The Rainin Arts Real Estate Strategy

A collaborative strategy connecting resources in the community to the real estate needs of arts and cultural organizations.

Kenneth Rainin FOUNDATION

A Message To Our Readers

In 2012, the Kenneth Rainin Foundation embarked on an unusual journey in response to the escalating displacement crisis facing the San Francisco Bay Area arts community. The problem was particularly acute in San Francisco, where the already high cost of real estate and rents combined with an enormous influx of workers to fuel the region's booming high-tech industry. A growing exodus of arts groups and individual artists threatened the city's vibrant cultural identity and its diverse arts communities.

Together with other community leaders—including some of our most progressive thinkers on creative finance and nonprofits—we set out to address an issue that was impacting a field we believe is vital to our quality of life. Driven by the spirit of collaboration and innovation that is at the heart of the Rainin Foundation's programs, we came together with partners who were willing to challenge the status quo, test creative ideas and share knowledge.

We did not start out to establish a new organization, let alone one that is arguably a new category of nonprofit. But our work together led to the creation of the Rainin Arts Real Estate Strategy and, with a "big bet" grant, the founding of the Community Arts Stabilization Trust (CAST).

The path we've taken has not been straight or smooth. There were many unknowns and, as a volatile real estate market continues to displace and destabilize Bay Area nonprofits, the dynamic environment challenges past assumptions in the arts, community development and nonprofit finance. So, as part of the Rainin Arts Real Estate Strategy, we thought that it would be instructive to tell the story of how this work began and evolved.

We hope this brief history of our early journey is useful in advancing work on nonprofit real estate issues in the Bay Area and responding to similar pressures in communities across the country and world. We look forward to working together with you—our fellow funders, city governments, arts organizations and many others—to mitigate the impact of displacement on the nonprofit cultural sector and support the essential role of the arts in our society.

Shelley Trott
Executive Director
Kenneth Rainin Foundation
Oakland, CA
February 2025

Impetus For The Model

The Kenneth Rainin Foundation is committed to the belief that the arts must be integrated into the fabric of civic life—we believe they are essential to positive community development and vital to our region's culture of innovation and diverse cultural traditions. This commitment led staff from the Kenneth Rainin Foundation's Arts Program to meet with Community Vision (formerly the Northern California Community Loan Fund) in 2012, when the growing displacement of San Francisco Bay Area nonprofit organizations was already evident.

Between 2011-2014, approximately 1,860 nonprofit organizations left San Francisco. By 2014, there was concern that the remaining 6,900 were in danger of being driven out due to the high demand and escalating cost of commercial real estate. Among those displaced or facing significant financial disruption were a multitude of arts organizations.

All conditions pointed to a displacement cycle reminiscent of the 1998 crisis triggered by the dot com boom. It was clear that a significant segment of San Francisco's cultural identity and economy was at risk. Here, in one of the top three US cities for artists (after Los Angeles and New York City), rent increases averaging 30 percent and higher were becoming a major challenge for both artists and arts organizations.

The often staggering statistics attracted both national and local media attention. A November 24, 2013, *New York Times* article captured the tension around affordability: "…city officials must grapple with the arithmetic of squeezing more people into… San Francisco's 49 square miles," noting that San Francisco's "median rent is the highest in the country."

In their January 3, 2014, article, the *San Francisco Business Times* reported that rents in San Francisco had increased 69.4% since the market bottomed out in 2010. In the Central Market and South of Market neighborhoods—home to a vast number of tech companies—rents had grown 95%. These are areas that historically have been more affordable and heavily populated with arts and other nonprofits.

Another factor contributing to San Francisco's affordability issue for nonprofit organizations: from 2011-2014, more than 41,300 new jobs—largely for the tech sector—were added, fueling demand for commercial real estate in the city.

In 2015, the TODCO Group, an affordable housing and community development nonprofit, conducted a survey of 644 artists and arts entities in the South of Market neighborhood on the question of displacement and affordable space. Among their key findings, "at least 60% of the spaces rented—over 95,000 square feet in total—are leased from private owners and vulnerable to future displacement due to market-driven rent increases." The average rent was \$1.50-\$2/sq. ft. per month, far below current market levels. In 2017, data illustrated an ongoing problem of unprecedented rental price increases and lack of affordability for nonprofit organizations.

To mitigate an impending displacement crisis that threatened San Francisco's arts and cultural infrastructure, the Rainin Foundation partnered with Community Vision in 2012. Our collaboration led to the development of the Rainin Arts Real Estate Strategy and a commitment of $5 million from the Foundation in seed funding to create the Community Arts Stabilization Trust (CAST), a nonprofit real estate developer.

The Rainin Arts Real Estate Strategy is rooted in a multi-sector collaboration that relies on an innovative financing approach to secure permanent space in urban areas for arts and cultural organizations. The Nonprofit Real Estate Developer or Land Trust is a critical intermediary organization, working exclusively on behalf of the arts and cultural sector to provide an entrée into property ownership. Operating in concert with Community Vision to facilitate the financing, utilizing the New Market Tax Credits Program when possible, CAST helps arts nonprofits gain permanent affordable space and the financial acumen they need to purchase and maintain a property.

In making this investment, the Rainin Foundation aimed to eliminate the prevailing pattern of key arts organizations getting pushed out of cities due to rising property values. Our strategy is designed to ensure that they can sustain the creativity and capacity necessary to promote lively and stable neighborhoods.

Overall, our work was founded on two core beliefs: 1) that the arts drive strong, vibrant, diverse communities; and 2) that sustaining a mix of arts organizations, artists and a community of people diverse in age, race, gender, economic status and cultural background in urban centers, will lead to improved neighborhood health and well-being. We anticipate that the financing mechanisms we employ are applicable in a myriad of creative placekeeping scenarios, to alleviate displacement due to a rising real estate market as well as address other urban development challenges that put the sustainability of the cultural sector at risk.

The Rainin Arts Real Estate Strategy

Inherent to our strategy was the driving ambition to develop permanent affordable spaces for highly valued but threatened critical arts organizations, and to provide the time and space they needed to gain financial stability and the capacity to purchase their own space. It is critical to acknowledge that property ownership is not our only aspiration—nor is it even advisable—for all arts nonprofits. We see it instead as a path to stabilization for a core group of under-capitalized anchor arts organizations that cannot compete in a volatile real estate market.

In early meetings on the issue, Rainin Foundation Arts Program staff, Foundation leadership, and Community Vision senior staff jointly brainstormed solutions to a historical pattern of displacement. An innovative funding mechanism emerged that adapted a model used for affordable housing to the particular constraints faced by small to medium sized arts organizations. Several components were required to set up and operate the mechanism, including bringing funding and the right partners to the table.

Project Participants

The financing mechanism is dependent on the successful collaboration among several key participants, with the interests of threatened arts organizations at the core of our purpose.

These participants work closely together on the organization's path to facility ownership. Participants would typically include one or more foundations, banks, a Community Development Financial Institution (CDFI), the local government and a Nonprofit Real Estate Developer or Land Trust. Over time, additional funding sources are required, augmenting financial and other resources.

The key players and their roles are as follows:

Arts & Cultural Organizations

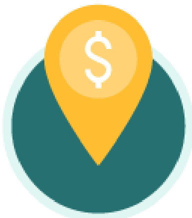
Facing displacement and lacking key capital, assets and real estate expertise.

Private Foundations

Philanthropic entities like the Rainin Foundation provide capital in the form of a grant or program related investment to supply the pool of funds drawn or variously leveraged by other players.

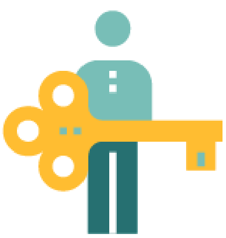
Banks

Using the equity provided by the foundation, a bank offers a line of credit to make more liquid capital available on a timely basis, which is required for the purchase of real estate.



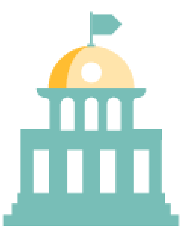
Community Development Financial Institution (CDFI)

A Community Development Financial Institution, such as Community Vision, uses the bank capital to establish an initial pool of funds for the property purchase and increases it by aggregating other funding streams. The CDFI structures both the sources and uses of funds, including foundation support, additional funds borrowed from the bank and equity leveraged through the Federal New Markets Tax Credits Program or other sources. The CDFI may work jointly with the Nonprofit Real Estate Developer or Land Trust or another entity to provide real estate expertise to identify appropriate properties and match them to the needs of each arts nonprofit.



Nonprofit Real Estate Developer or Land Trust

The Nonprofit Real Estate Developer is a stand-alone entity that works with the participants to ensure that the focus remains on a shared vision and goals. In partnership with the local CDFI, a Nonprofit Real Estate Developer or Land Trust, such as the Community Arts Stabilization Trust, purchases and leases real estate on behalf of several organizations. It also helps organizations decide whether to purchase a facility, conducts organizational due diligence and assists with financial planning and capacity building. In many cases, the Nonprofit Real Estate Developer or Land Trust or another entity maintains the pipeline of nonprofits that need help with facilities.



City Government

Municipalities play a variety of possible roles, including leasing or donating property, providing zoning designation, intervening in public policy to encourage access and identifying properties or neighborhoods that are eligible for additional assistance programs. The city can also bolster the case for mitigating displacement, provide supplemental funding for nonprofits to remain in communities and contribute to the conversation on maintaining diverse neighborhoods, among many other roles.

Other Funders

As the need arises for an expanded pool of capital, other foundation, corporate or government funders can augment the resources available to individual organizations and add legitimacy to their case. They can also bolster the process through supporting an individual organization’s capital campaign or operating costs. As the capital pool is developed, various financial instruments are employed including foundation program related investments funds.

Forming An Intermediary Organization

For this financing mechanism to work, the Rainin Foundation needed to find or develop an intermediary organization. The intermediary was initially envisioned as a temporary vehicle that both aggregated funds for the project and disbursed them to arts organizations that needed a permanent facility solution.

As the demand for this work grew, the number of projects in the portfolio of this intermediary expanded, along with the services it was providing from pipeline to due diligence. Additionally, interest from public and private funders increased. It became apparent that, to manage all these activities, the intermediary needed to evolve as its own nonprofit organization with a staffing infrastructure that corresponded to its objectives. Early in 2014, the Rainin Foundation and the CAST advisory committee incorporated CAST as an independent nonprofit.

CAST's mission is to create affordable, permanent workspaces for artists and arts entities in the Bay Area. It implements the real estate strategy for the arts by recycling financial resources and forging unprecedented public-private partnerships. CAST's working thesis is that intervening in the real estate market on behalf of and with arts nonprofits will facilitate smart decisions about securing a permanent home best suited to carrying out an organization's mission. Its efforts will increase sustainability, limit displacement and ensure the vital role of the arts in thriving urban communities.

CAST serves multiple roles and ensures that participants maintain focus on a shared vision and goals. Some of the many roles include:

- Serving as a resource for arts organizations in facility distress.
- Stabilizing rent for nonprofit arts and culture organizations by freezing real estate prices in an escalating market.
- Increasing the financial and technical acumen of cultural organizations.
- Using a variety of financing, including New Market and Historic Tax Credits to bring new capital to arts and cultural facility projects.
- Involving multiple partners such as CDFIs, banks, government agencies and other funders.
- Assisting arts organizations with their capitalization by helping them gain a permanent asset without jeopardizing their operations and programs.

CAST initially focused on small and mid-sized arts organizations with annual operating budgets under $5 million, which are noted for their artistic quality and programs, benefit from their "home" neighborhood and/or community and are well managed.

CAST matches such groups with space that supports their mission and programming and brings together the financing, real estate expertise and individualized technical assistance to secure long-term, below market rate space.

The Path To Ownership For An Arts Organization

PHASE 1

A Promising Partnership

An arts or culture organization facing displacement and lacking key capital, assets and real estate expertise can contact a Nonprofit Real Estate Developer or Land Trust to discuss a partnership. If deemed a promising candidate, the arts or culture organization works with the Nonprofit Real Estate Developer or Land Trust to identify an appropriate facility to buy and undergoes a capacity assessment.

PHASE 2

Financing The Project

Once a facility is identified, the Community Development Financial Institution (CDFI) and Nonprofit Real Estate Developer or Land Trust work with the arts or culture organization to develop renovation estimates and arrive at a final cost. The CDFI packages the project and submits it to the Federal New Market Tax Credit Program. The City may also get involved to negotiate easements, consider properties for enterprise zones, apply economic development funds or facilitate the sale of air rights.

PHASE 3

Lease To Ownership

When the financing package is approved, the Nonprofit Real Estate Developer or Land Trust works with the arts or culture organization on a lease and purchase plan. Over seven to ten years, the arts or culture organization implements a capital campaign and makes below market rate monthly payments to the Nonprofit Real Estate Developer or Land Trust. After that time, the arts or culture organization will have purchased the property at its original sale price and own a permanent home. The Nonprofit Real Estate Developer or Land Trust then recycles the sale proceeds to buy the next property for another arts organization.

Benefits & Challenges

Numerous benefits for nonprofit arts organizations arise from the design of this strategy:

- **Stabilizing assets through fixed-cost ownership.** Costs are essentially frozen at the time the facility is purchased by the Nonprofit Real Estate Developer or Land Trust. This insulates the organization from an escalating real estate market.

- **Participating organizations gain equity without ever carrying debt.** The below-market lease with option-to-buy model limits the risk for the nonprofit while helping the organization acquire an asset. By shifting the risk to the Nonprofit Real Estate Developer or Land Trust, the nonprofit does not jeopardize its sustainability. The result is a permanent asset that will always have an arts purpose.

- **Working with a CDFI.** CDFIs can aggregate projects in a large pool of real estate purchases. This makes the individual property purchases—which are relatively small—eligible for additional investment opportunities. These include the New Market Tax Credits Program, which attracts private capital by providing investors a federal tax credit.

- **Support from the city.** Depending on the municipality in which the project takes place, nonprofit organizations can benefit from the augmentation of city government tools such as transfer development rights, economic development funds, empowerment zones, redevelopment funding, etc.

Our experience implementing this strategy has also revealed several challenging considerations:

- The mechanisms to support the nonprofit arts organizations and each participating entity's role can become complicated. There is a potential overlap of services offered in the nonprofit community, including pipeline maintenance, technical assistance and capacity building services, in addition to financing/lending services.

- Although different partners can play different roles, responsibilities should be clearly defined. The Nonprofit Real Estate Developer or Land Trust plays an important role, supporting the process by centralizing communication and facilitating decision-making in a timely manner. It also ensures that participants maintain focus on a shared mission and goals and have a clear understanding of their respective roles.

- There are pros and cons of using a Community Development Financial Institution to hold real estate versus a separate Nonprofit Real Estate Developer or Land Trust (whether forming a new organization or using a fiscally sponsored entity). There are complexities to each approach, but it is a critical choice to make when determining how to implement the funding and real estate strategy.

- Lack of capitalization of arts organizations impedes their ability not only to purchase, but also to manage facilities. Long-term funding and management plans are vital, along with sufficient maintenance reserves to protect their real estate investment.

- Most cultural organizations, no matter how savvy, need financial capacity building assistance to take on a project of this size and complexity, as well as to manage a capital campaign.

- Many of the findings from the Nonprofit Finance Fund's benchmark National Cultural Facilities Study (1994) still hold true, and are important to consider when working with cultural organizations on their facility needs:

    - Cultural organizations are market sensitive. Planning should be broad based—the artistic mission, institutional capacity and the market should all be considered in major financial and organizational decisions.

    - Time and leadership sophistication are both required to undertake multi-year facility projects that frequently amount to several times the annual revenue of an organization.

    - The make-up and capacity of organizational staffing is frequently insufficient to manage the overlay of a facility project and requires additional short-term and project management personnel.

Recommendations For The Field

Lessons and recommendations for potential funders and partners:

- Be aware of and inform participating arts and culture organizations about the vastly different timelines and operating procedures present in the real estate world and among the lending community, architects and construction contractors, government agencies and grantmakers.

- Clearly define and communicate the specific roles and responsibilities among the partner organizations. Be particularly transparent with the nonprofits about decision-making authority and who is in charge of which aspects of the process: determining organizational capacity, conducting financial due diligence, vetting real estate options, putting together the financing deal and weighing in on purchase, architecture and construction budgets, etc.

- Set up a board or steering committee with diverse expertise (including real estate and development, nonprofit lending, nonprofit administration, public policy, etc.) to guide this multi-party strategy.

- Consider multiple ways to use the real estate strategy and be opportunistic. An owner may want to donate a building; a developer may want nonprofit co-owners or to condominiumize; a group of nonprofits may want to come together on a purchase. All implementation strategies are worth considering.

Conclusion

The Rainin Arts Real Estate Strategy has given us an exciting path forward for strengthening the long-term effectiveness of our arts grantmaking and ensuring a vibrant, sustainable arts ecosystem in the San Francisco Bay Area.

We were encouraged by the success of our initial projects, where CAST partnered with two vital community arts organizations to acquire buildings that these nonprofits leased with the intent to purchase.

Since we began this work with CAST in 2012, we've celebrated:

- The renovation and grand re-opening of the Luggage Store Gallery in San Francisco.
- The transformation of a former San Francisco adult theater into a new home for CounterPulse, a performing arts incubator supporting risk-taking art that shatters assumptions and builds community.
- The renovation and opening of a multi-tenant arts hub at 447 Minna St in San Francisco.
- The renovation and opening of an arts center and youth arts education hub, the Geneva Car Barn & Powerhouse, in San Francisco.
- The development of a live/work, mixed use cultural hub, Black Culture Zone–Liberation Park, in Oakland.
- The purchase of an arts, literary and media hub, the Warfield Commons, in San Francisco; among other exciting projects.

Visit **cast-sf.org** for more information.

Momentum continues to build for CAST, as it attracts additional public and private partners, while gaining national and international recognition for its innovative approach to funding and its promising role in securing permanent, affordable space for the arts.

The Rainin Foundation anticipates more success stories as CAST grows and develops as an organization. We look forward to expanding the impacts of the Rainin Arts Real Estate Strategy with our Bay Area partners and working to support the critical role of the arts in our urban communities with colleagues and potential partners like you.

Kenneth
Rainin
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Learn more at **krfoundation.org/artsrealestate**