30-year mortgage
- -$12.53 per thousand residential tax rate with $1106 homeowner exemption
- -$7.80 per thousand financed in points and mortgage insurance expenses
- -condominium fees averaging $235/month for a two-bedroom unit

[170] Based on comparable sales in the South End.

ARTBLOCK 731 (2005/6)		
	average artists' unit	average market unit
Price	$193,900	$485,000
Downpayment (5%)	$9,695	$48,500
Mortgage Amount	$184,205	$436,500
30-year fixed mortgage		
Average rate (2004)	6.12%	6.12%
Average fees/points	0.7	0.7
Effective APR	6.19%	6.19%
Artists premium	0.50%	0.00%
Artists effective yield	6.69%	6.19%
Mortgage Payment	($1,187)	($2,669)
Assumed Expenses	($250)	($300)
Total Housing Cost	($1,437)	($2,969)
% of Income to housing	35%	30%
Required income	**$49,266**	**$118,780**

Although the market-rate buyers are likely to invest additional money in the finish of their spaces, the units are more than suitable for habitation, and most buyers of affordable lofts will find additional fit-out unnecessary. The exception to this generalization is buyers who wish to partition the loft spaces to create rooms.

Artists are deemed eligible for purchasing units at ARTBLOCK according to the BRA's Artist Certification Process. Under the guidelines outlined by the BRA, artists must submit an application which includes:

- examples of work created within the prior 3 years;
- evidence of formal training, documented in a resume; and
- documented evidence of public exhibition;

OR

- three letters of recommendation "from artists and/or arts professionals who are recognized within the arts community and who will attest that the applicant is a serious, working artist."

The applications are reviewed by a panel of artists and art professionals who have been nominated by the arts community. All applicants who are deemed by the panel to have successfully documented that they are working artists receive certification. Certified artists must then enter a lottery process to be eligible to purchase a unit at ARTBLOCK. Artists are chosen by a random drawing, with preference given to Boston residents. Artists who currently sublease space in the Bates School building will have the option of retaining and renewing their leases without being certified by the BRA.

CONSTRUCTION COST SAVINGS

As was the case at Laconia and the Banner Building, minimal unit and common area finishes are a large source of construction savings at ARTBLOCK.[171] Another significant savings is found in the use of mixed exterior cladding materials. Rather than cladding the entire building in more expensive brick, the ARTBLOCK design uses a metal cladding over half of the exterior. The metal, which is 40% loess expensive than brick, also provides an interesting contrast to the all-brick architecture of the surrounding neighborhood.

Figure 40: Interior elevation showing the use of metal cladding. (ICON architecture)

The project, however, is not inexpensive. ARTBLOCK is projected to cost $175 per gross square foot, 25% greater than another similar[172] affordable housing project that New Atlantic is concurrently developing. There are several reasons for this. First, the ARTBLOCK project requires the construction of two entirely separate buildings, which means that all building systems have to be duplicated, and there is approximately 25% more exterior cladding than would be found on one building of similar size. Second, and also related to the building's exterior, the South End neighborhood associations and the Landmark District requirements mandate a high level of exterior design and detail. Geotechnical issues associated with the site require the use of 30 ft. bell caisson foundations rather than less expensive spread footings. Lastly, in order to provide ventilation systems that fit the BRA's requirements for artists' space, the developer plans to install air conditioning and an expensive ventilation system with separate controls in each unit.

[171] Peter Roth, president of New Atlantic, estimates that there will be only cost savings and no time savings associated with the minimal interior fit-out. Conversation with Roth, 23 April 2004.
[172] Similar in terms of number of units and levels of underground parking. The other project is a traditional affordable housing development.

To ensure that 32 of the ARTBLOCK units remain affordable to artists, the project relies on an array of subsidy resources from state and local sources. These resources are outlined in more detail later in the chapter.

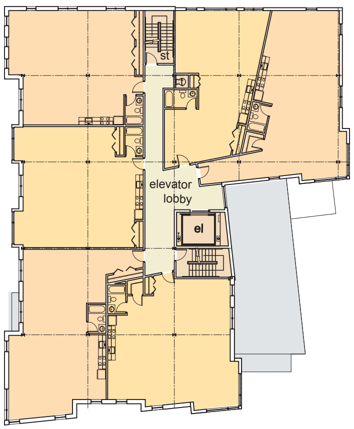


Figure 41: Typical upper floor plan, ARTBLOCK West. (ICON architecture)

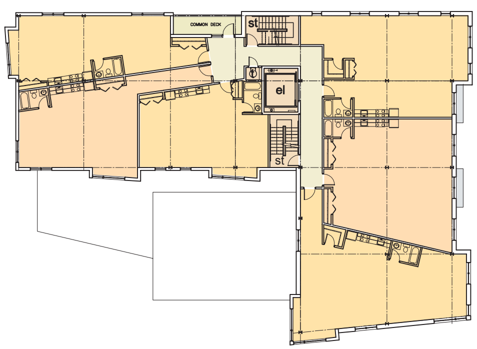


Figure 42: Typical upper floor plan, ARTBLOCK East. (ICON architecture)

Suitability

The proposed loft-style units are flats ranging in size from 700 to 1400 SF, with affordable units at the upper end of the range, 1000-1200 SF. Each unit has 10-foot ceilings, concrete floors, and floor-to-ceiling windows on one or more exposures. The units include a finished bathroom and kitchen. Kitchen appliances in the units include a range, range hood, and refrigerator. A package will be available for buyers wishing to upgrade their finishes to include stainless appliances, granite countertops, and marble tile in the bathrooms. Most of the market-rate buyers are expected to purchase this package.

This layout and finish schedule was primarily dictated by the BRA guidelines[173] which specify that live/work spaces for one artist must be at least 1,000 SF. The BRA construction guidelines also include the following:

- "oversize width" hallways;
- freight elevators;
- industrial-strength fire protection systems and sufficient insulation for open flames;
- electrical capacity to "meet the various needs of different art forms;"
- window-to-room ratio "adequate for natural light;"
- "appropriate" sound dampening in wall and floor construction;
- "special ventilation and air handling techniques" to ensure resident, visitor, and neighbor safety;
- unit venting via outside wall and central system via roof;
- ceiling heights which "allow for the creation of large works and large equipment, including machinery and lighting;"
- extra weight-bearing floors (sprung wood floors should be available as an upgrade);
- minimal fit-out;
- accessible plumbing system for easy installation of work sinks;
- wiring for "new technologies";

[173] "Artist Live/Work Space Design Guidelines," Boston Redevelopment Authority, 19 June 2003.

- oversize dumpster capacity;
- containers for hazardous material disposal;
- on-site laundry; and
- access to outdoor work area;

The ARTBLOCK proposal addresses most of these guidelines. In addition to the specialized ventilation system, ARTBLOCK will incorporate the following building features:

- staggered-stud demising wall construction to minimize noise transmission;
- concrete filigree plank floor construction to provide a high degree of fire resistance, allow for higher ceilings in the units, and create greater acoustic separation between floors;
- high performance windows to provide an abundance of natural light and natural ventilation while being energy-efficient;
- freight elevators in each building;
- 200 amp electrical service to each unit; and
- 10,500 SF of outdoor open space, portions of which will be available for work space.

Compliance

Like most projects in the City of Boston, ARTBLOCK 731 requires several zoning relief measures. In terms of size and layout, the project will need relief from the FAR restrictions on the parcel and rear yard setbacks. The project exceeds the 2.0 maximum FAR. allowed on the site by 17,000 SF. The consolidation of three parcels into one site creates a "front" property line along Harrison Avenue and a "rear" along Public Alley 710. The proposed buildings are not set back from the rear lot line, in violation of the 20 foot minimum setback requirement.

The affordable artists' units also provide a point of contention with regards to zoning. According to the Boston Zoning Code, artists' mixed-use space can only be occupied by BRA-certified artists. Therefore, the developer has designated the market-rate units as multifamily residential use and the affordable artists' units as "artists' mixed-use." However, artists' mixed use is listed in the Code as an industrial use, and only allowed in industrial zones in the city. Because the project is in a residential district, the artists' live-work lofts will need to obtain a conditional use permit.

In Boston, artists' live/work space is taxed at the residential rate of around $10 per thousand of appraised value. The project is not expected to have any problems with Building Code compliance, as all units will be sold fully finished.

Feasibility

The total cost of the project is anticipated to be $20.1 million, with construction costs of $14.2 million and just under $1 million in land acquisition costs. Excluding the renovation of the Bates School, development of the new buildings is budgeted at $19.2 million. Hard costs comprise $12.6 million of this total, and the entire cost of the land is associated with the construction of the new market-rate units.[174]

Actual equity in the project is limited to a nominal amount of historic tax credits associated with the rehabilitation of the school. A construction loan will provide the debt financing.[175] The overall loan-to-cost ratio is 71%, while the loan-to-value ratio for the market-rate component is 60%.

These low financing ratios are partially due to ARTBLOCK's reliance on significant state and city subsidies. New Atlantic Development is hoping Massachusetts will reverse its stance on artist live/work development (see Chapter 4) and provide the project with $750,000 in Affordable Housing Trust grants, as the project's feasibility is dependent upon these funds. The project's affordable units, however, are reserved exclusively for artists and are intended as joint living and working spaces, putting this project in direct conflict with the state's arguments against funding such projects. The city is ARTBLOCK's major subsidy source. New Atlantic has agreed to pay the city $984,240 for the site,[176] less than 40% of its appraised value. In addition, the project will receive $500,000 in linkage funds from the BRA and $1,000,000 in

[174] According to the RFP, the developer will pay the BRA $25,000 per market-rate unit constructed on the site as well as 4% of the gross sales price of the market-rate units.
[175] Details of the construction financing are still being negotiated between New Atlantic and a lender with whom the company has a longstanding relationship.
[176] New Atlantic hopes this payment will be reinvested by the BRA in ARTBLOCK's on-site arts program.

grants from the city's Neighborhood Housing Trust. These funds and the land subsidy total $3.9 million.[177]

Because ARTBLOCK is a heavily subsidized project, New Atlantic is developing it on a fee basis. Therefore, after fee and overhead are disbursed, returns are projected at zero. The firm is deferring its fee to constitute its equity in the project.

Looking Forward

ARTBLOCK 731 is the most highly-subsidized and highly-regulated of all the case study projects. While this significantly reduces the developer's risk in the project, it also eliminates the need for equity financing and, therefore, much of the return that can incent him/her to pursue the project. While development fees do compensate the developer for his/her work, they are effectively capped by the public funders of the project. Developers must submit unpublicized financial projections as part of the RFP process, and high developer fees, seen as compromising overall project affordability, can eliminate a proposal from the selection process.

ARTBLOCK 731 Timeline

May, 2003	- BRA issues RFP for parcel
October, 2003	- New Atlantic receives tenative BRA designation
October, 2004	- Construction begins
Dec 05/Jan 06	- Construction complete
January, 2006	- First units closed

The developer's intention was to provide the minimum level of finish in the units so they would still meet building codes and be habitable for the residents. This avoids a lot of frustration on the part of both buyers and the developer, who do not have to deal with outside contractors and the fit-out process, which can extend to over a year after the project's completion. On the other hand, substantial upgrade packages will be available to buyers who wish to have a higher level of finish in their units. The project's contractors and subcontractors will install the upgrade packages, thereby avoiding the confusion caused with resident-hired contractors on site.

Living and working in the spaces, the artists at ARTBLOCK will create a 24-hour hub of activity, while the market-rate residents are most likely to work traditional 9-to-5 jobs.[178] With over 30 craftspeople needing a variety of materials for their work, one is likely to see numerous deliveries during the day as well as constant moving of work in and out of the units. Open studios and other events will tend to take over the entire project. While this activity

[177] If the market value of the land exceeds the appraised value, this number will be higher.
[178] The project is expected to attract a mix of young professionals and empty-nesters.

certainly creates a more exciting place to live, it will be interesting to see if market rate buyers actually enjoy being in the midst of that kind of activity, or if they just like the image.

General Information	Banner Building, Fall 1994	Laconia Lofts, Spring 1999	ARTBLOCK 731*, Winter 2005|6
Location	Belltown, Seattle WA	South End, Boston MA	South End, Boston MA
Neighborhood condition	marginal	marginal	somewhat established
Developer	Koryn Rolstad | Hadley Holdings	Jack McLaughlin	New Atlantic Development Corporation
Degree of government involvement	low	medium	high
Total Units	31	86	54
Total square footage	65,000	129,000	74,270
Artist Needs: Affordability			
Proposed | actual number of artists' affordable units	3 - rental | 0	45 - condominiums | <23 - condominiums	32 - condominiums | TBD
Median Sale Prices			
artist unit | income to afford	$185,000 | $55,000	$109,000 | $31,000	$185,000 | $49,000
market unit | income to afford	$212,500 | $69,000	$291,000 | $82,000	$485,000 | $119,000
Median family income	$50,400	$62,700	$82,600
Effective APR (with artists' premium)	9.81%	7.81%	6.69% (May, 2004)
Artist Needs: Suitability			
Unit size (artists' units)	1,000 - 1,600 SF	700 - 2,000 SF	1,000-1,200 SF
Level of finish	no finishes - owners responsible for bathrooms, kitchens, stairs, HVAC	"throwaway" kitchen and bath	simple kitchen and bath
Other amenities	high ceilings, large windows, storage units, enclosed parking, terrace, private decks (in some units), double-height units on upper floors	high ceilings, large windows, enclosed parking, private decks/patios (in some units), double-height units on upper floors	high ceilings, large windows, increased electrical capacity, individual ventilation systems, enclosed parking, courtyard space, private decks (in some units)
Developer Needs: Compliance			
zoning prior to construction	mixed residential-commercial	light manufacturing	multifamily residential
zoning change necessary?	no	no	yes
C of O issues	units not up to code when delivered	(none)	(none)
Resolution	blanket certificate of occupancy issued for entire project	2 certificates: first when unit delivered, second when fit-out complete	units delivered in habitable condition
Developer Needs: Financing			
Equity Partners	unit purchasers, Hadley Holdings	Mohawk Real Estate|O'Connor Group	state and city subsidy
Lender	West One Bank	Fleet Bank	pending
Financing Structure	30% equity / 70% debt	35% equity JV / 65% debt	25% subsidy equity / 75% debt
Developer Needs: Return			
Total Development Cost	$5,800,000	$20,000,000	$19,216,000
Per Unit Development Cost	$187,097	$232,558	$355,852
Subsidy(ies) used	affordable housing bonus	land cost write-down; cross-subsidization	BRA (grant and reduced land price), affordable housing subsidies (state and city), cross-subsidization
Value of cash and land subsidies	$500,000	$1,275,000	$3,897,860
Subsidy per Affordable Unit	$166,667	$55,435	$121,808
Construction Cost	$4,200,000	$16,500,000	$13,545,000
PSF construction cost | Boston 2004 equivalent	$65 | $90	$128 | $144	$182 | $182
Project-level IRR	-8.6% (est)	profitable	unknown

**new construction figures only*

Framework and Conclusions 9

The Banner Building and Laconia Lofts were highly unusual for new construction projects in their time. Their orientation toward artists and creative individuals was a development niche that was considered quite novel, and the projects offer much to learn about new construction of artist live/work space. ARTBLOCK, on the other hand, is proposed in an environment which is no longer unfamiliar with the live/work concept. Because the project has yet to be developed, one can only speculate as to its outcome. Nevertheless, the distinct similarities and differences between the three projects provide for some interesting conclusions.

Clearly, one can see an evolution in the development of new live/work space in the three projects. The Banner Building suffered by being developed before its time in 1994 and Laconia Lofts profited by hitting the market at just the right time in 1999. Will ARTBLOCK find financial success or failure in 2005? The Banner Building has no units reserved for artists but 20% of the condominiums are occupied by artists; Laconia had 32% of its units reserved for artists but has, at most, a 27% artist population. Can ARTBLOCK meet its 59% goal for artists' units? Perhaps even more significantly, the Banner Building was developed through the will of an individual, while the City of Boston had some degree of control over Laconia Lofts. Will the City's substantial control at ARTBLOCK overwhelm the project? The project-level observations and comparisons explored in this section guide the development of a framework for the construction of new artists' live/work space which is presented in chart form toward the end of the chapter.

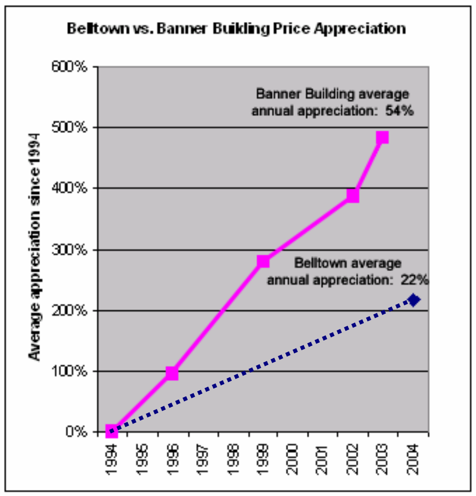
City, Neighborhood and Site

Consider marginal areas for new artists' live/work projects.

The Banner Building and Laconia Lofts both capitalized on marginal neighborhoods to appeal to "pioneering" buyers. Rather than attempting to incorporate the nontraditional, raw spaces into an area of traditional housing, Rolstad and McLaughlin sited their projects in areas that were on the verge of revitalization, but not yet considered desirable neighborhoods in their current condition. Appreciation potential was significant.[179] These locational decisions

[179] It should be noted that this is an ex post observation, and anyone who bought into one of these projects in the hopes of achieving high returns on their investment did so with a certain level of risk.

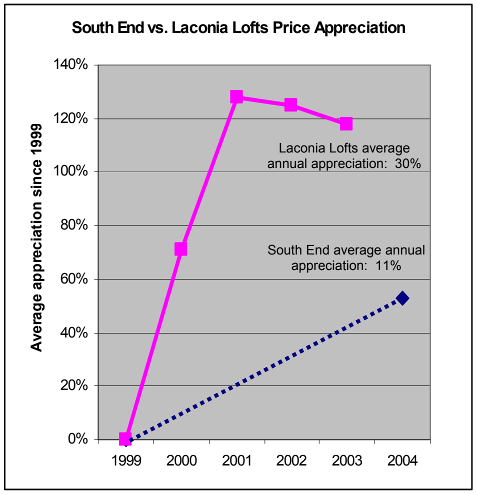
accomplished several goals. First, the projects were not considered a threat to the established design and existing residents of the neighborhood.[180] If anything, they were seen as a major improvement to an otherwise run-down section of town. Second, the projects' orientation toward creative individuals allowed the new projects to integrate with the existing artist population in the neighborhood. The existing Harrison Avenue artists' community might have mobilized staunch opposition to Laconia Lofts had it been an entirely market-rate project. Positioned toward the arts community, the projects turned out to be attractive investment opportunities for market-paying non-artist buyers because of the neighborhood's potential. As gentrification crept into Belltown and the South End, savvy buyers saw the projects' raw spaces as an opportunity to capitalize on rising land values. The developers of both projects recognized that the traditional buyer would not be attracted to the location and therefore did not strive to provide traditional spaces. Instead, they allowed their pioneering buyers to apply their energy and money to both the shell purchase and the interior fit-out work.



Buyers at Laconia and the Banner Building were rewarded for their risk-taking. Both projects continue to command some of the highest resale prices in their respective cities, despite their proximity to social service agencies. At Laconia Lofts, units appreciated at an average of 51% per year between 1999 and 2003. One of the penthouse units which sold in shell condition for $207 per square foot resold in 2001 for nearly $800 per square foot, an appreciation of 286%. Two other penthouses resold for over $700 per square foot (PSF) in 2002, over 200% more than their $244 PSF sales prices in 1999. The most recent (2003) sale at Laconia Lofts was $515 per square foot, a 87% increase over the unit's 1999 price. In the South End as a whole, condominium prices rose a comparatively low 53% per square foot, or 11% annually, between 1999 and 2003. At the Banner Building, units appreciated at an average of 45% per year between 1994 and 2003. A first-floor unit originally purchased for $42 per square foot[181] sold in 2003 for $246 per square foot, appreciating nearly 500% in nine years. A fifth floor unit initially sold for $150 per square foot in 1995 resold for $637 per square foot in 2000, a 325% increase.

[180] Whether the projects were seen as a gentrification threat is not known.
[181] This was Rolstad's unit purchased under her compensation agreement with Hadley. A similar unit on the market would have initially sold for over $100 per square foot.

Belltown's overall condominium prices rose from $180 to $570[182] per square foot between 1994 and 2004, a 21.7% annual increase.



ARTBLOCK's location isn't nearly as marginal as Laconia's and the Banner Building's neighborhoods were at the time of their construction. The ARTBLOCK site has appreciated greatly in value following the gentrification of the South End's SOWA area, a neighborhood change that was perhaps assisted by the Laconia Lofts project.[183] This is not to say that 731 Harrison Avenue is the most valuable site south of Washington Street, but it is substantially less risky than either of the other projects. Therefore, the ARTBLOCK project has little potential to serve as a neighborhood catalyst as Laconia and the Banner Building did. The fact that the ARTBLOCK's immediate area has already been substantially gentrified means that the project can replace some lost artists' space, but it will not have the same "spark" effect that the other projects did. If left to the market, Harrison Avenue would revitalize on its own and at a similar pace without ARTBLOCK, albeit at market rate prices.

From the developer's standpoint, however, Laconia and the Banner Building were incredibly risky projects, and much of that risk was associated with the project locations. Obviously, no developer would want to subject him or herself to the losses of the Banner Building, but in 1997, Laconia Lofts had the same potential to be a money-losing project. No one could have predicted that buyers would invest in luxury condominiums in that area of the South End, especially across the street from the Pine Street Inn homeless shelter. The prices at Laconia reflected this uncertainty. The average price of the market-rate units, $216 PSF, was over 30% below the $323 PSF[184] average selling price for condominiums in the South End in 1999. This discount also had an impact on the number of affordable units McLaughlin was able to offer. If Laconia's location was not as risky, McLaughlin could have been assured higher selling prices for the market units, thereby underwriting the cost of more affordable units. However, land prices may have been higher, negating any benefit in the less risky location. At ARTBLOCK, the high projected sale prices for the market-rate units is one of the reasons why New Atlantic can provide a high proportion of affordable units. Priced between $425 and $500

[182] www.realtor.com
[183] Sarah Hutt, at the Boston Mayor's Office for Cultural Affairs.
[184] Source: MLS Property Information Network.

PSF, the market-rate units will provide $2 million in cross-subsidy to the affordable units.

Therefore, when developing a new artists' live/work project, developers should weigh the pros and cons of marginal sites. Artists have the unique ability to revitalize areas of the city, and both cities and developers can take advantage of this opportunity, not only in areas which have been ignored, but also in places which are (or perceived as) dangerous and blighted. Cities can identify project sites in neighborhoods which are in need of new investment, while developers can use projects as catalysts for other development. Marginal areas can offer the often-essential aspect of lower land costs, thereby creating a more affordable finished product for the artists. On the other hand, marginal locations also create more risk for the developer, while the higher market-rate prices generated by an established location can subsidize more affordable units (but only if the city is going to subsidize the land prices).

Figure 43: View from the penthouse deck at the Banner Building.

Offer something special in a marginal location. As compensation for the condition of the immediate neighborhood, both Laconia and the Banner Building offered incredible views from the upper floors. At Laconia, penthouse owners had expansive views of the Boston skyline from Downtown to Fenway Park. When the Banner Building was constructed, units on the upper floors had direct views of Seattle's northern waterfront which Rolstad expected to preserve through development restrictions on the adjacent parcel. In both cases, gentrification of the surrounding neighborhood proved to be a curse with regards to the views. Rolstad's efforts at the Banner Building failed, and the views have now been obstructed by a 12-story luxury residential building. Laconia Lofts is now surrounded by developments comparable to its height and density—Rollins Square to the west and Dover Lofts and Gateway Terrace to the east. ARTBLOCK takes a similar approach to create more value in the market-rate units. Like Laconia, the market-rate lofts are located on the upper floors of the buildings;[185] however, the views from these levels are already obstructed by surrounding development. To compensate, many have expansive decks and large window areas.

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[185] Ten of the 22 market-rate units are lofts; twelve are two-story townhouse-style units located on the first and second floors facing East Newton and East Concord Streets.

Artists' situation

If maintaining artists' space is a City priority, **live/work legislation must be carefully written to preserve existing artists' space in their neighborhoods.** Developed almost entirely within market constraints, the Banner Building had no legal obligation to reserve units for artists. The only units subject to any restrictions were three of the six rental units in Building B which were simply designated as income-restricted. Because the building was sold immediately after the project's completion to an individual with no connection to Rolstad's original vision, it was not reserved for artists or creative individuals. However, the marketing strategy in the main tower, Building A, targeted the creative community and was successful in selling several units to artists.[186] Because of the community that the project has created within the building and surrounding its development, it is likely that a certain number of the units will always be occupied by creative individuals. With the direction that the market is pushing prices, however, they will have to be exceptionally successful individuals. While only partially regulated at the time,[187] Laconia's affordable units are now resold through a city-controlled process (the BRA's Artist Certification program). The sale prices of the units are capped at 5% per year appreciation (plus an allowance for improvements), and the BRA has the right of first refusal on each unit that goes up for sale. This restriction allows the BRA to purchase units from all owners looking to move and resell them to certified artists who meet income eligibility requirements. ARTBLOCK 731 will use the same BRA process to certify buyers for the 32 affordable units. These units will have deed restrictions in place similar to those at Laconia.

Therefore, while the artists in Belltown are in danger of extinction, Laconia Lofts has spurred an entirely new arts district in the city of Boston. Other new construction projects in the area have chosen to include artists' space to fulfill affordable housing requirements, and SOWA has been transformed into the destination of choice for avant-garde and contemporary art in Boston. ARTBLOCK will contribute even more artists' housing and a cooperative gallery to the district.

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[186] According to Rolstad, as of May 2004, at least five units were occupied by artists and an additional two were occupied by art collectors.
[187] The term "partially" is used because McLaughlin, not the BRA, chose the initial buyers for the project.

Without deed restrictions, gentrification spurred by artists will eventually price them out of the market. Restrictions, however, should be placed at the unit or building level rather than the neighborhood level. If entire areas are reserved for artists,[188] then artists will be unable to take advantage of the benefits that gentrification brings. When many buyers, both artists and market-rate, are willing and able to move into a neighborhood, the influx of new residents and new capital creates a safer place with more amenities such as restaurants, cafes, and grocery stores. More significantly, the new residents comprise a market for the artists' work—literally in their backyards. By implementing artists' restrictions at the unit level, space for artists is preserved while neighborhood evolution is allowed to proceed.

An artist certification process established in conjunction with land use policy changes can prevent non-artists from taking advantage of the housing stock and subsequently forcing rents up to market levels. Such policies, however, are only effective if they are enforced. In SoHo as well as TriBeCa and NoHo, New York City's lax enforcement of its certification policy in the 1970's and 1980's has led to the ultra-chic and expensive neighborhoods that exist today. In San Francisco, an amendment to the zoning code[189] led to the overbuilding of new "loft" space in SOMA mentioned in Chapter 1. With no way of certifying artists and a lax attitude on the development of the former industrial area, the San Francisco planning commission effectively fueled the speculative commercial and residential development which priced the "native" artists out of the market.[190] Therefore, if there is no system by which artists are classified, artists will be forced to compete on the open market for live/work space as projects evolve into market-rate loft housing. If this transformation does not take place during the initial sales phase, resales will inevitably go to the highest bidder whether or not he or she is an artist.[191]

[188] This possibility can be seen in the Boston Zoning Code. While no areas are exclusively reserved for artists, they are the only group which can live in an industrial zone. With little manufacturing demand for urban industrial property, these areas are desirable only to artists.
[189] The 1978 Code states "dwelling units which are integrated with the working space of artists, artisans and other crafts persons shall be permitted as an accessory use to such working space" as of right in commercial and manufacturing districts. The ordinance was broadened in 1988 to allow encourage live/work space in industrial districts.
[190] Coupland, Ken. "The death of live-work: San Francisco's recent loft-building frenzy offers painful but valuable lessons." Metropolis, June 2002, v. 21, n. 10, p. 60.
[191] An exception to this is the limited equity co-op, where units are deed restricted for sale to other artists, typically as certified by the building association.

Without deed restrictions, the developer who has reserved units for artists has created only a temporary artists' project. In addition, he/she is likely to have missed potential profits by selling all the units to a limited market with lower-than-average income.

Affordability

Developers should be prepared to get fewer artists' units than originally planned. The actual number of artists' spaces delivered in the Banner Building and Laconia Lofts was much lower than the developers' original intentions. Rolstad's vision of creating a "community where struggling artists could live with more established ones"[192] at the Banner Building was eroded by the need to sell units in a slow economy. While the Seattle Times blamed this loss of vision on the "current owners…marketing the units not only to artists as originally intended, but to anyone with sufficient cash,"[193] this was the only way to realistically sell the remaining units—"no artists in the city could make enough to live there."[194] At Laconia Lofts, McLaughlin originally proposed that 45 of the 99 planned units be reserved as affordable for artists, but reports in the Boston Globe and Boston Herald from the early 2000's state that the project housed less than 20 artists. Reasons for this are varied. One can assume that the changes in the project as a result of the public review and design development processes significantly increased its cost, thereby reducing the number of affordable units the developer could afford to build. Second, five of the 28 affordable units were double-sold to artists who needed additional space. Third, because there was no controlled artist selection process, some of the affordable units may have been sold to non-artists.

It will be interesting to note the actual number of artists' units created in the ARTBLOCK project. With a portion of the community review process and final construction bids still outstanding, the project is likely to undergo several additional changes before completion. Because the land disposition

[192] Pearson, Clifford A. "Building Types Study 722/multifamily housing: coming housing that looks like America." Architectural record, January 1995, v. 183, n.. 1, p. 84-93, 107.
[193] Hinshaw, Mark. "Lofty Ideas—people in the arts are finding more Seattle buildings that provide both dramatic homes and practical work spaces." Seattle Times, 28 January 1996, p. G1.
[194] Phone conversation with Sharon Parmenter, marketing agent for the Banner Building, 8 April 2004.

agreement[195] between the BRA and the developer is not due to be signed until just before the commencement of construction, the project's program is somewhat negotiable until that point. In the meantime, the community review process is not likely to result in any savings in construction costs, as contentious issues include the current design's use of (less expensive) non-brick cladding and a significant reworking of the garage entry location. Another outstanding issue is the mix of moderate-income units that is provided in the project. Currently, all of the affordable units are designated for individuals earning 80% or less than median income. Some community members, however, have expressed an interest in expanding the mix to include individuals at lower income levels. If the inclusion of very low income buyers cannot be accommodated by raising the required income of other units to 100%, 110% or 120% of median, then some artist-affordable units will have to be eliminated. Finally, the inclusion of several of the 32 planned affordable units at ARTBLOCK is dependent upon the project receiving $750,000 in Massachusetts state affordable housing funds. The City of Boston, state and local arts advocacy groups, and New Atlantic Development are lobbying to get the state to reverse its stance on affordable housing funds for artists' live/work spaces. If they are unsuccessful, the project will inevitably lose some affordable units.

Changing policies, market dynamics, community feedback, or a combination of the three can cause a reduction in the number of artists' units in a particular project. In any case, the potential loss of planned artists units should not be considered a shortcoming of the project, as each artists' unit is one more than existed before. On the other hand, if public subsidy is used in a project, one can question the efficient use of public funds if building costs skyrocket due to the code provisions (fire suppression, waste disposal, specialized building features, etc.) associated with building artists' space. In some cases, the cost of compliance may result in a substantial reduction in the number of planned artists' units, thereby reducing the intended artists' benefit created by the policies.

Explore the use of subsidies to create a significant number of affordable live/work units. At Laconia and ARTBLOCK, land and

[195] The land disposition agreement outlines the terms under which the BRA will sell the parcel and the terms under which the developer will buy it.

cash subsidies were the "carrots" which ensured artist-affordable units were developed. Without these subsidies and their associated restrictions, the projects would have provided market-rate housing, which may or may not have been purchased by artists, as was the case at the Banner Building. The projects would have only been able to afford a very limited number of artist-restricted affordable units. Subsidization, however, poses difficult questions at the policy level: Why should affordable units be reserved for a particular occupation (such as the arts)? How is the level of subsidy determined? Should money be distributed at the federal, state, or local level? Based on the lessons learned in this thesis, the arts are a valuable resource that can and should be supported with some degree of subsidy for live/work spaces. Artists' live/work projects can and do spur neighborhood transformation and economic development. The subsidies for artists' space, however, should supplement, but not replace, those that exist for traditional affordable housing. Currently, potential funding sources include Low-Income Housing Tax Credits (for rental projects), Community Development Block Grants, and HOME Investment Partnership funds (where available) as well as land write-downs and cross-subsidies.

If no subsidies are available for a particular project, it may still be possible to create affordable live/work space for artists. If the inclusion of affordable space is not mandated by the City, then it takes a developer who is dedicated to artists' housing to provide these affordable spaces. However, if the City has inclusionary housing requirements that mandate a certain percentage of affordable units in a new construction project, artists' live/work space might be a more attractive option than traditional low- and moderate-income housing, as Jack McLaughlin found at Laconia Lofts.

Regardless of funding availability, **cross-subsidy creates a valuable opportunity.** In an established market, developers may be able to capitalize on high profits from market-rate sales to subsidize affordable units. The mix of artists and professionals in each project is very unique, and both Laconia and the Banner Building provide interesting insights into the way artists are perceived by the market and the way that they and professional buyers might relate to one another in a living situation. The real estate market's perception of artists' space in Boston versus Seattle in the 1990's was quite different. At Laconia Lofts, the presence of artists was used to sell the project and succeeded, while a similar strategy at the Banner Building was abandoned. McLaughlin saw a "synergy" in artists. Mandated as a mixed-income project by the BRA, Laconia Lofts' success was partly based on the idea that artists are an asset and can increase the value of the market-rate units. Although artist space was not specifically required by the RFP, McLaughlin foresaw that artists would be perceived by the market-rate buyers as better—or at least more interesting—neighbors than the average lower-income buyer[196] and possibly more interesting than the average market-rate buyer. In this manner, the project came off as a substantially mixed-income project with all of the units under agreement before construction was completed. In addition, Laconia boasts some of the highest market-rate resale values in the city of Boston, a proposition that was highly unlikely at the time. In contrast to Laconia Lofts, the Banner Building abandoned its "artists' building" marketing strategy to appeal to the broader Seattle market. Mark Glass of Hadley Holdings saw the presence of artists in the building as a liability and implied that those who pre-purchased units were not "the kind of artists" who the average person would consider to be such.[197] Whether this generalization was true or not, beyond the first 10 pre-sales, absorption at the Banner Building was very slow.[198]

Be prepared for tension in mixed-income environments. When a project includes a wide range of incomes, the inevitable conflicts of interests between the income groups can lead to tension. While this issue is not specific to artists' projects, it is particularly important to consider if one plans to cross-subsidize artists' affordable units. If artists maintain a majority presence in ARTBLOCK, as proposed, will they be seen as an asset, a detriment, or of no concern to the market-rate buyers? The financial and sales success seen at Laconia Lofts may not have existed due to the mix of artists and market-rate buyers, but rather the fact that the units presented such a unique opportunity. The token number of artists may have lent an air of edginess to the project, but had relatively no effect on the market-rate buyers' daily lives or their decisions to buy in the first place. As a majority,

[196] Anecdotal evidence provided in a phone conversation with David Hacin, 26 March 2004, who contrasted Laconia with a similarly mixed-income project adjacent to it (Rollins Square, constructed 2002-2003). Some market-rate buyers, he said, have been dissatisfied with their low-income neighbors, whose families have grown much larger than originally represented.

[197] Phone conversation with Mark Glass, 5 April 2004.

[198] According to Mary Alice Shea, a Seattle realtor, the other problem with selling units at the Banner Building was that Seattle buyers "have no imagination" and find it difficult to visualize a home in shell space. Phone conversation, 8 April 2004.

the living and working habits of the artists at ARTBLOCK will have a pronounced effect on the project's community at large.

The low- and moderate-income artists at Laconia have had very public disagreements with the market-rate residents concerning capital improvements in the project (see Chapter 7). The mix of incomes at ARTBLOCK is also likely to create some tension between the upper- and lower-income groups. While Laconia's artists only comprised about 20% of the project's total residents, the presence of artists at ARTBLOCK will have a significant effect on the voting structure of its condominium association. At a basic level, artists will have a majority presence in terms of the number of units allocated to them. On the other hand, the market-rate buyers will have a majority presence in terms of the value of their units. While this makes sense in terms of percentage ownership of common areas, the actual decision-making power of each group is likely to be contentious. It makes sense that the market-rate buyers, who can afford to bear more of the cost of capital improvements and other costs, have a higher proportion of ownership with respect to condominium fees and capital reserves. On the other hand, this higher proportion of ownership also means that the market-rate owners could have a majority voice in the decision-making structure of the condominium *despite the fact that they are a minority* in terms of numbers of units. In particular, the lifestyle differences and priority conflicts between artists and market-rate buyers can exacerbate tensions beyond mere financial issues. When the presence of artists is used successfully as a marketing tool, the artists in these situations are left feeling "used" for their general economic benefit rather than respected for their individual work.[199]

Anticipating issues such as condominium fees and resale logistics and setting up a structure which would be amenable to both artists and market-rate residents as well as the city at the project's outset creates a better working and living relationship between all groups. One way to avoid these conflicts is to create a one unit/one vote condominium structure in which a supermajority is necessary to pass any changes to the condominium documents or approve any building improvements. The supermajority limit can be set at a level which requires both market-rate and artist-affordable buyers to approve the changes. For instance, in a 50/50 market/affordable project, a 66% majority

[199] This is not limited to artist housing, but a general sense of dissatisfaction amongst artists in cities' capitalizing on their creativity (through arts districts, arts events, etc.).

might be required. In order to make sure that funds are always available for capital improvements, the condominium can be structured to require a certain contribution to capital reserves each month. New Atlantic is considering such a structure at ARTBLOCK in order to avoid the conflicts that have been raised at Laconia between artists and market-rate buyers. In any case, this issue is not exclusive to artists' live/work space. Other mixed-income projects have had to address these issues as well.

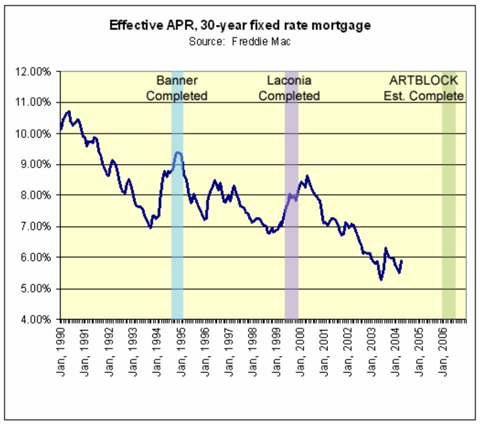

Figure 44: Mortgage interest rates, 1990-2004.

Interest rates will have a profound effect on overall affordability. The three cases also illustrate the effects of higher interest rates on unit- and project-level affordability. In 1994, interest rates were substantially higher than they were in 1999 or 2004. If the least expensive ($155,000) unit at the Banner Building were purchased in March of 2004 rather than late 1994, it would have required an annual income of $36,000 to afford, significantly lower than the $50,000 income required in 1994. Similarly, the median presold unit would have required a $40,000 annual income instead of the $55,000 required in 1994. Both of these units would have been affordable to one- and two-person households earning the Seattle median income at the time. Project-level affordability is similarly affected. While actual financing costs are not available for the Banner Building, one can see that the developer's loss on the project would have been greatly reduced by lower interest rates on the construction loan. The compounded interest on the debt financing and, therefore, the loss incurred by carrying debt through years of slow sales, would have been less significant in an era of less expensive capital. ARTBLOCK is banking on low interest rates to ensure the affordability of the units and the developer's fee. If interest rates rise significantly before project completion in 2005, the developer may be forced to renegotiate his agreement with the BRA or reduce his fee.

Suitability

Laconia and the Banner Building clearly illustrate the **tradeoffs between price and space when developing affordable units.** Artists are particularly affected by this situation. They need larger studio spaces for living and working than the average person needs for simply living. Units at Laconia were priced to be accessible to many artists in the area; however, several found the spaces under 1,000 SF to be less than adequate for their needs. These buyers purchased two units, thereby leading some to question their "need" for affordable space in the first place. At the other end of the spectrum, the 1,600 SF units at the Banner Building were suitable for the buyers' needs, but out of the reach of the average Seattle artist. Learning from Laconia, the BRA has mandated that all artists' spaces be at least 1,000 SF at ARTBLOCK. While this requirement was followed in both of the proposals (New Atlantic's and another developer) submitted to the Authority for the redevelopment of the Bates School parcel, neither was able to achieve the requested levels of affordability outlined in the RFP.[200]

Live/work units must be delivered in habitable condition. The extra layer of time, money, and effort required to fit out raw space may put the finished product out of reach for the "starving artist." Banks require detailed plans and specifications before lending money for interior improvements, and city policies often mandate that owners employ professional contractors to perform extensive interior work. The time and expense associated with these levels of planning and approval can substantially increase the base cost of materials and labor, even in a lower-budget job. At the Banner Building, one resident claims to have invested over $100,000, plus his own labor, in fitting out his 2,100 square foot unit. At the other end of the spectrum, many artists at Laconia Lofts claimed that $10,000 was insufficient to create the spaces they needed, even though the units came equipped with a kitchen and bathroom.[201]

A buyer can move into a minimally-finished unit as soon as building construction has been completed, thereby avoiding the need to maintain two places of residence during the fit-out process. The owner can decide, while living in the unit, the level of finish he or she desires. This decision can be based on the amount that the owner is willing to spend on the fit-out as well as the degree to which the city needs to be involved in the process. If an owner has little extra money, he or she may choose to make little or no improvements in the unit with no city involvement at all. On the other hand, if the owner has substantial reserves for the fit-out of the space, he or she may elect to hire an architect and a contractor and go through the process of obtaining a construction permit and another certificate of occupancy after the

[200] New Atlantic came close, though!
[201] The degree of "need" that these particular artists had, however, might be considered excessive.

fit-out is complete. The advantage of the Laconia units being delivered in habitable condition was that the artists could do much of the additional fit-out work themselves without the need for additional ISD approval. In this manner, artists could live in their units and invest sweat equity in them over time. Units that are not delivered in habitable condition, such as those at the Banner Building, do not offer this option.

On the other hand, fit-out beyond the bare minimum could mean the difference between unaffordable and affordable to some artist-buyers. Because building codes are designed to articulate the minimum acceptable standards for livability, the local code can and should be used as a guideline for project finishes. All units at ARTBLOCK will be finished to a minimal, albeit quite habitable level. Although there are no provisions in place for buyers who wish to perform their own fit-out, the developer hopes to avoid much of Laconia's "chaos" by offering upgraded finish packages to market-rate buyers. Presold units will offer the option for buyers to pay more to have additional, higher grade appliances and finishes which will be installed during the building construction process.

If a project does offer customizable spaces, there must be a well-controlled process for managing the fit-out contractors. Having multiple independent contractors working on multiple individual fit-outs creates a chaotic environment at the project site. Such an environment is disruptive and can create headaches for the residents, the developer, and the contractors and subcontractors working on the building. Learning from the fit out chaos at Laconia Lofts, the development team at Wilkes Passage, a market-rate loft project across the street, has taken advantage of strong property management and strong construction management to institute a clear process for unit fit-out. Interior plans and contractors are subject to approval by the management, and contractors are strictly limited in their access to the building, both in terms of where they are allowed to go and the hours during which they can work. This process, of course, is enabled by the fact that Wilkes Passage is a luxury development where more expensive amenities, such as strong property management, are expected by the buyers.

Compliance

Zoning and building code policies should address artists' live/work space. While artists have historically been willing to live and work under the zoning radar, it is impossible to construct a new building without attracting the city's attention and, in many cases, requiring its approval. If changes to the zoning code are required, the time and risk involved with obtaining a zoning variance creates enough of an impediment to a project that a developer is significantly less likely to pursue it. When cities adopt clear policies which articulate guidelines for artists' space and smooth the development process, it significantly reduces the amount of risk that the developer must bear. With less risk and less need for capital in the form of equity or additional profits to cover that risk, live/work projects become more attractive to developers and more affordable to artists at the same time. The Banner Building and Laconia Lofts were developed in cities with specific provisions for artists' live/work space and on sites which required minimal changes to the underlying zoning. While each project required a certain degree of planning and zoning approval, the changes requested were not major, and it is not uncommon for most projects in urban areas to be faced with the same need for some changes. ARTBLOCK, on the other hand, requires a substantial variance from the underlying zoning because it proposes artists' mixed-use in a strictly residential area.

Building codes were a significant hurdle at the Banner Building and Laconia. Fit-outs at both projects created a significant degree of inefficiency in the closing and occupancy certification process. Both buildings required many visits from the building inspector, as certificates of occupancy were issued unit-by-unit when the fit-out work was complete. Some buyers at the Banner Building and Laconia would have been greatly aided by changes in the building code—a less rigid building inspection process would have allowed them to transform their spaces gradually and with their own sweat equity, rather than hiring contractors to perform all the work at once.

The ideal building code and construction permitting process would understand the value of sweat equity and recognize that many individuals, especially artists, like to express their creativity in the design *and construction* of their own spaces. Licensed contractors should be required for more technical work, such as electricity and plumbing, that is installed before the unit is delivered.

Figure 45: Loft renovators on Harrison Street, Tribeca NYC, 1975.

However, the codes should allow additional construction to be designed and installed by the purchaser over a long period of time. With such codes, new live/work projects could mimic the evolution and organic transformation of old warehouses and manufacturing lofts.

Feasibility

Design and building code restrictions will impact project costs. Overly restrictive design guidelines will inevitably result in a more expensive project, and therefore, lower affordability. There are substantial differences in the case studies' construction costs. These differences reflect the design and building code restrictions in place at the time they were built. Even when corrected for time and geographic differences, the three cases illustrate a wide range of per square foot construction costs. Pushing the boundaries of Seattle's architecture at the time, Ed Weinstein created a building in Belltown that is seen as highly distinctive and very well designed. His ability to create the Banner Building was not the result of a high construction budget--rather, the opposite was true. Rolstad required him to design a building as inexpensively as he could possibly build. The structure was not subject to a design review process, yet the City of Seattle was given an innovative design which was constructed for $65/sf. If the project were built in Boston in 2004,[202] it is projected to cost only $90 per square foot.[203] Laconia Lofts and ARTBLOCK, on the other hand, were subject to an extensive array of design restrictions for Boston's South End Landmark District. The projects were subject to a shopping list of design requirements, one of which was the use of brick exterior cladding, a very expensive material. Partly as a result of these requirements, Laconia Lofts would cost nearly $150 psf to build in Boston in 2004, while ARTBLOCK is projected to cost over $180 psf. Jack McLaughlin and New Atlantic could have reaped substantial savings by using more cost-effective cladding materials, and those savings could have allowed for more artists' live/work units.

	Price psf when built	Normalized to Boston 2004
Banner Bldg.	$65	**$90**
Laconia Lofts	$128	**$144**
ARTBLOCK	$182	**$182**

Table 5: Construction cost comparison chart. (Source: Means Construction Cost Index, 1994-2004)

Other reasons for the high construction cost at ARTBLOCK are the extensive building code requirements imposed by the BRA. In its efforts to ensure each unit in the project accommodates the widest array of artists' needs, the BRA

[202] See Chapter 6 for details on construction cost estimates.
[203] While this seems like an incredibly low amount, it is based on the Means Construction Cost Indices between 1994 Seattle and 2004 Boston.

has significantly raised the cost of the spaces. Expensive, individually-vented and -operated ventilation systems do effectively clear hazardous fumes, but they are not necessary in every unit. Industrial-strength fire protection systems and insulation suitable for open flames certainly aren't needed for the average painter. The inclusion of these requirements in ARTBLOCK leads one to wonder what sort of limitations, if any, will be put on the artists' activities in their units. The BRA requirements also mandate the inclusion of "new technology" wiring in artists' live/work construction. In Boston, the latest wiring is only offered in new luxury condominiums for a reason—it is costly. The wide hallways for moving artworks and materials at ARTBLOCK result in an 82% efficiency factor, further increasing the cost per sellable square foot in the project.

Therefore, neighborhoods targeted for new artists' live/work projects should allow for more creative and innovative construction than might otherwise be acceptable in other, more established areas of the city. Less restrictive design guidelines will have three advantages:

- the building can reflect the creative activity inside;
- the building itself can be considered a form of artistic expression; and
- less expensive construction techniques can be used to provide greater affordability.

At the interior level, cities should not get too involved in what features are and are not included in the project. At ARTBLOCK, the long list of interior requirements forced New Atlantic to look to the state for grant funding that has historically been off-limits to artists' live/work space. Without this funding, the project as planned—and the features that the BRA has deemed necessary—will be unfeasible.

Presales and creative financing are necessary in areas unfamiliar with the live/work concept. Banks and other financing sources did not think of the arts, artists, and cultural facilities as within their traditional client base when the Banner Building and Laconia were developed. In fact, these institutions often perceived art as an unstable occupation and were hesitant to provide mortgages to artists for a single unit, much less finance an entire artist-oriented project. The unconventional nature of the loft spaces only added another layer of financing difficulty. Laconia and the

Banner Building both required a significant number of presales for city approval and/or financing. The Banner Building would have never been built without presales. Rolstad's ten pre-buyers, each bound by a $25,000 investment, constituted the project's financial foundation. Because Rolstad herself had no cash equity in the project, these initial commitments made it possible to pay for some of the preconstruction expenses and secure an interested construction lender. [204] According to one account, some buyers went beyond this initial seed money and provided additional funds to bail Rolstad out so she could continue to develop the project.[205] Before submitting his Laconia proposal to the BRA, McLaughlin had over fifty individuals who had committed to buying units in the project,[206] although it is unclear if these were binding commitments. Regardless, it was the buyers' level of confidence in both McLaughlin and the loft space concept which gave this edgy project a leg up in obtaining construction financing, BRA approval, and the necessary equity investment.[207] Several factors, however, point toward smoother financing for projects like Laconia and the Banner Building in the future. Since the tech bubble burst in 2000, individuals and institutions have found real estate to be a very attractive investment vehicle. The plethora of capital that is available for investment in real estate makes it easier to find financing for any development project than it was in the mid- to late- 1990's. In addition, the booming housing market of the early 2000's has given credence to many marginal neighborhoods as viable real estate investment opportunities.

While presales are desirable, they are not necessary at ARTBLOCK in the same way that they were at the Banner Building and Laconia. This is due to three factors, none of which were present at the time of the other projects' development:

- the construction of new lofts is no longer a new concept;
- the project is heavily subsidized; and
- the condominium market in the area is very strong.

[204] When Hadley purchased the project, there were additional preconstruction debts outstanding, although the specific amount is not clear. Although both Glass and Rolstad agree that Rolstad arranged for the construction financing, it was closed in June of 1993 under Hadley Holdings.
[205] Conversation with Sharon Parmenter, 8 April 2004.
[206] Laconia Associates. Laconia Condominiums, BRA Parcel SE-120. Cambridge: Laconia Associates, 14 February 1996.
[207] McLaughlin had arranged buyer commitments prior to construction financing and BRA approval. Equity was the final step.

Although loft construction is fairly widespread in large cities in the United States, there are very few areas which are familiar with new construction of affordable live/work space for artists. While lenders may choose to underwrite the projects as market-rate loft housing (see Chapter 3), developers may still be subject to presale requirements and construction loans with lower-than-average LTV's.

Artists' live/work space is best developed by experienced developers. Artists rarely have the expertise necessary to develop property, evidenced by a small array of "how-to" guides for artists who wish to develop their own live-work space.[208] Most acknowledge that it is extremely difficult for artists and other non-professionals to engage in real estate development, and that many artists who have done so "emphasize clearly it is not an effort they wish to repeat."[209] Because of the complexity inherent in real estate development, there is a loss of efficiency (and therefore, money) when non-professionals attempt to develop property.[210] If artists who have developed space are not repeating their efforts elsewhere, each new artist-oriented development attempt *by an artist* has a steep learning curve to overcome. This learning curve represents additional time and money spent. A developer's experience will bring both time and money savings to the project, savings which can be represented as lower costs for artist-residents.

Koryn Rolstad realized that she didn't have the expertise to see the Banner Building through the construction phase. The project's bottom line suffered because she did not have the same realization about the marketing process. Laconia Lofts had the advantage of a highly passionate and very experienced development team and, despite a few glitches, the project was very successful. Based on New Atlantic's track record, ARTBLOCK is headed for a similar successful outcome.

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[208] Several include Kartes, Cheryl. Creating Space: a guide to real estate development for artists. New York: American Council for the Arts, 1993; "Space for Artists 2002," City of Seattle, 2002; Lipske, Michael. Artists' Housing: creating live/work space that lasts. New York: Publishing Center for Cultural Resources, 1988; and to an extent, Community Partners Consultants, Inc. "Creating Artist Space: Report to the Boston LINC Working Group," 2004 (this report is aimed toward artists as well as "funders, developers, finance professionals, and public officials").

[209] Community Partners Consultants, Inc. "Creating Artist Space: Report to the Boston LINC Working Group," 2004. This sentiment has been echoed many times by Koryn Rolstad, the artist-turned-developer of the Banner Building in Seattle.

[210] This is no way implies that a novice developer cannot make a profit.

As more and more cities stand poised to capture the benefits of their creative economies, issues surrounding the development of artist live/work space will emerge as one of many considerations in the development of arts policies and arts districts. When cities decide that ensuring spaces for artists to live and work is an essential aspect of these policies, they have to consider *the conditions under which new artists' live/work projects are attractive to developers.* The specific conditions and guidelines presented in this chapter organize a framework for the development of new artists' live/work space which is presented in chart form on the facing page. More general conclusions about the new artists' live/work development follow the chart before concluding the thesis with an epilogue.

Guidelines for the Development of New Artists' Live/Work Space

1.	**Consider marginal areas for new artists' live/work projects.**	Try to use project as a catalyst for revitalization. Focus capital on providing affordability, rather than land purchase.
1a.	**…and offer something special in a marginal location.**	Capitalize on positive aspects of site and project: views, proximity to city or waterfront, creative orientation, etc.
2.	**Live/work legislation must be carefully written to preserve existing artists' space in their neighborhoods.**	Resale restrictions should be placed at unit or building level and ensure that units are reserved for artists at a limited appreciation rate.
3.	**Developers should be prepared to get fewer artists' units than originally planned.**	Avoid policies which increase cost of developing artists' space.
4.	**Explore the use of subsidies to create a significant number of affordable live/work units.**	Use state, local, and private sources to underwrite cost of affordable units.
5.	**Cross-subsidy creates a valuable opportunity.**	Mix artists' and market-rate units.
5a.	**…but be prepared for tension in mixed-income environments.**	Develop condominium policies which require a supermajority for any changes. Mandate regular capital reserve contributions.
6.	**Interest rates will have a profound effect on overall affordability.**	Consider interest rate trends when planning a project.
7.	**Size matters, but it is at odds with affordability.**	Build units with 1,000 SF minimum. Include larger units for artists who need them.
8.	**Live/work units must be delivered in habitable condition.**	Don't expect artists to be able to afford the time, effort, and expense of fit-out.
8a.	**…but if a project does offer customizable spaces, there must be a well-controlled process for managing the fit-out contractors.**	Develop plan for resident fit-out before construction begins. Management should approve all fit-out contractors and strictly control their access to the project.
9.	**Zoning and building code policies should address artists' live/work space.**	If artists' provisions are not already in place, work to change zoning and building codes at the policy level. Allow residents to perform fit-out.
10.	**Design and building code restrictions will impact project costs.**	Avoid historic districts. Be very familiar with city's building codes before pursuing project.
11.	**Presales and creative financing are necessary in areas unfamiliar with the live/work concept.**	Capitalize on project's unique features to sell concept to equity partners and sell units to buyers. Be prepared to raise more equity than usual.
12.	**Artists' live/work space is best developed by experienced developers.**	Artists should partner with experienced developers to make the development process more efficient.

Conclusion

While these guidelines illustrate some of the many factors to consider when developing new artists' live/work space, there are several overarching points. First, **policy support is an essential piece of the artists' space puzzle.** As with any development project, support of the local government is necessary, but artists' live/work space requires special considerations above and beyond that of traditional affordable or market-rate development. Without specific policies concerning artists' space, developers and artists are forced to navigate a regulatory maze between residential and commercial construction and use. Local and state governments, however, should go beyond merely acknowledging live/work as a legitimate use. Subsidies, zoning, and building codes should support artists and their work by encouraging the development of affordable live/work spaces. With institutional assistance, the development of artists' space will not be left to the rare and frustrated artists determined to "take on the system." Rather, it will be an attractive option for real estate developers interested in pursuing artists' live/work projects. With well-informed artists' space policies, cities will find that their arts communities are vibrant and sustainable while substantially contributing to the local economy.

These policies however, can go too far. When the development of artists' space is institutionalized, it loses many of the qualities which have made loft space an affordable an attractive option for artists. If cities get too specific about what is and is not necessary in the development of artists space, as the BRA has done at ARTBLOCK, project-level affordability suffers. If SoHo artists of the 1970's were required to meet a long list of requirements above and beyond the building code, their spaces would not have been nearly as affordable as they were. In practice, each artist determined his or her needs, then chose loft spaces and installed features which were necessary to his or her particular work. With their widely varying needs, it is short-sighted and uneconomical to create live/work spaces which can be all things to all artists. Therefore, while policy support is essential, **policy control can destroy that which makes artists' spaces unique, functional, and affordable.**

Finally, the framework illustrates that **while there are many hurdles associated with developing artists' space, there are also many significant possibilities.** Not only do artists have the potential to revitalize neighborhoods but, at the project level, affordable artists' space introduces an additional dimension to new development and mixed-income projects. Artists' live/work spaces can and should be organic in nature, evolving to suit the residents' needs and inspirations. This dynamic environment can be attractive to market-rate buyers looking for something beyond the traditional apartment or condominium. For some developers, these concurrent demands for flexibility and innovation in a project present an exciting challenge not found in other niches.

It is this mix of policy support and creative thinking which forms the ideal environment in which the new construction of artists' live/work space might be attractive to developers. While there are many nuances to this observation, these two basic elements—policy at the government level and creativity at the developer level—form the conditions under which live/work space can be successfully developed to the benefit of artists, the developer, and the community at large.

Epilogue

In the initial phases of this thesis, I had hoped to discover—against all odds—how affordable artist space might be created by the market without subsidy assistance. However, I quickly learned that live/work loft spaces, while slightly more affordable to build than traditional housing, remain out of reach for most artists.

The larger lesson I learned, however, is that developing artists' space takes a unique commitment. Whether initiated by the city or by the developer, a successful artists' live/work development poses challenges beyond those of creating affordable and suitable space. Artists tend to be highly educated individuals who are very clear about their needs. In addition, their financial constraints are usually significant. A developer working to meet their needs is confronted with levels of regulatory and financing complexity which go beyond that of most residential developments. Neither highly-specialized projects nor highly-affordable development is rare, but achieving the combination of those attributes in the midst of an active and vocal community, such as that of space-threatened artists, is a challenge.

While challenging, developing artists' space can also be very rewarding. My conversations with Koryn Rolstad invariably turned to the Belltown community transformation in which the Banner Building and its residents have played a significant role. Surely if Jack McLaughlin were alive today, he would continue to marvel at Washington Street's metamorphosis following the construction of Laconia Lofts. Now on his second artists' live/work project at ARTBLOCK, Peter Roth may have found a new niche for New Atlantic Development. One can imagine that the reward of seeing neighborhood improvement, and occasionally transformation, spurred by a new development project is not easily matched.

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