On Quantifying the Economic Impact of the Arts in the Minneapolis Arts District

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Conducted on behalf of the North East Community Development Corporation
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Northeast Minneapolis, the city’s oldest area, has undergone a major economic transformation in the past 15 years. What used to be a collection of warehouses and storefronts that stood empty as the economy evolved away from the industrial age became homes and studios for enterprising artists. With affordable rents and relatively easy access to transportation and the Central Business District, an arts community quickly developed in Northeast. Currently, the largest concentration of artists is located in an area spanning four neighborhoods, bounded roughly by Lowry and Central Aves. NE and Broadway St. NE. This area comprises the city’s official Arts District, which was established in February 2003 by the City of Minneapolis. The map at right displays Northeast in grey, with the Arts District highlighted in orange. The designation was accompanied by an Arts Action Plan supported by the Northeast Minneapolis Arts Association (NEMAA), which laid the framework for support and investment in the arts in Northeast.

With the prospect of sweeping gentrification in looming for Northeast, it is now vital that artists have the information they need to articulate their value to the city. This report seeks to provide an assessment of the District’s economic situation, which can be used as a point of reference for allocating resources and advocating on behalf of the Arts District.

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Methodology

While the Arts District has definite geographic boundaries, artists in Northeast are not entirely located within its confines. To be sure, there are dozens of artists working in warehouses and houses in other neighborhoods and would most likely consider themselves a part of the official “Arts District”. However, for the sake of convenience, data from the larger NEMAA sample - presented later in this report - concerns only those artists within the Arts District. Moreover, since this research is envisioned as a mechanism for drawing attention to the economic situation of the arts in Northeast Minneapolis, its findings can be considered true for all Northeast artists.

Originally, the research plan involved creating a master survey, to be taken by as many artists as possible within the Arts District. This process was indeed carried out; the findings are available on the following page. The survey was posted to the NEMAA website and originally allowed only registered NEMAA artists to log on and take it. After a few artists reported difficulties with the secure access feature of the survey, it was dropped and opened to the general public through a link from the home page.

In spite of several modes of heavy advertising (through full-size color posters in target areas, constant emails from the NEMAA office and word of mouth), response to the survey was relatively low. For this reason, research activities shifted slightly in order to collect better data. While results from the survey continued to trickle in, I began to use the U.S. Census data available at the NECDC office to track other indicators such as property taxes and estimated market value. Since this database is referenced to a shapefile, the information could be represented in a series of thematic maps. Armed with a list of NEMAA-registered artists, I used this database as a foundation for adding other indicators, including 2005 property tax data from the Hennepin County Property Tax Information Database, available online. As the database contains data for 2004 property taxes, it was possible to assess the change in property taxes for the previous year. As a rule, rapidly rising property taxes is a clear indicator of gentrification.

According to the NEMAA Artists database, the organization counts 368 artists as members in 2006. Of these, 259, or 70% are located within the Arts District. An artist organization can include individual artists, galleries and private residences with practicing artists. Moreover, since NEMAA’s services are catered towards professional artists, using this database effectively eliminates hobby artists. These 259 artists are the basis for the maps and research to follow later in this report. While these artists represent a large chunk of total artists in the Arts District, there are bound to be many who are not members of NEMAA and therefore are not represented in the map series. Some of these artists likely have been accounted for in the survey.
Survey Results

While intended to be an all-encompassing economic snapshot of the Arts District, the survey performed better on some indicators than others. In total, 38 artists responded to the survey, reporting 46 properties devoted to either work, sales, living or a combination of the three.

The following indicators were used in the survey:
- Address
- Use of Property (live, work, sales)
- Rent vs. Own
- Business type
- Square footage
- 2005 sales tax
- 2004 and 2005 property tax
- 2005 Monthly mortgage payment
- 2005 Monthly rent
- Number of employees (besides individual artist) and hours per week employed

The least consistently reported variable was for employees. Five artists reported employing someone other than themselves, with one artist reporting three additional employees. On average, these employees work 23 hours/week.

By far, most properties (37%) are used for both work and sales. Solely work activities occur in about 24% of artist properties, while properties used for living comes in third at 15%. A large majority (73%) of artists rent their spaces. These artists reported a monthly rent of $719. The remaining share of artists own their properties and pay an average monthly mortgage of $1,458. These owners do not include non-artist developers and landlords.

With 41 of 46 properties reported, the aggregate square footage of artist properties is 44,300, with an average of 1,384 sq. feet per space. However, this figure includes properties devoted to living, which skews the average substantially. For properties devoted to living, the total comes to 15,784 for 11 artists, with an average sq. footage of 1,434. For properties devoted to work and/or sales only, spaces are on average 950 square feet.

Interestingly, 18/46 (39%) of properties in the survey are located within the Northrup King Building, a large warehouse building containing by far the most artists in the District. This compares to 123/259 (47%) located in the Northrup King building from the more accurate, larger sample. The slight difference in percentage can be attributed to the fact that the survey was open to all artists, even those located outside of the Arts District. When this factor is considered, the results are relatively equal.

27 artists reported sales from their work, garnering $702,821. This works out to about $26,030 per artist. When accounting for outliers, this figure is actually closer to $20,800. It is also important to note that this figure does not represent net income, which would be much lower due to the cost of supplies, rent and employees. Of the artists who reported sales taxes for 2005, they paid on average 3.3% of their total sales.
Artist Distribution

As mentioned in the previous section, 47% of artists in this compilation are located in the Northrup King Building, indicated by the number 1 on the map. The next highest concentrations of artists are found in the old warehouse of the Grain Belt Brewing complex, now owned and managed by Artspace (26 NEMAA artists), the California Building (22 NEMAA artists) and the Thorpe Building (19 NEMAA artists). The remaining artists are dispersed throughout smaller warehouses, storefronts and gallery spaces throughout the Arts District. 28 artists work alone, with just about as many working in collectives with one or two other artists.

It is important to consider situations that are not represented well by the map above. RSP Architects, represented by the 5 above, is located in the old Grain Belt brewing house and contains dozens of architects, not just one artist as indicated by the chosen map generalization. Moreover, it is important to understand that this is not an absolute tally of all artists, rather a tabulation of all NEMAA-affiliated artists in the arts district.
The purpose of this map is to identify opportunities for future investment in artist properties. Much of the current zoning for artists living in warehouse properties is industrial, where both small and large scale production facilities are allowed. This zoning is understandable for sculptors and metal workers, but may not be suitable for small scale production such as painting or mosaics. Most of these smaller-scale artists are left to rent in these industrial areas, or open up a gallery and/or production space in one of the storefronts along 13th Avenue. The problem with the latter option is that these buildings are located in a Neighborhood Commercial District zone, which taxes owners at a higher rate and results in higher rents. Thus, in order to encourage more public artist production space, C3A zoning should be encouraged to allow for the development of artist live/work spaces for small-scale artists. C3A zoning encourages the same retail functions that currently exist along 13th Avenue, but permits a vital mix of living, working and sales space along a neighborhood commercial corridor. On the map above, this corridor is indicated by the light pink zoning and is encircled in black. A good example of this zoning tactic is Grand Avenue in St. Paul,
which encourages a consistent mix of boutique and arts-related businesses.

A second option may be to utilize the Industrial Overlay district in areas not currently devoted to artistic purposes. IL overlay zoning encourages the rehabilitation of older industrial structures, while allowing for a mix of retail, banking, small restaurants and other businesses needed to attract a steady stream of patrons. IL zoning already exists in four zones within the Arts District, depicted by white outline in the map above. If it is desired, parcels in these zones not currently used for artist activities can be converted into live/work spaces, or existing artist properties can be converted into live/work by bringing them up to living standards.
Rent vs. Own

Of the 39 artist-oriented city properties in the Arts District, 22 (56%) are buildings where a majority of its occupants are renters. The remaining 44% are comprised of artist-owners. However, when artists are considered as a whole, fully 92% currently rent their spaces. When the Northrup King Building is taken out of the equation, the figure is still high, with 85% of non-Northrup King artists in the Arts District renting.
On Quantifying the Economic Impact of the Arts District

As previously mentioned, rising property taxes are a sign that an area is desirable and that increased speculation is likely occurring. When urban areas see an influx of wealth and speculation in a relatively short period of time, this is known as gentrification. While this phenomenon can bolster the tax base and spur improvements to a neighborhood, it can also quickly push out existing residents and business owners. The challenge is to create policies that take advantage of the positive impacts of gentrification while keeping the area accessible to existing residents and stakeholders.

The map above represents the change in property taxes from 2004-2005 for arts-related businesses and homes. Each city block is an average of the rates of change from all artist properties within a given block. What is striking about this sample is the severity of the increase. Of the blocks in this sample, the average rate of increase for one year was 16%. A good point of comparison is the average rate of increase for the 7-county Minneapolis-St. Paul metropolitan area, which between 2003 and 2004 was 7.1%.

Given the large number of artists renting in the Northrup King Building, California Building and the Grain Belt Keg house, which incurred...
substantial property tax increases during the past year, the implications of this phenomenon are great. If this trend continues, landlords will not be able to afford to offer their artists reduced rent, which could contribute to the dissolution of the Arts District.

However, when assessing the true level of gentrification, it is important to compare increases in property taxes with the dollar amount of improvements made to a given structure. In the case of the Arts District, this was done by tracking remodeling permits through the City of Minneapolis. Any improvements made to a property during any given year are reflected in the assessment as of January of the following year. The January assessment is used to calculate taxes for that year, which must be paid by April the year after. Thus, since the property tax change analysis was done for the payable years 2005-2006, any improvements reflected in the tax information for this interval were made in 2004.

In order to assess the extent of gentrification in properties with large tax gains, it was necessary to stratify these properties into deviations from the mean by calculating their z-scores. Z-scores normalize the data and make it possible to distinguish between data that is closer to the mean and the outliers of a distribution. Intervals of half-standard deviations were used to structure the z-scores, which were ordered into three categories:

- 0 - .5 Standard Deviation above the mean
- .5 - 1 SD above mean
- >1 SD above mean

In all, 15 properties fell into one of these three categories. A full listing of the results of this analysis can be found in Table 1 at the end of this report.

The results show that properties in the >1 SD range, those that incurred the highest property tax change, have generally undergone at least some renovation. The results also highlight some realities of these buildings. For example, property 1502924140027, the last in the set, is the Keg House building on 13th Ave. NE. It is represented on the map on the previous page by the number one (1). After the building was sold to the Keg House Development Company in 2003, it underwent extensive renovation to accommodate a cafe, salon and a few arts-related businesses. Fully $138,695 worth of improvements were made in 2004, with other improvements likely reflected in following years. Another property with a high tax change is 1402924120200, which is an industrial building that was converted from artist studios into the Madison Lofts, a condo development. It is shown on the map as number two (2). With the change in land use and improvements to convert the building into condos, a sharp rise in property taxes is to be expected.

Properties like these should not be included in the final number for average property tax change in the district, since they do not represent the scope of gentrification accurately. Instead, an adjusted figure is proposed. Those properties that were stricken from the adjusted average are not highlighted gray in Table 1. Thus, with those properties removed from the overall dataset, the adjusted property tax change from 2005-2006 for the Arts District is 12.79%. This figure is still significant, since it
is also higher than the metropolitan average of 7.1%.

Perhaps more interesting is the predominance of C1-zoned properties appearing in Table 1. While the properties in category 3 (>1 SD) are for the most part outliers, C1 properties that are generally small galleries bear the biggest changes in property taxes. This may not be surprising to some, since commercial properties are taxed at a higher rate. In addition, commercial properties are becoming more and more valuable as retail opportunities become scarcer. By contrast, industrial spaces are either not incurring large property tax increases or the increase is justified by improvements to the property. For most retail areas, this type of speculation would be healthy. However, to an Arts District, such yearly increases in property taxes may force out the small arts-related businesses that give a vital public presence to the Arts District.
Estimated Market Value

This map is provided as a snapshot of property values in the Arts District. From even a cursory survey of this map, it can be seen that artist-related properties are valued more than other types of properties. This has much to do with the sheer size of artist buildings and the need for large spaces in which to work. It also correlates with the zones in which these properties are located, with standard commercial and industrial properties carrying a higher value than residential or overlay districts.

Thus, in the interest of developing affordable artist properties, it may be wise to advocate for alternative zoning strategies as outlined in the Primary Zoning section of this report. Such strategies will allow more artists to work in areas that are more affordable and would otherwise prohibit the production of art of any kind.
Artist Activities

Among the 259 NEMAA artists in the compilation, there is a varied mix of media. A handful of artists reported using more than one medium, but the majority specialize in only one. By far, the most popular medium is painting, which includes watercolor, acrylic and oil. The second most popular medium is mixed media, which when combined with the third most popular category - other - shows that the arts district boasts a large concentration of unique art.
Arts District Size

This section quantifies the square footage of arts-related space in the Arts District. With the Census data available, it was possible to get a good idea of the square footage of arts-related parcels and buildings. A map of the parcels and their relative size is displayed above. Not surprisingly, the Northrup King Building and Thorpe Building, as former industrial buildings, take up a large percentage of the District.

Even more telling, however, are the figures for building square footage. Using the same data sets, I calculated an estimated total building square footage of 1,168,122. For comparison, the Mall of America is 4.2 million sq. feet in size and the city of Woodbury, MN contains just over 2 million sq. feet of retail space. Considering Woodbury's retail space is spread over an area the size of the entirety of Northeast, the Arts District forms a relatively dense concentration of arts activities.

The data represents the square footage of the GIS building shapefiles, which is slightly misleading, since it does not account for multiple stories. By assessing the function...
of each building (warehouse, single family house, C1, etc.), it was discovered that most properties are confined to a single story. The exceptions - NKB, Thorpe, Grain Belt Building and the California building - were evaluated in detail in order to determine the number of floors for each.

With 47% of artists in the District, the NKB contains 46% of total district square footage, or 548,468 sq. ft. Together with the California and Thorpe Building, these buildings comprise 60% of the total square footage, or 708,473 sq. ft.
Recommendations

From the maps and data present in this report, it is clear that the Arts District has secured a strong position within Minneapolis. However, in order to strengthen the Arts District and its positive externalities, I make the following recommendations:

1. Control gentrification by establishing a Tax Abatement Program and Arts Conservancy

BACKGROUND:
The arts do not just funnel money into state and city coffers. They also spur other development such as restaurants, coffee shops and hotels. This is evident around the California, Northrup King and Thorpe Buildings, which have spawned coffee shops and restaurants. Coffee shops, bars, florists, clinics and restaurants can all be found along 13th Avenue in the Sheridan neighborhood, which cater to both tourist and local. This amenity-rich development has also brought heavy speculation in the form of condos, which have caused property values and taxes to skyrocket in the past 5 years. Within the next couple of years, artists in the Keg House will work alongside new residents in a 5-phase redevelopment of the Grain Belt area. Artists in the Northrup King and Thorpe Buildings will be a few blocks away from the Madison Lofts. As gentrification continues to sweep into Northeast, how will these artists be able to afford increasing rents and taxes?

RECOMMENDATION:
As a part of their Arts Action Plan, NEMAA has highlighted examples of other arts districts that have successfully used tax abatement programs and arts conservancies. These include the arts district of Providence, RI, in which artists who sell their wares do not pay state or local property and sales taxes. In accordance with the recommendations of the NEMAA Arts Action plan, it is recommended that a tax abatement program be established for arts-oriented commercial and industrial properties in the Arts District. Such a program should reduce property taxes in these parcels by 50%. This proposal would help to address the staggering increase in property taxes (17% between 2004-2005) for arts businesses while allowing for continued market speculation.

A city-led policy for arts development should also include the establishment of an arts conservancy. An arts conservancy would serve to purchase select properties and associated development rights in order to dedicate them for the arts community. Restrictions may also be placed on the property deed so that only arts oriented activities are permitted. This organization would require substantial financial backing by philanthropic organizations and public agencies. In addition, the Minneapolis Department of Community Planning and Economic Development (CPED) would have to play a role in drafting new deeds and changing zoning in order to reflect these new policies.

2. Use existing zoning tools and investment in infrastructure to make the Arts District a destination

If professional artists can combine their working and living spaces, they can cut the costs as-
sociated with maintaining separate properties for both activities. In deference to the past, the city now encourages live/work development through the use of its industrial overlay districts. As addressed earlier, property owners within IL overlay zones can upgrade and convert their buildings in order to bring them into compliance with live/work building codes. If property these owners are convinced that the market exists for live/work development, they are likely to convert their buildings. A recent report by Maxfield Research for the NECDC suggests a largely untapped market of artists looking for live/work units.

Functioning as a more public face in the Arts District, the 13th Avenue commercial corridor also offers opportunities for development. Since this area features a traditional commercial streetscape, it is an ideal location for performance spaces and galleries. While 13th Avenue already contains a vibrant mix of businesses, it needs investment in pedestrian infrastructure (street lighting, furniture, art installations) that will give the corridor a unique and navigable character.

The city can also consider C3A zoning as a way to allow small scale artists to work and sell their wares on 13th Avenue.

3. Encourage cultural tourism

The Arts District should be viewed as a prime opportunity for investment. A cost-efficient way to invest in the District is by promoting cultural tourism through many different modes. The city can encourage restaurants, coffee shops and entertainment venues that will turn the Arts District into a true tourist destination. Organizations like NEMAA may want to start advertising the District to a wider audience, including tourists from out of state. For example, drawing from the survey of artist activities on page 10, perhaps the Arts District can become famed for its relatively large percentage of mixed media artists. Highlighting the Arts District's unique character and offerings will be an essential part of any advertising campaign.

Underscoring the importance of advertising, one artist commented during this project that ‘cultural tourists from the East and West coasts would love to buy art in Minnesota, if they only knew about it’, adding that art in Minnesota is sometimes 50% cheaper for the same quality. Indeed, cultural tourism is a worthy form of support, since non-local arts patrons spend an average of $38.05 per person, compared with $21.75 for locals. 44% of tourists are likely to shop, compared with 33% for locals, and 18% of tourists are likely to spend $1000+ compared to 12% of their local counterparts.

4. Invite the City to take more leadership in creating an effective Arts District policy

BACKGROUND:
It is important to recognize the value of preserving arts districts in urban areas. In an in-depth survey by Americans for the Arts, it was discovered that non-profit arts organizations in Minneapolis pumped $2,113,000 into the city and $7,767,000 into the state through state and local taxes. Considering that individual artists
make up a healthy majority of all artists, the total figures for all artists would be much higher.

The study also found that in 2000, Minneapolis contributed $37,865 to non-profit arts organizations, or less than 1% of total donations. This is compared with 20.1% for cities of similar size. Volunteerism fared much better, with 8,009 volunteers contributing a value of $6,122,039 in 2000. While volunteers are necessary to any organization, broad financial support and leadership is necessary in order to maintain a healthy arts community.

RECOMMENDATION:
Northeast already has several non-profit organizations that could partner with the City in the name of arts economic development. These include:

- NEMAA
- Arts Action Plan Committee
- NECDC
- Northeast Chamber of Commerce

The city should include these and other stakeholders in order to create a lasting policy for the arts district. Together, this partnership could establish the tax abatement, conservancy, cultural tourism and zoning proposals outlined here. The city should also take an active role in encouraging philanthropic and private support for the Arts District, since public/private partnerships will be necessary to fund these initiatives.

Concluding Remarks
In order to continue developing a lively Arts District, it needs publicity, a coherent policy, financial backing and property tax restructuring. The amenity and economic value that artists brought to Northeast should not leave with the introduction of more expensive development. Artists need affordable homes and studios and a national stage on which to sell their wares. Most importantly, the arts need to remain in Northeast in order to sustain an economically healthy mix of activity and codify Minneapolis' image as an arts-friendly city.
Table 1: Property Tax Sample Permit Analysis
*Properties not highlighted in gray have been removed from the adjusted calculation*

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Resources


• Center for Urban & Regional Affairs, MNIS. U.S. Census and Hennepin County .dbf Files. Copyright 2006, CURA.


• NEMAA. “NEMAA Artists”. Copyright 2006, Northeast Minneapolis Arts Association.


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