

California Arts Organizations: How Are They Affected by Rent and Labor Costs?

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Executive Summary

- A mail survey was conducted of 1000 arts and cultural organizations in 29 counties in California. The survey included nonprofit organizations, for-profit and public agencies. It asked about difficulties the organizations have experienced because of rental increases, in hiring and retaining staff.
- In all, 208 surveys were returned as undeliverable, 24 self identified as not an arts organization, 18 that their organization was no longer active and 451 returned a completed survey. This represents a return rate of 61 percent of the valid address.
- Approximately 68 percent of the organizations in the sample were nonprofits, 20 percent for-profits and seven percent public agencies. The remaining five percent selected "other." Organizations typically were small; 30.6 percent had budgets under \$25,000 and only 23.6 percent had budgets over \$500,000.
- The arts disciplines most often represented included music (24.1 percent), visual arts (21 percent), theater (16.3 percent) and dance (14.8 percent). Most often found primary purpose included performance group (34.2 percent), gallery/exhibit space (17.4 percent), arts service organization (15.9 percent), and performance facility (15.8 percent).
- Approximately 60 percent of organizations rented, and thus were potentially vulnerable to unaffordable rental increases. All budget sizes except the very smallest organizations (those with budgets under \$25,000) were equally likely to rent.
- The overwhelming majority of organizations that rented had not seen their rents increase by dramatic amounts in the past year. Only 10.7 percent of organizations that rented saw increase of 10 percent or more. Only about eight percent had had to give up space in the last year because of unaffordable rental increases.
- Almost half of the organizations that rented felt themselves at least somewhat vulnerable to loss of space because of rent increases. Almost 16 percent thought that it was very or extremely likely that rent increases would make their space unaffordable in the next year. Organizations that felt this more likely were those with smaller budgets, and those that whose primary discipline was dance.
- There was no difference in perceived vulnerability between organizations located in the larger metropolitan counties and those in the smaller. However, Bay Area organizations were more likely to see their rents

increase compared to the rest of the state. Rents had risen more than 25 percent for 18.5 percent of Bay Area organizations compared to 5.9 percent of those outside the Bay Area. Organizations with smaller budgets felt themselves equally vulnerable to unaffordable space in the Bay Area and elsewhere. Only the largest organizations with budgets over \$500,000 felt themselves more at risk than their counterparts elsewhere in the state.

- If the number of surveys returned as undeliverable is taken as a very crude indicator of organizations that have had to close or have moved, then there was no difference between the Bay Area and the rest of the state. Thus, this survey provides no evidence that Bay Area arts organizations are having to relocate or suspend operations at greater rates than the state as a whole.
- Half of the organizations in the survey that hired staff stated that they had difficulties in retaining staff because of what they could afford to pay. Of organizations that needed to hire staff, approximately 70 percent had difficulties in hiring for the same reason.
- Both large and small organizations had equal difficulties in hiring. The smallest organizations were either more likely to have no difficulties or to have major difficulties in retaining staff, while the larger organizations were more likely to have some difficulties in retention.
- There was no difference between nonprofit, for-profit and public agencies in their difficulties in hiring staff. For-profit organizations were less likely to evidence difficulties in retaining staff, but the differences, while statistically significant, were not large.
- While there were no differences between agencies located in the major metropolitan statistical areas and the remainder of the state with regard to problems in hiring and retaining staff, there were dramatic differences between the Bay Area and elsewhere. Thirty percent of organizations outside the Bay Area had no difficulties in hiring because of pay, while only 12.4 percent of Bay Area organizations reported no difficulty. Fourteen percent of Bay Area organizations had major problems in retaining staff because of salary compared to the 7.6 percent found in the rest of the state.

California Arts Organizations: How Are They Affected by Rent and Labor Costs?

A great deal of attention has been paid to rising rents and labor costs in the state of California. The problem is held to be particularly severe for arts organizations, which often have very specialized space needs, and whose ability to raise income is restricted. Indeed, in San Francisco, there was sufficient concern that the mayor's office in combination with several foundations sponsored a study to assess the vulnerability of arts organizations and non-profits to losing their space (see <www.orgspaces.org>).

In this study, we ask the question more broadly. Using a survey conducted in 29 counties in California we ask whether arts organization as a whole – nonprofit, for-profit and public – have difficulties in securing and maintaining space for their operations and in hiring and keeping staff. Is the much-heralded problem strictly found in the very high cost areas of California or is it more widespread? What are the characteristics of the most vulnerable organizations?

Methodology

The sample was drawn from a directory of arts and cultural organizations in 29 California counties compiled by Dr. Richard Orend for the Institute for Nonprofit Organization Management. A sample of 1000 organizations was randomly selected from the entire population of organizations. One third of the organizations in the sample came from the counties that were not located in a consolidated metropolitan statistical area (CMSA) and two-thirds from the CMSA counties. (CMSA counties are the larger metropolitan areas in the state, as designated by the U.S. Census Bureau). This was to permit a sufficient sample size to compare smaller places to larger. The sample was screened to ensure that every organization had a complete address. When the address was not available, we searched using the web and phone books to see if it could be found. For the 59 organizations that had no address (5.9% of the sample) 5 addresses were added to the database and 54 organizations had to be replaced with a new random sample. It should be noted that the majority of replaced organizations were in Humboldt County. We have no way to tell whether the high number of missing addresses there reflected inadequate work by a particular research assistant or difficulties in securing addresses in that particular county.

In addition, five organizations were removed from the sample and replaced. Two of these were found not to be arts organizations but rather large, for-profit business corporations whose involvement in the arts consisted almost

entirely of grantmaking. The remaining three were duplicates of other organizations in the sample.

All organizations in the sample were sent an initial contact letter, outlining the purpose of the survey. Approximately one week later, they were sent a copy of the survey. A week following that, all organizations were sent a postcard, thanking them if they had returned the survey and reminding them of its importance if they had not. About two weeks after that, a new survey was sent to all who had not replied. A month later a final survey was sent by priority mail to those who had not as yet responded. Although the last mailing went out on May 10th 2001, returns were still trickling in as of the third week in September.

As surveys were returned, they were coded with the date of the return so that analysis could be made of any trends in late returns. Similarly, all mailings that came back as undeliverable were coded for the reason that they could not be delivered. For the first three mailings, if the post office notified us of a bad address, we resent the survey to the forwarding address if available. If no forwarding address was listed, we researched the organization both using the formal databases such as the Secretary of State's listing of incorporated nonprofits and phone books and resent it if a new address could be found. It should be noted that it often took three or four mailings for the post office to tell us that the address was invalid. In twelve instances we were not notified until the final mailing was sent by priority mail.

Although we drew a sample of 1000 organizations, we discovered, when surveys were returned, that two organizations were duplicates so that the final potential sample size was 999. Table One shows the results of the mailings.

TABLE ONE - STATUS OF RETURNS TO SURVEY

Status	N of returns	Percent of total 999
No valid address	208	20.9
Valid return	451	44.9
Not arts organization	24	2.4
Refused	18	1.8
Defunct organization	8	.1

The number of initially invalid addresses was 247. Of these, we were able to find new addresses for 94 organizations. The redirected mailings yielded 33 valid returns, 3 refusals and 3 notifications that the organization was no longer in existence. The remainder of the redirected mailings were returned as invalid.

Using the number of valid addresses as the denominator, and counting those who responded that theirs was not an arts organization, as well as those

who notified us that their organization no longer was active as valid returns, our final response rate was 61%.

As mentioned, organizations were coded by the date they returned their survey. No discernable pattern distinguished the latter returns from those that responded more quickly. Thus we have no basis to make estimates about the nature of the non-responders.

Because of the over sampling of organizations from small counties in California, the data have been transformed so that organizations from larger counties are given more “weight;” the following tables have been computed so that rather than two thirds of the organizations coming from larger counties, as was the case in the sample, ninety percent of them do. This is their percent in the listing of all arts organizations in our directory of arts organizations in 29 California counties. Only in the comparisons that look at whether an organization is or is not in a CMSA are the data presented in unweighted form.

Results

I. Demographics of arts organizations in California

As shown in Table Two, slightly more than two thirds of the twenty organizations that returned their surveys were nonprofits, approximately 20 percent were for-profits and the remainder were divided between public institutions and ‘other’ organizations such as an informal group that met to market the quilts of the membership.

TABLE TWO - LEGAL STATUS OF ORGANIZATION

Legal Status	Percent
Nonprofit	68.2
For-profit	19.9
Public	6.6
Other	5.4
Total	100.0
Number of organizations responding	(n=440)

Organizational purpose is shown in Table Three. Although the question asked for the primary purpose, some organizations selected more than one; the following table then totals to more than 100%. Slightly more than one-third of the organizations selected ‘performance group’ as their primary purpose. The next often selected purpose was “other,” but this was often used by respondents as a mechanism to more precisely explain their organization. Thus, 48.4% of those who checked this also checked an additional category. Lesser percentages opted for the other listed primary purposes.

TABLE THREE - PRIMARY PURPOSE OF ORGANIZATION

Primary purpose of organization	Percent
Performance Group	34.2
Performance Facility	15.8
Museum	8.5
Gallery/Exhibit Space	17.4
Fair/Festival	5.4
Arts Center	6.9
Arts Service Organization	15.9
Professional Association	6.0
School for the Arts	11.4
Foundation	4.7
Artist Co-op	3.4
Other	28.9
	(443)

Table Four shows the primary discipline of the organization.

TABLE FOUR - PRIMARY DISCIPLINE OF ORGANIZATION

Primary Discipline	Percent
Dance	14.8
Music	24.1
Opera/Musical Theater	4.2
Theater	16.3
Visual Arts	21.0
Crafts	5.6
Media Arts	3.8
Multidisciplinary	13.6
Other	20.0
	(443)

Again respondents sometimes selected more than one primary discipline so the above totals to more than 100 percent. The most often represented discipline was music, followed closely by the visual arts.

Respondents also were asked for a few key indicators of organizational size. As shown in Table Five, the organizations in this study were largely small, with few employees and a corresponding budget. Almost one-third of the organizations had annual budgets of \$25,000 or less. The median budget size was between \$51,000-\$100,000 (this means that half the organizations had a larger budget and half a smaller) and only 14.8 percent had budgets of more than a million.

TABLE FIVE - ANNUAL BUDGET OF ORGANIZATION

Organization's approximate annual budget	Percent
Less than \$25,000	30.6
\$26 to \$50,000	10.7
\$51-\$100,000	14.5
\$101,000-\$250,000	8.8
\$251,000-\$500,000	11.9
\$501,000-\$1,000,000	8.8
More than \$1,000,000	14.8
Total	100.0 (426)

Similarly, as shown in Table Six, while the average number of full time employees was 33.4, fully 54.2 percent of the organizations had no full time staff and only 26 percent had more than 3 full time employees. Forty-five percent of organizations had no part time staff, but only 12.2 percent had no volunteers. The median number of volunteers was 10 and the average 382 - the difference is because a few organizations had a large number of volunteers working with them; one stated as many as 7,200 people worked on a volunteer basis. When there are some very large scores, the average will be much larger than the median. The mode for all three measures is 0 - this means organizations, for example, were most likely to have no full time staff.

TABLE SIX - NUMBER OF EMPLOYEES AND VOLUNTEERS

Percent with:	Full time	Part time	Volunteers
0 employees	54.20	45.00	28.70
1 employee	10.70	15.10	2.30
2 employees	9.10	11.10	1.60
3 or more employees	26.00	28.70	67.40
Total	(448)	(439)	(429)
Mean (average)	7.74	5.65	64.49
Median	0	1	10
Mode	0	0	0

**TABLE SEVEN
SOURCES OF FUNDING BY LEGAL STATUS**

Funding Source	Legal Status			
	Nonprofit	For-profit	Public	Other
Individual donations	88.9	9.2	41.4	30.4
Sales	60.6	74.4	48.3	8.7
Fees	50.8	33.3	31.0	12.5
Foundation support	61.3	0	41.4	21.7
Government sources	48.5	0	75.0	21.7
Endowments	26.0	2.3	10.7	8.3
Corporate donations	49.2	3.4	17.2	8.7
Total	(296)	(87)	(29)	(23)

As shown in Table Seven, organizations varied in the sources of their income. Nonprofit organizations received funding from all the listed sources, although endowment funding was relatively infrequent. For-profit organizations received the majority of their funding from sales and secondarily from fees. Public organizations received the majority of their support from public sources although fees and foundation support were also significant sources of revenue.

II. Problems with rent

Organizations varied in their vulnerability to increases in cost for the space where they conducted their activities. The people least vulnerable were those who owned their space and those who had no dedicated space at all, other than perhaps the home of an employee, owner, or executive director. As shown in Table Eight, below, organizations were spread across a variety of options. Of those who answered any of these questions, 24 percent owned their space, 36.3 percent rented space as a master tenant, 23.1 percent rented as a subtenant (32.8 percent of these rented from another arts organization) 20.8 percent had regular and exclusive use of donated space and 16.6 percent had no regular use of space except perhaps for the home of a member. The numbers add to more than 100 percent because an organization could, for example, both rent and use donated space.

TABLE EIGHT: FORM OF TENURE

Form of Tenure	Percent
Own	24.0
Rent as master tenant	36.3
Rent as subtenant	23.1
Exclusive use of donated space	20.8
No dedicated space	16.6
Total	(432)

**TABLE NINE
TENURE BY ORGANIZATIONAL BUDGET**

	Budget						
	<\$25,000	\$26,000- \$50,000	\$51,000- \$100,000	\$101,000- \$250,000	\$251,000- \$500,000	\$501,000- \$100,000,000	\$100,000,000+
Own	12.2	13.3	22.6	13.5	35.3	34.2	49.2***
Master tenant	16.2	41.3	38.7	47.4	51.0	48.6	41.3***
Subtenant	26.2	31.1	26.2	16.0	13.5	13.5	20.6 NS
Donated space	27.5	17.8	19.4	26.3	16.0	21.1	9.5**
No space	34.4	22.2	11.3	5.4	7.8	0	0***

*** p< .001, ** p<.01 NS=not statistically significant

In Table Nine, each row should be read as the percent within the budget category that possessed that particular type of tenure. The table shows that there were differences by organizational budget in what form of tenure they had; larger organizations were more likely than smaller to own their space. Small organizations were more likely to have no space other than perhaps that of the home of a member. All, save the very smallest organizations, were about equally likely to rent space as master tenants. There were no differences among the relatively small numbers of subtenants. There was no clear pattern regarding donated space with the exception of the organizations with budgets over a million dollars who were less likely to have such space.

**TABLE TEN
TENURE BY LEGAL STATUS**

Tenure	Legal Status of Organization			
	Nonprofit	For-profit	Public	Other
Own	22.9	14.9	62.1	21.7***
Master tenant	29.0	64.0	26.1	35.6***
Subtenant	28.4	11.6	0	20.8***
Donated Space	23.9	8.0	31.0	13.0**
No space	16.9	13.8	0	33.3**
Total	296	87	29	24

*** p<.001, ** p<.01

Organizational tenure over space also varied by the legal status of the organization. Nonprofit arts organizations were relatively evenly spread across the various forms of tenure. For-profits were most likely to rent, and public organizations to own their space. Finally, the relatively small number of 'other' organizations either rented as master tenants or had no space of their own.

Those who rented were asked how much their rent had increased in the past year. As shown in Table Eleven, the majority of organizations did not see large rent increases. Slightly more than one third had no rent increase. Only 10.7 percent saw their rent increase more than 10 percent in the past year.

TABLE ELEVEN AMOUNT OF RENT INCREASE

Amount rent has gone up in last year	Percent
Stayed the same or decreased	35.7
Gone up 5%	20.8
Gone up between 5-10%	23.7
Gone up between 11-25%	9.1
Gone up between 26-50%	4.6
Gone up between 51-75%	2.6
Gone up between 76-100%	1.4
More than doubled	2.1
Total	100.0
	(246)

However, while most organizations that rented did not have to face major increases in costs, they did feel insecure in their tenure. Those who rented were asked how likely it was that rent increases would make their space unaffordable in the next year. Slightly more than half said that it was not at all likely. However, 31.6 percent said it was somewhat likely, 10.8 percent that it was very likely and 4.8 percent that it was extremely likely. Stated slightly differently, almost half felt themselves under at least some threat of losing their space and approximately 15 percent under a likely threat of doing so in the next year. It should be added that the surveys were mailed after the economy began cooling in the first quarter of 2001. Presumably, some of the organizations whose surveys were returned as undeliverable were those that had ceased operations or moved because of the volatile rental market of the previous year.

Organizations were also asked whether they had had to give up space because of increased rents. This proved an issue only for a small minority of organizations. Thirty-five or 7.8 percent of those who rented said this had been true for them. Organizations were much more likely not to rent additional space because of costs. When asked if they would rent additional space if it were less expensive to do so, 51 percent said yes. Of these, 123 or 27.7 percent of the total could not find any space that was affordable and 61 or 27.7 percent of the total could not find any space that suited their needs, regardless of cost.

The obvious question is whether there is a relationship between the amount of the rent increases and the perceived threat of an unaffordable lease.

TABLE TWELVE
CHANCE OF LOSING RENTAL SPACE BY AMOUNT OF RENT INCREASE

Chance of losing space because of inability to afford rent	Amount Rent Went Up		
	< 5%	5%-25%	26%+
Not at all likely	62.3	45.5	23.1
Somewhat likely	22.5	44.2	46.2
Very/extremely likely	15.2	10.4	30.8
Total	100%	100%	100%
	(138)	(77)	(26)

P<.001

As shown in Table Twelve, the more that rent has risen in the past year, the more likely the organization is to perceive that it is likely that they will not be able to afford the space.

The next issue is whether there is a relationship between the budget of an organization and its chances of being displaced because of rent increases.

As shown in Table Thirteen, the largest organizations are less likely to rent. Because of the relatively small number of large budget organizations that rent, the table combines organizational budget categories. (In any presented table where the data has been collapsed, it was first computed using the full range of categories to ensure that patterns in the data are not being obscured by the reduction in the size of the table).

TABLE THIRTEEN
CHANCE OF LOSING RENTAL SPACE BY BUDGET SIZE

Chance of losing space because of inability to afford rent	Budget Size*		
	Lt\$ 50,000	\$51,000-\$500,000	\$501,000+
Not at all likely	41.0	48.4	74.2
Somewhat likely	30.1	38.7	22.6
Very, Extremely likely	28.9	12.9	3.2
Total	100%	100%	100%
	(83)	(93)	(62)

*Budget categories were collapsed for this table
P<.001

Organizations with budgets greater than \$500,000 were less likely to expect rent increases to affect their ability to remain in their space. Conversely, the smaller the organization's budget, the more likely they were to be concerned about rental increases. Almost 29 percent of the organizations with budgets below \$50,000 thought it very or extremely likely that rental increases would make their space unaffordable in the next year; only 3.2 percent of those with budgets over \$500,000 did so.

Also at issue was whether particular disciplines in the arts were more vulnerable, and whether nonprofits were more vulnerable than public organizations. Analyses were conducted for each of the major disciplines with sufficient numbers of organizations represented in the sample to permit analysis. It turned out that there were no differences between organizations whose primary discipline was music, opera/musical theater, theater or the visual arts compared to the sample as a whole. While the findings must be interpreted with caution because of the small number of cases, (34 dance organizations answered the question) dance organizations were more likely to be concerned about losing their space because of rental increases. Only 26.5 percent of dance organizations thought it not at all likely that rent increases would make their space unaffordable compared to 56.7 percent of other organizations.

There were also no differences found by the primary purpose of the organization. That is, performance groups, galleries, etc. were equally likely to be concerned about rent increases making their space unaffordable.

There were no significant differences between the legal forms of nonprofit, for-profit and public organization in their perception of rent increases making their space unaffordable. While compared to public organizations, nonprofits and for-profits are more likely to rent, all organizations who rent feel equally vulnerable.

Finally of concern was whether particular areas of the state were more affected. The study was designed so that it would be possible to test whether arts organizations in larger counties were more affected than those in smaller. As shown in the following (unweighted) table below, this did not prove to be the case. (Larger counties are those located in one of California’s “consolidated metropolitan statistical areas (CMSA, as designated by the U.S. Census Bureau).

**TABLE FOURTEEN
CHANCE OF LOSING RENTAL SPACE BY GEOGRAPHIC LOCATION**

Chance of losing space because of inability to afford rent	In CMSA or Not	
	In CMSA	Not in CMSA
Not at all likely	53.6	61.5
Somewhat likely	32.6	32.7
Very/extremely likely	11.1	5.8
Total	100%	100%
	(144)	(104)

Larger areas are no more affected than smaller areas. Is the San Francisco Bay Area exceptional? Certainly, sufficient attention was paid in the local press, in the Mayor’s office and among the foundation community in this regard. However, the evidence is more mixed from this survey.

As shown in the following table, rents were significantly more likely to have increased in the Bay Area (defined as San Francisco, Alameda, Santa Clara and San Mateo counties) than in the rest of the state.

TABLE FIFTEEN
AMOUNT OF RENT INCREASE BY BAY AREA LOCATION

Amount Rent Went Up in Last Year	Bay Area Location	
	Outside Bay Area	Inside Bay Area
Lt 5%	64.7	43.5
5-25%	29.4	38.0
More than 25%	5.9	18.5
Total	100%	100%
	(153)	(92)

P<.001

Fully 18.5 percent of organizations in the San Francisco Bay Area saw their rent increase more than 25 percent in the last year, compared to only 5.9 percent of organizations in the state.

While rents are more likely to rise in the Bay Area, at first glance this does not affect the organization’s perception of the security of their tenure. That is, organizations in the Bay Area are no more likely to perceive that they will have to vacate their premises in the next year because of rent increases than are organizations elsewhere in the state. However, it turns out that the simple table obscures an interesting relationship. Organizations in the Bay Area have larger budgets than those elsewhere in the state. When the table is computed again, controlling for organizational size, the following pattern emerges.

TABLE SIXTEEN
VULNERABILITY TO LOSS OF RENTAL SPACE BY BAY AREA LOCATION
WITHIN BUDGET CATEGORIES

Budget of less than \$51,000		
Chance of losing space because of inability to afford rent	Location	
	Outside Bay Area	Inside Bay Area
Not at all likely	44.8	32.0
Somewhat likely	24.1	44.0
Very/extremely likely	31.0	24.0
Total	100%	100%
	(58)	(25)

Differences are not statistically significant

Budget of 51,000 to 500,000

Chance of losing space because of inability to afford rent	Location	
	Outside Bay Area	Inside Bay Area
Not at all likely	49.2	45.2
Somewhat likely	41.3	35.5
Very/extremely likely	9.5	19.4
Total	100%	100%
	(63)	(31)

NS

Budget of over 500,000

Chance of losing space because of inability to afford rent	Location	
	Outside Bay Area	Inside Bay Area
Not at all likely	85.3	56.7
Somewhat likely	11.8	36.7
Very/extremely likely	2.9	6.7
Total	100%	100%
	(34)	(30)

P<.01

Because the number of cases is small, care must be taken in interpretation. However, the table shows that while Bay Area arts organizations with budgets of \$500,000 and under are not disproportionately concerned about vacating because of rent increases, those with budgets over \$500,000 are more likely to perceive that they will have to vacate compared to similar organizations elsewhere in the state. It may be that these organizations are large enough to rent space that is easily convertible to other uses and thus vulnerable to large rent increases in a constricted market.

An obvious question is the timing of the survey. The first return came back on May 3rd, 2001 (and the last on September 10th), after the economy had cooled. Is it the case that Bay Area organizations were more likely to be affected but those who had to vacate had already done so and were not reachable at the address we had for them?

There are two ways to test this hypothesis, both indirect, subject to assumptions. We can look at those where the initial address was undeliverable but where we were able to find a different address and see how many of these

were organizations that had relocated out of the high rent areas. We can also infer that at least some percent of those organizations whose mailing was returned as undeliverable were those that had to vacate because of rent increases and either closed or moved elsewhere. While we have no way of knowing how many organizations fell into this category, we can see if the relative percent of undeliverable addresses is higher in the Bay Area than elsewhere in the state.

For the first test, there were only seven organizations in the San Francisco Bay Area where we were able to find a new address and receive a questionnaire from them. They were split evenly between San Francisco and San Jose. All seven had relocated in the same city. There is no evidence then that organizations are having to relocate out of their initial city. For the second test, there was no difference between Bay Area organizations' and elsewhere in the percent of mailings returned as undeliverable. Indeed, the county with the highest rate of returns was Los Angeles.

Given the large amount of publicity concerning arts organizations in the Bay Area who have had to close or relocate because of large rent increases, these results seem counter intuitive. Bay Area organizations are more likely to be concerned; but the differences, while statistically significant, are moderate. What is shown by this research is that rent increases and indeed the availability of suitable rental space remains an issue for arts organizations throughout the state, whether or not they are in an area of rapidly appreciating commercial rents.

III. Labor Costs

As shown in the following two tables, arts organizations in California had difficulty both in hiring and retaining staff because of what they could afford to pay them.

**TABLE SEVENTEEN
DIFFICULTY HIRING STAFF BECAUSE OF LIMITED FUNDS**

Difficulty hiring staff because of what could afford to pay	Percent of organizations	Percent that hire
No	24.0	29.6
Not needed to hire	19.0	
Some difficulties	40.5	50.1
Major difficulties	16.5	20.3
Total	100%	100%
	(443)	(226)

**TABLE EIGHTEEN
DIFFICULTY RETAINING STAFF BECAUSE OF LIMITED FUNDS**

Difficulty retaining staff because of what could afford to pay	Percent
No	49.6
Some difficulties	40.5
Major difficulties	9.9
Total	100% (443)

Fully half of the organizations responding had difficulties hiring and retaining staff because of what they could afford to pay. Furthermore, 16.6 percent had major difficulties in hiring staff and approximately 10 percent had major difficulties in retaining staff. If only organizations that needed to hire staff are considered, 70.4 percent had at least some difficulty in hiring.

As shown in Table Nineteen below, the smaller the organization, the less likely it was to have hired in the past year. Thirty percent of organizations with budgets below \$51,000 did not need to hire compared to only 5.1 percent of those with budgets over \$500,000. However, if the table was recomputed, including only those organizations that had hired, there were no significant differences by size of budget in hiring because of what the organization could afford to pay.

**TABLE NINETEEN
TROUBLE HIRING BY BUDGET SIZE**

Trouble hiring because what could afford to pay	Budget		
	Lt \$50,000	\$51,000-\$500,000	\$501,000+
No	26.1	22.1	25.5
Not need to hire	30.4	24.4	5.1
Some difficulties	28.3	34.4	55.1
Major difficulties	15.2	19.1	14.3
Total	100% (46)	100% (131)	100% (98)

There were however, differences in terms of the ability to retain staff. As shown in Table Twenty, the smaller the organization's budget, the more likely it was to either not have difficulties, or to have major difficulties. The larger the organization's budget, the more likely it was to have some difficulties in hiring.

TABLE TWENTY
DIFFICULTY IN RETAINING STAFF BY BUDGET SIZE

Difficulty retaining because what could afford to pay	Budget		
	< \$50,000	\$51,000-\$500,000	\$501,000+
No	60.0	50.4	41.4
Some difficulties	24.0	37.4	53.5
Major difficulties	16.0	12.2	5.1
Total	100%	100%	100%
	(50)	(131)	(99)

P<.005

Table Twenty One confirms the hypothesis that an organization's legal status affects its ability to retain staff. Compared to nonprofit and public organizations, for-profit ones are less likely to have difficulty retaining staff. However, the difference, while statistically significant, is not a large one.

TABLE TWENTY ONE
DIFFICULTY IN RETAINING BY LEGAL STATUS

Difficulty retaining because what could afford to pay	Legal status		
	Nonprofit	For-profit	Public
No	47.1	62.5	41.4
Some difficulty	44.0	23.2	51.7
Major difficulty	8.9	14.3	6.9
Total	100%	100%	100%
	(191)	(56)	(29)

P<.05 (organizations categorized as "other" were eliminated from the table because of their small numbers)

It was also the case that for-profits were less likely than nonprofits and public organizations to need to hire staff (32.1 percent of profits did not need to hire compared to 15.3 percent of nonprofits and 13.8 percent of public organizations). Once this was taken into account, there was no difference in their difficulties in hiring staff because of what they could afford to pay.

Were particular areas more likely to have difficulties with labor costs? There were no differences between the major CMSA's and the remainder of the state in this regard. However, when the San Francisco Bay Area, with the highest housing costs in the country, was compared to the rest of the state, large differences emerged.

**TABLE TWENTY TWO
DIFFICULTY IN HIRING BY BAY AREA LOCATION**

Difficulty hiring because what could afford to pay	Inside Bay Area?	
	Outside	Inside
No	30.2	12.4
Not need to hire	23.1	11.3
Some difficulties	35.2	50.5
Major difficulties	11.5	25.8
Total	100%	100%
	(182)	(97)

P<.000

Organizations within the Bay Area were more likely to have needed to hire someone compared to the rest of the state. Perhaps, this reflects their larger budgets. However, even when these associations are removed and the tables percentaged again, the differences shown above persist. Organizations outside the Bay Area were more than twice as likely to have no difficulties in hiring because of labor costs (39.2 percent compared to 14 percent). Conversely, Bay Area organizations were almost twice as those elsewhere in the state to likely to have major difficulties in hiring (29 compared to 15 percent).

**TABLE TWENTY THREE
DIFFICULTY IN RETAINING BY BAY AREA LOCATION**

Difficulty retaining because what could afford to pay	Inside Bay Area?	
	Outside	Inside
No	57.3	35.0
Some difficulty	35.1	51.0
Major difficulty	7.6	14.0
Total	100%	100%
	(185)	(100)

Again Bay Area organizations were approximately twice as likely to have difficulties in staff retention because of labor costs.

Conclusion

The survey supports the view that rent burdens and labor costs are of concern to many arts organizations and that the results are concentrated in the region with the highest space costs – the San Francisco Bay Area. It further shows that the issue is not confined to nonprofit organizations; other types of arts organizations, assuming they rent, are equally affected. Interestingly, although more attention has been paid to the lack of affordable rental space, this study highlights the importance of labor costs. Employees are affected by high

rents as well. The study shows that Bay Area organizations are more likely than the rest of the state to have troubles in hiring and retaining employees, and that the differences between the Bay Area and the rest of the state are greater than is true for organizational rental costs as well.

However, there is nothing in this study to show that Bay Area organizations are more vulnerable to closure or relocation than is true for organizations elsewhere. Although there has been a great deal of publicity about the so-called “dot com take-over” of space in the Bay Area, this concern overstates the special vulnerability of Bay Area arts organizations. Instead, the study shows that Bay Area organizations are at risk, but so are organizations elsewhere in the state where rental increases may not be as dramatic. The study better shows that rents and labor costs are at issue for many arts organizations. It underscores the observations of many others, in pointing to the unmet funding needs of the arts world (see, e.g. McCarthy, Kevin F., Brooks, Arthur, Lowell, Julia and Laura Zakaras. **The Performing Arts in a New Era**. Santa Monica, CA: RAND, 2001.