

THE DOAN CENTER PROJECT
CLEVELAND, OHIO
A Case Study of Nonprofits as Players
in the Real Estate Development Process

by

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ABSTRACT

The purpose of this thesis is to explore the participation of nonprofits in the real estate development process by studying an actual case. The case is the Doan Center project, a large mixed use urban redevelopment area in Cleveland, Ohio. Nonprofits will be examined in terms of the distinctions that separate them from the public sector and the private sector. Characteristics of nonprofit participants explored in this study include motives, objectives, status, assets, and liabilities as they relate to real estate development. The Doan Center study is presented from the point of view of a small nonprofit planning and development entity. The study also examines the participation of larger nonprofit institutions. This nonprofit participation in large scale commercial development projects has become a more common type of venture in recent years. Both nonprofit institutions and other nonprofit entities can be very influential because they have a permanent presence in their cities, often control large tracts of land, and represent missions directed to the good of the public.

A general background of the Doan Center project is presented. Cleveland's economic and political contexts are described to give the reader a general sense of market conditions. The current status of the project is then described, as viewed by its participants. Next, a case study of one project component is presented. This component illustrates some of the basic issues of nonprofit participation. These issues are outlined and analyzed in the following section of the thesis. The final analysis extracts the major attributes of nonprofit participation in real estate development. The broader implications of these attributes for other nonprofits are described. As real estate ventures with the nonprofit sector become more prevalent, an understanding of the complexities involved will prove useful.

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PREFACE

The Doan Center project represents a very difficult challenge as a real estate development project. The Cleveland economy was hit hard by the last recession and by the City's default in 1978. The project area was cited as a target area critically in need of urban redevelopment. The project area inherits a history of institutional competition, neighborhoods which have endured periods of extreme instability (the Hough area was the site of major race riots in the late 1960's), and some past image problems of the Cleveland Clinic as seen by the adjacent community. The project also has some of the the major assets and strengths in terms of Cleveland's future. The Clinic is an expanding medical institution and a major employer. University Circle holds the city's cultural gems.

The issues brought to light by studying a complex urban redevelopment project in an economy which is just recently stabilizing and in some respects still declining, will often overlap with the overall thesis about the role of nonprofits in the real estate development process.

INTRODUCTION

The purpose of this thesis is to explore the participation of nonprofits in the real estate development process by studying an actual case. Specific illustrations found within the Doan Center case will be used to build an understanding of what distinguishes nonprofit participation from that of the public sector or private sector. This is one case and is not meant to be a comprehensive overview of all nonprofit institutions as players in real estate projects.

Nonprofit participation in the real estate development process has many precedents in small scale residential projects, but fewer in large scale commercial ventures. Neighborhood based organizations or local community development corporations are more common than the type of nonprofit involvement found in the Doan Center case, which is a large scale mixed use project.

Nonprofits occupy a unique position somewhere between the public sector and the private sector. Large nonprofit institutions, like hospitals, universities, and churches, tend to have large land holdings in cities across the country. Institutions do not tend to relocate frequently or easily, and therefore, engage in landbanking as a way to plan for future expansion. Institutional landholdings can be a valuable asset depending on the local real estate markets within which the institutions exist. Recently, these institutions have been tapping this real estate asset as a

way to fund their nonprofit missions. In the case of Doan Center, the institution creates the value for the land, rather than the local market. In this case, the institution's desire is to improve, revitalize, and control its surroundings. Also, in this case, the institution is not the central nonprofit player. A smaller nonprofit planning/development entity, called Doan Center, Inc., is the driving force behind the project.

As nonprofit involvement emerges in large scale development projects, a better understanding of these players is required. Nonprofits bring certain characteristics, motives, assets, and liabilities to the real estate development process. Understanding the implications of these factors can be useful to other players who may encounter the nonprofits as potential partners, landowners, and tenants in real estate ventures. These nonprofits create a new twist to the more common public/private partnerships found in many urban redevelopment projects.

The subject of this thesis is the Doan Center project in Cleveland, Ohio. The Doan Center site is five miles east of Downtown Cleveland, adjacent to the University Circle area. {See Exhibit A} University Circle is a unique concentration of the major cultural, educational, and medical institutions in the Cleveland area. One of these institutions, the Cleveland Clinic Foundation, controls almost half of the land within the Doan Center area. The Clinic employs 9,000 people, making it the largest single site employer in

Cleveland. The Clinic also sponsors Doan Center, Inc., a nonprofit corporation established to coordinate predevelopment activities for the Doan Center project.

To the extent that elements of the Doan Center project apply to the overall purpose of this thesis, because the elements illustrate the role of nonprofits; these elements will be explored in detail. The project is large, highly complex, and still in an early phase in its actual realization. Full detailed information on all aspects of the project will not be presented. At two points in the project, detailed reports on stakeholder, market, and physical analysis were prepared. These reports, prepared first by Halcyon, Ltd. and later by Enterprise Development Corporation will be used as reference material.

The thesis is structured in order to give the reader an understanding of the background and context of the project first. The Cleveland area has its own unique economic and political constraints, which are necessary to understand before Doan Center can be understood. The evolution and current status of the project, as it exists in 1987, is then examined. Challenges which face Doan Center are presented. Next, a case study of one project component, the Euclid Hotel Project, is used to illustrate an actual attempt at involving nonprofits with a private developer. Attention is given to current perceptions of the project, the process, and potential outcomes.

The next section of the thesis focuses on Doan Center, Inc., a nonprofit corporation, and analyzes the role of Doan

Center Inc. in the project, vis-a-vis the other players. To the extent that the Cleveland Clinic Foundation, as a major institutional presence, influences Doan Center, Inc., its participation will be analyzed. The Cleveland Clinic Foundation represents a nonprofit institution's role, while DCI is a nonprofit planning/development agency. Again, the characteristics, advantages, and disadvantages of nonprofit involvement in real estate is the subject of this analysis. Strategies for the future structuring of nonprofit participation will also be presented.

A final section will explore what implications this case has for similar nonprofits involved in large scale real estate development. Speculation will be made about which issues are and are not applicable to other cases.

Chapter One

BACKGROUND ON THE DOAN CENTER PROJECT

The Doan Center project is a proposed, mixed use, urban redevelopment master plan for a large area east of Downtown Cleveland and abutting University Circle. University Circle is a major complex of educational, cultural, and medical institutions, in a park-like setting. The Doan Center site covers about 250 acres and is bounded by Chester Avenue to the north, Cedar Avenue to the south, E. 79th Street to the west, and Martin Luther King Jr. Drive to the east. {SEE EXHIBIT B} Doan Center is more than a physical master plan, because its objectives include an economic revitalization of the area. The project's intent is to, "leverage city-wide benefits from the \$500 million institutional investment program that is now transforming the area." [1]

In terms of location, the Doan Center project also plays a crucial role in Cleveland's redevelopment. Downtown Cleveland is five miles to the west and accessed by several major roads which run through Doan Center. {SEE EXHIBIT C} These roads in turn link the city to its eastern suburbs. Euclid Avenue is the central thoroughfare of Doan Center. Recent planning studies have identified University Circle as the eastern hub the Euclid Corridor. Downtown is the hub Cleveland at the Corridor's west end. {SEE EXHIBIT D} As a link to the University Circle anchor, Doan Center can provide a critical connection between the Euclid axis, and the roads which radiate out to the eastern suburbs.

In addition to the estimated 30,000 employees in the Doan Center/University Circle area, east side commuters pass through Doan Center daily. The area attracts an estimated 17 million visitors annually. Students, workers, museum goers, patients and their families make up this visitor population. When the visitor population is restricted to outsiders (museum and medical users), 47,000 people visit the area on a daily basis. This is about 1/3 the amount that visit Downtown Cleveland.[2] The ability to attract these visitors and play off the area's cultural amenities is the potential the project possesses.

HISTORY AND BACKGROUND OF THE LOCATION

Historically, the Doan Center was known as "Doan's Corners," a center for entertainment and lodgings. The location experienced the following transformations:

Two hundred years ago, it was a wilderness. A hundred years ago, it was a thriving community that had recently been annexed to Cleveland. Fifty years ago, it was an entertainment and retailing center. Twenty-five years ago, it was a haven for pornography and strip joints.

Now, Doan Center may be on the verge of a renaissance as a residential and retailing center near by University Circle, one of the major cultural centers in the country.[3]

This "renaissance" includes substantial monetary investment (approximately \$500 million) by various institutions in the area.[4] It also includes a commitment of leadership, vision, and resources by institutions, neighborhood groups, and minority leaders to planning the future of the area.

The Doan Center project is bounded by four distinct neighbors. {SEE EXHIBIT E} These neighbors are residential to the north and south, institutional to the east and commercial/industrial to the west. Fairfax is a lower middle income neighborhood to the south of Doan Center. Fairfax has experienced some disinvestment and deterioration due to an aging homeowner population and migration to the suburbs. Hough is a neighborhood located to the north of Doan Center. Hough experienced major racial unrest in the 1960's and is probably best known for the Hough riots which took place in 1968. The Hough area has also experienced an economic decline, but recently has shown great local initiative in housing redevelopment. To the east of Doan Center is University Circle, a well landscaped setting for Cleveland's cultural "gems", such as the Cleveland Museum of Art and Severance Hall, home of the Cleveland Orchestra. Case Western Reserve University (CWRU) and its teaching hospital, University Hospitals are also major institutions in University Circle. {SEE EXHIBIT F} University Circle, Inc., a nonprofit service and development operation with a membership of 37 institutions, is prominent in the area's activities. To the west of Doan Center is an area currently known as the Midtown Corridor. Midtown Corridor is another planning area similar to Doan Center, but based largely on business development and revitalization.

Approximately 100 acres in the Doan Center area is owned by a major medical institution, the Cleveland Clinic Foundation. {SEE EXHIBIT G} This is less than half of the

total 250 acres in the project area. After considering relocation to the suburbs during the 1960's, the Cleveland Clinic decided to maintain its commitment to a location it has occupied since its founding in 1921. In 1974, the Clinic began quietly acquiring property, and piece by piece, assembled a large tract of urban land. In the 1970's the Clinic also began to prepare a long range plan for its needs.[5] Evidence of the Clinic's commitment to its Doan Center location can be seen by the large amount of Clinic facilities constructed recently. These include a major building by world renowned architect, Cesar Pelli. The Clinic's most recent expansion represents an investment of about \$300 million in its own facilities.[6] Another major institution within the project boundaries is the Cleveland Playhouse. The Playhouse recently completed an addition to its theatre complex, designed by Phillip Johnson, a native Clevelander.

DOAN CENTER'S ECONOMIC CONTEXT

For purposes of understanding economic trends which ultimately affect the Doan Center real estate market, one must look at the area's location relative to the Northeast Ohio region, Cleveland Standard Metropolitan Statistical Area (SMSA), City of Cleveland, and Downtown (CBD). Doan Center is located within the City of Cleveland, but not within the Downtown area. Doan Center and University Circle are at the City's eastern boundary. Doan Center is in closer proximity to the eastern suburb of Cleveland Heights than it is to

Cleveland's CBD. The Greater Cleveland area or SMSA includes four counties: Cuyahoga, Lake, Medina, and Geauga. The City of Cleveland is in Cuyahoga County. The Northeast Ohio region includes four SMSA's: Cleveland, Akron, Lorain, and Elyria. {SEE EXHIBIT H}. [7]

Economically, the City of Cleveland has been hard hit by two major trends; migration from the city to the suburbs and a shift in the national economy from manufacturing to service sectors. Although employment growth in the Northeast Ohio region and the Greater Cleveland SMSA is projected to be static, the City of Cleveland is projected to continue losing jobs and population. Growth in the Cleveland area's service sectors will just about offset the tremendous loss in the manufacturing sector. However, service sector jobs have not historically paid as well as manufacturing jobs. This fact implies a decline in Cleveland's income. [8]

A 1981 McKinsey study entitled "Cleveland Tomorrow--A Strategy for Economic Vitality," described a long term problem in the Northeast Ohio region's inability to keep pace with national employment trends or those of other frost belt cities. From 1967 to 1978, the national employment growth rate was 33%, and Cleveland's was 12%. The area also lost 6 of its 28 Fortune 1000 corporate headquarters. Chase Econometrics ranked Cleveland 105 of 108 metropolitan areas for projected job growth in the 1980's. This study also points out a problem in Cleveland's limited participation in growth industries. Cleveland has also failed to be competitive in attracting federal R & D grant funding to area

educational institution's. The nonprofit corporation, Cleveland Tomorrow, was established to define and implement strategies which would address these problems. [9]

In terms of trends, most areas, including the SMSA experienced a decline in employment from 1979 to 1983. This decline was about 10% of total employment. The SMSA has reversed this decline since 1983, recovering 70,000 of 90,000 jobs lost. SMSA projections are for stability. The City is projected to continue a decline in employment, losing 40,000 jobs by the year 2000 for a projected total of 300,000 jobs. Some share of this loss will go to the suburbs. The Downtown area employment is projected to grow, as this is the location for most FIRE sector (Financial, Insurance, and Real Estate) and professional jobs. [10] The one area besides downtown that did not experience a decline in employment from 1976 and 1984 was the Euclid Corridor. [11] Doan Center is within this Euclid Corridor area.

Many people in the Cleveland area believe that the worst is past, in terms of decline, and that while 1979 to 1983 was a bottoming out, 1983 represented a turning point. Since 1983 rates of decline have slowed or reversed.

The second component of the Cleveland area's economic context is population. The City is divided into an East Side and West Side by the Cuyahoga River which flows into Lake Erie. Doan Center is on Cleveland's East Side. The East Side has lost population at a far greater rate than the West Side and this trend is projected to continue. The region of the city which contains Doan Center is projected to have the

heaviest population losses. Cleveland is not only losing households; it is also experiencing a decline in household size attributed to a lower birth rate and increased number of senior citizens. This decrease in household size is projected to level off. The number of households in Cuyahoga County is expected to grow.[12]

The city of Cleveland has historically been a poor competitor with its suburbs in terms of attracting residents. Factors contributing to this are easy accessibility by car from the suburbs to the city. Roads have the capacity to carry traffic, and parking is ample. Also, there is not a large amount of existing housing stock in the immediate downtown area, so that the city has not experienced gentrification as some other urban areas have. In downtown Cleveland, some indigenous revitalization is occurring in an area called "the Flats" along the river. There is existing housing stock beyond downtown, and within the city; but this is older in relation to the suburbs. Housing prices in general are low compared to other cities. In the last quarter of 1986, the Median House Price for an existing single family home in the Cleveland metropolitan area was \$65,100, while Boston's was \$167,800.[13] Rents average \$450 to \$500 in the Doan Center area and \$450 to \$600 in the suburbs for a one bedroom suite. Commercial land values along Euclid Avenue near University Circle were estimated at \$3/SF, although this varies considerably depending on the exact location.[14]

The City of Cleveland recently undertook a study of

employment and population trends in the area and region as part of its CIVIC VISION comprehensive plan. (More detail on Civic Vision is contained in the following section on Cleveland's political context.) Prior to Civic Vision, the city produced a document entitled, "Target Area Investment Program." This contained an economic development strategy for an area on Cleveland's east side. {SEE EXHIBIT I} Doan Center is part of this target area, which the city recognized as being in dire need of economic revitalization. Doan Center's surroundings: Midtown Corridor; University Circle; Hough; and Fairfax were also included in the target area. {SEE EXHIBIT E} The city hoped this area would become a federal enterprise zone. [15]

Reasons for the attention given to this Target Area and Doan Center were that the area experienced the greatest rate of population loss and decline in household income; yet maintained increasing employment. Fairfax and Hough experienced some of the greatest rates of population loss from 1970 to 1980 (42% and 44%).[16] {SEE EXHIBIT J} These rates have slowed in the 1980's, and are projected to be about half what they were. This is consistent with projections for the city as a whole.

Household income in the Doan Center area was 35% of the typical household income in the county in 1980. Mean household incomes were projected to stabilize in the City, and increase in the County. The region within the City which contains Doan Center was projected to have the City's lowest mean household incomes by the year 2000. This income was

projected to be \$12,777 in 1985 dollars. [17]

Within a general economic context of declining population and income, and stabilized employment, the Cleveland Clinic has emerged as one of the strongest performers in Cleveland. The Cleveland Clinic Foundation has become the City's largest employer at a single site, with a work force of about 9,000 people in 1987. [18]

While Cleveland is experiencing double digit unemployment, the Cleveland Clinic is continuing to expand its work force, at a rate of about 5% per year. General medical employment in the area is growing at a rate of 3.5% per year. [19] The Clinic's recent physical expansion has also created construction jobs. In 1984, when the Clinic employed 7600 people its total payroll was \$200 million. This represented \$4 million in tax revenues to the City of Cleveland, and \$7.3 million to the State of Ohio. A 1984 estimate of local expenditures by employees on goods and services was \$133 million. A \$228 million bond issue to fund expansion was received favorably by investors in 1984. The bond issue was the largest ever brought to market by a freestanding health-care institution. [20]

The Cleveland Clinic, by maintaining a market targeted at seven states and international presence, has managed to run counter to the prevailing economic trends in the Cleveland area. Its next largest competitor is the Mayo Clinic. [21] The Clinic presence creates much of the value for its surrounding land. Understandably, the Clinic has become a valuable institution to the city and its residents.

The Clinic's value, in conjunction with University Circle's strong concentration of cultural amenities, educational and medical facilities, create the underlying strength for the Doan Center project to build upon.

DOAN CENTER'S POLITICAL CONTEXT

Background on City's Political Structure

George Voinovich has been Cleveland's mayor since 1980. Voinovich, a Republican, has announced plans to seek a Senate nomination in 1988. Prior to his term as mayor, he was Lt. Governor of the state of Ohio. Cleveland's next mayoral race will be in 1989. During Voinovich's tenure, the two year mayoral term was changed to four years. [22]

Cleveland's mayoral elections are based on a party system. Cleveland has a strong council government which is ward-based. Wards are set by contiguous geographical areas, and there are no at-large city councilmen. Every ward has an identical number of constituents.

All 21 councilmen are Democrats. Some perceive that the Democratic council has a better coexistence with a Republican mayor, since party politics are non-competitive. In 1987, Cleveland has a white ethnic mayor and a black Council president, George Forbes. Forbes has been prominent in Cleveland politics since the 1960's. The Council President is very powerful, almost equal to the mayor. Council representation is split almost 50/50 between blacks and whites (10 black reps, 11 white reps). This division occurs in a pattern similar to the voting population, on an

east-west basis. [23]

Doan Center is in Ward 6 and Artha Woods is the councilperson. She is also council's representative to the city planning commission; and therefore, chairperson of the council's planning committee. University Circle is in Ward 9 which is George Forbes' ward. Woods, for the most part, supports the Cleveland Clinic and its expansion plan. In one race her opponent was anti-institution, but also had personal integrity problems; she won. [24] The Clinic employs 15-20% of the residents in the local community. [25]

The city took a new approach to real estate development under the Voinovich era. Prior to Voinovich's term, Dennis Kucinich was Cleveland's mayor. The youngest man to be elected to that office, Kucinich ran on a populist platform, and was very anti-business. Kucinich came very close to being recalled, after the city defaulted on its bond repayments in 1978. Some believed Ameritrust, the bank, called the loans for political rather than financial reasons. Voinovich is pro-business and pro-development, as long as the development doesn't result in displacement of residents. Cleveland does not have a problem of land shortage or gentrification. The city has lost 49% of its population since the early 1950's. Development is seen as filling voids. Conflicts over development are not prevalent. [26]

The city wants to encourage development of housing, night life and hotels. The city recognizes the medical institutions at University Circle as a way to counter current employment trends and generate spin off economic development.

The private market has shown more interest in developing the downtown area. The city is interested in leveraging private sector initiative, particularly for areas like Doan Center.

For an urban redevelopment project like Doan Center, the city does not have one central department or agency (i.e., a redevelopment authority). Instead, three departments would handle a project of this type. They are the City Planning Commission, the Economic Development Department and the Community Development Department. Development Service Teams were established in order to reintegrate the three departments within the city's administration that deal with real estate development. One DST is assigned to each Civic Vision region.

Economic Development and City Planning have played a more active role in Doan Center. The City Planning Department's involvement is with policy planning. Zoning, in the past, was reactive, not proactive. However, the new comprehensive plan, Civic Vision, may shift this trend.

The Director of Economic Development is Andy Udris, and was formerly Gary Conley. This department handles physical development, because of its contact with real estate developers. Economic Development also processes Urban Development Action Grant (UDAG) applications. Under Gary Conley's tenure, Economic Development turned around Cleveland's priority with the Federal Government in terms of UDAG's. Udris came from HUD and was Conley's assistant. He was perceived as the UDAG wizard for the city. Cleveland is now the biggest recipient of UDAG grants. The city is

willing to facilitate with UDAG support for the Doan Center project. [27]

The Civic Vision Plan

By Autumn of 1988, the City of Cleveland expects its CIVIC VISION plan and requisite zoning changes to be complete. Civic Vision was funded with \$1 million in private funding from the following sources: the Cleveland Foundation, the Gund Foundation, Cleveland Tomorrow, and Standard Oil Foundation. The city matches foundation funding with staff support. Some staff positions are directly funded by the Foundations.[28] Cleveland has a unique asset in the abundance of private, nonprofit funding sources which show an interest in civic minded undertakings.

Civic Vision is the new physical, land use and zoning plan with projections out to the year 2000. Citizen input was solicited through regular public meetings. Business and institutional input was not directly solicited in this way, but is sought and provided. These groups seemed to have more of a direct line to the mayor or other powerful people at city hall.

Land Use Plans developed in Civic Vision will be used to update zoning. Zoning was adopted in Cleveland in 1929 and the most comprehensive revision was done in the 1940's. The last comprehensive urban plan was done in 1949. The population in the city of Cleveland was over 900,000 in the 1940's and is now down to 435,000.

The City Planning Commission has, for the most part, incorporated what Doan Center, Inc. and University Circle,

Inc. proposed for their areas. As the planning staff described it, May and Gleisser were given a blank map and asked what they wanted. Planning saw this area as an "institutional island" and saw no reason to oppose what DCI and UCI wanted. Neighborhood input in that area was not great. The Council Representative supports Doan Center Inc.'s intentions. According to the Planning Department, there was no active constituency which would be opposed to DCI's plan, although conflicts might arise over what type housing would be best for the success and viability of the area. [29]

Cleveland's Tax Base

The City of Cleveland has improved its fiscal status since the bond default of 1978; but it still faced major problems in 1987. The city's tax base was largely funded by income tax, which contributed 80% of the tax revenues. Property tax contributed the other 20%. [30] Declining employment in the city means a declining tax base. Also, public infrastructure investment which was deferred in past decades will eventually pose a major expense in future city dollars. [31]

In Cleveland, tax abatement was used in the 70's for downtown office buildings. Kucinich ran on an anti-tax abatement platform. In 1986, the city reinstated tax abatement for new residential development only. To date three projects have been approved. Mayfield Triangle at University Circle is one of the three. Each time a project goes for tax abatement, it is reviewed by City Council on a

case by case basis; because the state law doesn't differentiate between commercial and residential uses. [32]

Nonprofit institutions like the Clinic are exempt from property tax on land used for institutional purposes. The Clinic does not make payments in lieu of property taxes. However, as a major employer, the Clinic contributes substantially to the payroll tax revenues. [33]

Tax Increment Financing is permitted by state law but not used. The city must purchase the land in question and then execute a ground lease with building owners. So if the land was leased to a single owner it might be easier. The city has used special assessment districts to generate funds for improvements. [34]

The City's Role in the Doan Center Project

The city will facilitate the private forces which are leading the project, but won't take the lead in planning the project. The City Planning Commission will be open to zoning changes for the area. The City will help by using eminent domain. CPC can conduct blight studies in conjunction with community development plans, in order to use eminent domain. The city is ready to do this for Doan Center. There is no city-wide design review or controls. A Public Land Protective District designation would establish urban design guidelines for implementation. The Fine Arts Committee would then administer these guidelines. The Euclid Corridor is not currently a protective district. Conformance to design guidelines in that area has been at the initiative of groups like Midtown Corridor, DCI and UCI. Any project that uses

UDAG grants or eminent domain would be subject to design review by the Fine Arts Commission. [35]

Approvals

The process for zoning changes is that an applicant brings a proposal to the City Planning Commission, which acts in an advisory role to City Council. City Council then votes on the proposed change. There is a strong tradition in Cleveland of deferring to the opinion of the ward councilman on zoning issues.

A strong environmental review process, like California's or Massachusetts', does not exist in Ohio. The State EPA has been weak as far as supporting Federal EPA positions. This was especially true when Rhodes was governor. Ohio has no regulation on auto emissions and does not inspect vehicles. The State is very "free enterprise", with regard to environmental issues. [36]

Cleveland has a history of effective public/private partnerships for neighborhood based residential developments. These partnerships on larger commercial ventures are a recent trend in Cleveland. These partnerships exist largely because of private foundation's, business' support, and the city's ability to access UDAG funds. The mayor's hope is that these new ventures will transcend politicians and political changes. However, corporation's and foundation's willingness to support development projects may be tied to political administrations. Groups like Doan Center Inc. and Midtown Corridor were seen as ways to get the corporations and foundations directly interested in specific planning areas,

so that if the mayor changes, the support will remain. If this support remains, Voinovich may have created a very effective legacy for implementing functions commonly taken on by city government.

EVOLUTION OF THE CURRENT DOAN CENTER PROJECT

The origins of planning for Doan Center can be traced to University Circle, Inc., where plans prepared in the 1970's included a "New Town In Town." [37] The Doan Center area began to emerge as one needing independent attention in the early 1980's. The planning concept which set Doan Center in its own strategic location was rooted in the Euclid Corridor, sometimes called the Dual Hub Corridor. {SEE EXHIBIT D} The Dual Hub Corridor is also the focus of a joint study funded by UMTA, which is analyzing the feasibility of improved transportation along the corridor. [38]

Euclid Avenue is to Downtown Cleveland as Broadway is to New York. It is the one street which runs diagonally to a grid of streets that emanates from Cleveland's Public Square. Once Euclid Avenue gets out to the Doan Center vicinity, it runs parallel to the grid of city blocks. Euclid Avenue was historically known as Millionaire's Row. The mansions that housed Cleveland's leading industrialists have, for the most part, been demolished. Euclid Avenue, like the rest of the city experienced a period of decline. Recently, it has emerged as a focus for reinvestment.

In the summer of 1981, the Euclid Corridor, and Doan Center, particularly, became the focus of a conference called

by Mayor Voinovich, University Circle, Inc., and the City Planning Commission. Voinovich believed strongly in the necessity of establishing private, quasi-public sector interest groups to plan for and implement urban redevelopment strategies. The justification for this private sector basis was to ensure that planned redevelopment would transcend the winds of political change at city hall.[39]

Under the leadership of Richard Tullis, the Doan Center Task Force (DCTF) was formed in late 1982. Tullis is the former chairman of the board of Harris Corporation, a major Cleveland corporation which has relocated to Melbourne, Florida. Tullis had been very active in the University Circle and Hough areas, and was part of the leadership structure of University Circle, Inc. (UCI). Tullis was instrumental in soliciting the support of the Cleveland Clinic, and the leadership of William Kiser, the Clinic's C.E.O., for the DCTF. The membership of the task force provided \$150,000 in funding to conduct a financial and physical planning study for the area. This study was managed by UCI's Community Development Department, which included Ken McGovern, Mike May, and Marvelous Ray Baker. These three later formed the professional staff for Doan Center, Inc.[40]

Members of the Doan Center Task Force were:

- The Cleveland Clinic Foundation
- University Circle, Inc.
- Case Western Reserve University
- The Ohio College of Podiatric Medicine
- Woodruff Hospital (no longer in business)
- Women's General Hospital (no longer in business)
- Cleveland Health and Education Museum
- The Cleveland Playhouse
- Ohio Industrial Commission
- Operation Alert(a minority leadership group)[41]

Halcyon Ltd., of Hartford, was retained to produce a feasibility study which included market, physical, and stakeholder analyses. Sasaki Associates worked with Halcyon to produce a master plan which broke the site down into components according to uses and phasing.

In Halcyon's 1984 report, the following results and issues were described:

As in other active Euclid Corridor sectors, such as Midtown, Playhouse Square, the St. Vincent Quadrangle and University Circle, the Doan Center stakeholder interests have had to organize in order to leverage their discrete corporate and institutional investments into maximum physical and economic benefits for the district, city and region. The Task Force's fundamental challenge is to accommodate its members' needs consistent with contiguous residential and commercial development. Critical issues that have surfaced include how to avoid creating both physical and economic "walls" between the proposed development and the surrounding community; and how to extend the quality environment that this development represents to the areas north and south.

In pursuing these important issues, the Doan Center Task Force has worked closely with the City Planning Commission, the Mayor's office, City Council leadership, local development groups (e.g. MidTown) and neighborhood groups operating in the Fairfax and Hough neighborhoods (including New Cleveland-6 and Hough Area Development Corporation). It is critical that these working relationships continue, particularly with the professionally staffed neighborhood entities, in order to establish broad community support as the Doan Center process enters the City's Community Development Plan stage. [42]

Halcyon's report, "concluded that the large-scale change, so often articulated as being needed by all sectors, was achievable." [43] The large population of workers and visitors to the area were seen as a potential market, yet

untapped. Markets were found for community and specialty retail, hotel, and residential uses. The report also acknowledged that most development in the area would require some type of financial subsidy, either grants (UDAG's), low interest loans, tax increment financing, tax exempt bonds, or public subsidy of infrastructure improvements. [44]

Halcyon produced a master plan which created eight components, with a total projected budget of over \$250 million. {SEE EXHIBIT K} Halcyon identified the mixed use retail, office, and hotel/conference center component at the east end of the site near University Circle, and market rate housing on Euclid Avenue across from the Clinic as the two components for immediate focus. Reasons for this strategy were that these two pieces could have the greatest positive impact on changing the area's image to a positive one. They were sited (at that time) on Clinic owned land, and they did not displace residents. [45]

Halcyon also marketed the project to national developers and solicited their feedback. Although developers were impressed with the depth of information provided and the strength of the "localized" market due to the institutions, they rejected the opportunity to participate in the area's development because investment objectives could not be met; feasibility was contingent on local decisions not yet resolved; too much predevelopment work would be required for the amount of risk involved; and not enough return available for the time and effort.[46]

Mike May, V.P. of Doan Center Inc. described the

response to the Halcyon study with private developers as follows:

- 1) The location, which was five miles east of downtown Cleveland, could be a problem.
- 2) The Cleveland image, which had negative connotations nationally, was a problem.
- 3) More predevelopment work was needed to establish exactly what land was available, and what financing sources were available to finance gaps between project costs and revenues.

Mike May noted that even though developers had these concerns, the fact that they gave the project serious attention was an accomplishment. [47]

DOAN CENTER, INC.

The Halcyon report also recommended the formation of a formal entity to oversee predevelopment work for the Doan Center area. In July, 1984, Doan Center, Inc. was established as a nonprofit, 501(c)3, corporation with a \$500,000 operating budget. Doan Center, Inc. is responsible for the planning process, communicating with major stakeholders, and acting as brokers to seek out and bring in private developers. Doan Center, Inc.'s purpose was to take on the "table setting" predevelopment functions in order to prepare people, parcels, and projects in the Doan Center area for redevelopment.[48]

Objectives

Doan Center, Inc.'s objectives as stated in 1985 were to:

- 1) Produce large-scale, early development with resultant regional impact that is large enough to capture the

broad-based community support essential to implementation of all other Doan Center components.

- 2) Obtain strong institutional and neighborhood support for housing and commercial development and the accompanying public improvements necessary to dramatically improve the area's image.
- 3) Achieve an economically and racially integrated community of high quality that has a regional identity and contributes to the vitality of the institutional members and to the City of Cleveland.

Sub-objectives of the stakeholders were then defined as:

Institutions: A high quality hotel/conference facility, specialty retail facilities, and employee-related middle income housing.

Neighborhood Groups: Affordable senior citizen and moderate-income housing, community retail facilities, and active participation in the implementation of the development strategy.

City of Cleveland: Leveraging the proposed development to generate new jobs and improve tax revenues. [49]

Doan Center, Inc. (DCI) continued under the leadership of Richard Tullis for its first 18 months. Tullis relinquished this position to Herbert Strawbridge, who was perceived as a neutral figure, with no special connection to any of DCI's institutional members. Strawbridge is a prominent Cleveland retailer, and former president of Higbee's, a major Cleveland department store chain. His title is Chairman of the Board. Tullis remained a player in the project because of his involvement with UCI. [50] DCI's professional staff was established with McGovern as president, May as Vice President, and Baker as Assistant Corporate Secretary. Membership changed slightly from the original Task Force. University Hospitals joined in July, 1984 and Mount Sinai Hospital joined in 1986. The Ohio

Industrial Commission is no longer involved with DCI. [51]
{SEE EXHIBIT L FOR A LIST OF MEMBERS}

Funding for Doan Center, Inc.'s operation came from its member institutions and local philanthropic foundations. The Cleveland Clinic funded 50% of DCI's initial operating budget. The George Gund Foundation, the Cleveland Foundation and the Standard Oil Foundation contributed \$600,000 for a predevelopment study prepared by Enterprise Development Corporation, and for DCI's operating support. This study and plan focused on the Mixed Use Component of the Halcyon plan. {See Component I in Exhibit K} Proposed uses for the Mixed Use Component included a hotel, conference center, and specialty retail. EDC's founder, James Rouse, is famous for creating urban festival marketplaces, such as Faneuil Hall in Boston and Harbor Place in Baltimore. Specialty retail is one of his fortes. [52]

Strawbridge was influential in attracting James Rouse's attention. Rouse is a prominent national developer. Rouse's recently formed company, the Enterprise Development Corporation (EDC), is the for-profit arm of the nonprofit Enterprise Foundation. The Enterprise Foundation is committed to the development of low income housing in urban neighborhoods. The Enterprise Foundation is quite active in Cleveland, and works closely with the neighborhood development efforts of groups like Cleveland Tomorrow. EDC is involved with many public/private retail development ventures in "second tier" cities. EDC usually undertakes these risky ventures with substantial public sector support

for land costs and financing. Rouse was sufficiently convinced of the Doan Center project's viability to agree to conduct a predevelopment study for the Mixed Use Component. The developer performed this work, which included in-depth site analysis, market analysis, and component specific strategies, for a fee. [53]

EDC has recently completed its predevelopment analysis. It concluded that there was a strong market for the specialty retail. EDC's commitment to the hotel and conference use was not as strong. Therefore, EDC was seeking guarantees for bookings or roomnight rates. [54] One result of the EDC study was to shift the location of this component from the location proposed in the Halcyon study. EDC also prepared an updated master plan which reflected changes and refinements that had taken place in other components of Doan Center. {SEE EXHIBIT M} The new proposed location for the Mixed Use Component, which was a strategic improvement in terms of establishing a physical connection with University Circle, has some inherent difficulties. These include the site's location within a 100 year flood plain, the required relocation of city roads, and sharing a parcel with John Hay High School, land controlled by the Cleveland School Board. As of 1987, EDC expects the site assembly and preparation work to take about two years. DCI, as a local influence, will conduct this site assembly work. The level of institutional commitment, in the form of subsidies or roomnight guarantees, to the Mixed Use Component is also an area of question in the summer of 1987. [55]

In its current stage of evolution, the Doan Center project has made some strategic improvements. The mixed use component now physically occupies a site which links and reorients the east end of Doan Center to University Circle. {SEE EXHIBIT N} Issues of consensus and stakeholder interests have been explored in greater depth. Participants have been kept up to date and informed. (This was evident from the consistency of the participants' information on the project.)

Signs of revitalization are appearing throughout the area. UCI's residential project, the Mayfield Triangle, has both developer and city commitment. The State's \$60 million W.O. Walker Rehabilitation Center is nearing completion. Community initiated development has been occurring in adjacent neighborhoods ---Lexington Village in Hough, and residential developments in the Fairfax area planned by New Cleveland-6 and NOAH. Local private developers have shown an interest in the community retail component at the west end of the site. Also, a proposal to combine a Clinic-operated hotel with market rate housing have emerged, failed, and reemerged again in a different form. This project, the Euclid Hotel, will be the focus of an in-depth case study as part of this thesis.

Generally, Clevelanders seem to be more optimistic about the local economy than they were three years ago. Evidence of construction and redevelopment activity can be seen Downtown. The atmosphere is one of anticipation.

Chapter Two

CURRENT STATUS OF THE DOAN CENTER PROJECT

PARTICIPANTS' PERCEPTIONS

In general, perceptions about the Doan Center project and the process Center were fairly consistent; at least among the stakeholders who were interviewed. (See Appendix A for List of Interviewees and Note on Sources). Differences of opinion were more apparent in terms of expectations about the project's implementation and outcome. In 1987, with planning and predevelopment well underway, implementation and realization of the plan is the current challenge. Almost five years of study have passed, and the original ten year time frame is still seen as realistic by the staff. The less direct participants found progress in the time expended to be an area of concern. Consistency in how the parties understood the Doan Center project (terms like table setting, stakeholders, and consensus building were used over and over), seemed to indicate that the professional staff was doing its job in terms of keeping the parties informed.

Participants viewed the role of Doan Center, Inc. as one of "table setting". The DCI organization was seen as a group of planners, but not necessarily implementors. Some believed the planning was very focused on physical plans while others felt it encompassed broader issues of economic and neighborhood development. Table setting encompassed predevelopment studies, development of relationships with City officials and the community, and changing people's

perceptions of the area in terms of what they can imagine it being. Most participants saw DCI's role as a difficult one. Parties interviewed appreciated the problems that the DCI staff would encounter in trying to bring so many institutions together on a project like the Mixed Use Component. Some raised this inter-institutional relationship as a possible obstacle to the project's success. The historic rivalry between the University Circle medical establishment and the Cleveland Clinic was perceived as a problem because cooperation among institutions would be required for Doan Center to achieve its objectives.

A sense of impatience and high expectations was also common among some of the indirect participants. They felt that since Doan Center Inc. had the backing and clout of the Cleveland Clinic's membership, DCI and the project should be able to accomplish more, in a shorter time frame. The direct participants felt the project was progressing on schedule, more or less.

Most parties interviewed perceived the project primarily as the Mixed Use Component, yet understood that the project had a broader scope. This component received the most coverage in the local press, perhaps because of Rouse's involvement. The emphasis on the Mixed Use Component is understandable since, singularly, it has the most potential to transform the image and character of the Doan Center site. People may have expected that project to move first, while in actuality, other components are further along in the development process (the Community Retail, the Euclid Hotel).

Most participants were convinced of the market for the specialty retail and conference center; and also of the need for a hotel of some size. Some also felt that residential uses in the area would succeed, particularly apartments priced in the \$450-\$500/month range. One party labelled the project, "institutional infill".

In terms of market, some perceived the Doan Center project as inevitable because the area had "latent demand". This perception was directed to the mixed use piece, which people felt would be realized in some form or other, with or without DCI to facilitate it. Others had less of a laissez faire attitude towards the Doan Center project and had some genuine concerns for its success. These concerns rallied around the issue of whether the Cleveland Clinic is truly behind the project and willing to take concrete actions which demonstrate this commitment. These commitments ranged from guarantees of hotel/conference use to a willingness to act as lender. *Interestingly, the Clinic seems to feel it has done enough by providing risk capital for predevelopment.*

Physical obstacles to the planned location of the Mixed Use Component were also seen as problematic. Many were very skeptical about the chances of relocating John Hay High School or coexisting with it. Other problems were seen as an unclear definition of the actual project. Because the project has undergone some changes through its evolution, some participants wonder what its current status really is, and whether a formal proposal will ever be put on the table for action.

The project has considerable support from the City, to the extent that the City can provide support. The City Planning Commission, at this point, sees no major obstacles to the project as far as approvals. Other participants, such as developers, did not perceive zoning or other city approvals to be an obstacle. The City saw its role as facilitator, not leader, on the Doan Center project. Financial support from the City for the project will be somewhat limited, due to fiscal constraints, or possibly due to the City's tradition of reactive rather than proactive participation in physical development. Mayor Voinovich seems to be interested in turning this position around, by building a base of nonprofit planning/development entities. The City is ready and waiting with funds for engineering studies on road relocations, eminent domain power, and UDAG support. The City has given this project top priority, along with four others, and expects it to accomplish the physical revitalization and economic stimulation that were its objectives. [1]

Views on the planning process used for the Doan Center, Inc. included: a learning process, an important exercise, constituency building, too much consensus building, too politically focused, not action oriented. In a positive light, the staff was seen to have a high degree of credibility and some were impressed with how well they have managed to solicit input of stakeholders. The process is perceived as a genuine effort to integrate people's views, if in a somewhat indirect way. One suggestion was made to

actually open up the process to more direct community input, possibly on a component by component basis. Others suggested closing down the process, in a way, and looking for a 51% majority rather than complete consensus.

The process has succeeded in laying the groundwork for future action. Compared to 1984, the participants now have a raised awareness of the project and its possibilities. The stakeholder relationships built over the past few years will now be tested, in terms of strength, when action is finally taken. The challenge now will be whether the Doan Center project can pass the barriers in the implementation phase and become a reality.

THE CLEVELAND CLINIC FOUNDATION

An in depth examination of one major stakeholder, the Cleveland Clinic Foundation, is necessary to understand the Doan Center project. The Clinic plays a dominant and often multi-faceted role in the project. It holds land, will directly and indirectly use facilities, and may become a partner on future projects within the Doan Center area. The Clinic also has its own objectives for its landholdings and their surroundings. The influence and presence of the Clinic is central to the topic of this thesis. The following section focuses on the Clinic in order to clarify its position in relation to the project.

The Cleveland Clinic Foundation is a National Referral Center and an international health resource dedicated to providing excellent specialized medical care in response to public need. The integration of research and education with outpatient and hospital

care in a private, not-for-profit group practice distinguishes The Cleveland Clinic Foundation in American medicine. Multidisciplinary interaction stimulates each doctor's individual quest for effective, less costly solutions to the most complex medical problems. Together, the men and women of The Cleveland Clinic Foundation strive to enhance the quality of life for each patient. [2]

More simply, the Clinic's mission is to provide tertiary medical care and to support research and education. The Clinic is, in effect, a very large group practice. About 500 doctors own and operate the nonprofit institution. The Clinic's commitment to research and education is what enables it to function as a nonprofit. (About half the nation's hospitals are nonprofits.) Any profit earned is reinvested into research, education, and real estate held for future institutional uses. Recently, the Clinic reinvested \$8-10 million in research. The Clinic also recently invested close to \$300 million in its Cleveland facilities and plans to invest that much or more in a satellite facility in Fort Lauderdale, Florida. The Clinic has a facility in Turkey.[3]

The Cleveland Clinic was founded in 1921 by four doctors who left University Hospital to start a group practice. This legacy of the split from University Hospital is still apparent in the different philosophies and operations of the two hospitals. [4] The Clinic is run by a Board of Trustees, a lay board, and a Board of Governors, the doctors. The Chairman of the Board of Governors is William Kiser, M.D. Kiser is viewed by many as the ultimate decision maker within the Clinic, particularly with regard to the Doan Center project. The Board of Governors has programmatic

responsibility, while the Board of Trustees has fiscal responsibility. The Board of Governors has in the past gone beyond its medical mission to take on fiscal issues. During the last major Clinic expansion, the Clinic issued debt on a real estate venture for the first time in its history. At that point, the Trustees pulled in the reins on the domain of the Governors.[5]

Background on Clinitec, Inc.

The nonprofit Cleveland Clinic Foundation is the sole stockholder of a for-profit entity, Clinitec, Inc. Clinitec undertakes the Clinic's business ventures which are not directly related to its mission. These include some of the more commercial research and development activities, licensing agreements, royalties for inventions, and possible joint ventures with other R & D companies. Clinitec, Inc. is also responsible for those real estate development operations which are considered unrelated business of the nonprofit Clinic. Prior to Clinitec's establishment in 1983, Jack Auble, a former real estate attorney had that responsibility. Development at that point was primarily acquisitions related.

The IRS has begun challenging not-for-profits that go into unrelated business. A clear definition of the criteria that establish a related or unrelated business is difficult to make. To be safe, Clinitec, Inc. provides a filter for taxable revenues before these revenues feed back into the nonprofit, Cleveland Clinic Foundation.

David Goss, the director of Clinitec, has been active in

developing a Corporate Social Responsibility Policy for the Cleveland Clinic. Until this was recently completed, the Clinic had no formal mechanisms for supporting the community around them. Goss was originally hired as Director of Urban Development, prior to the formal establishment of Doan Center, Inc. Once DCI was established in 1984, Goss became responsible for interacting with this organization. As he explained it, DCI was perceived as a development corporation for the Clinic. When it became more obvious that Doan Center was, "only a Clinic undertaking", the decision was made to create a separate entity to deal with it. Now, about 1/3 of Goss' time is spent on Doan Center. Also, the Clinic made a conscious decision not to get involved in real estate development, which did not directly serve its mission.

The Clinic's objectives with regard to real estate are to support projects which allow it to achieve its mission. To this end, the Clinic also supports services for its visitors. Therefore, projects which will make the Clinic's environment more attractive to its patient base and more competitive in attracting physicians are also indirect objectives.

The Cleveland Clinic Foundation's original policy regarding the land it bought during the 1970's had a "protectionist" rationalization, with a little bit of vision about the future needs for land. The foresight about land needed for expansion was not as great as it has now become. Now the need for expansion capacity is a priority. However, all land now held by the Clinic will not be needed for

institutional uses. Thus, other uses will be considered which the Clinic sees as contributing to a desirable ambiance in order to make them attractive to their target market. This target market is focused on seven states and international trade.

As far as risk versus return, return is not an issue for the Clinic. The Clinic does not view its land holdings as a source of capital. They view real estate as a way to facilitate the environmental issues of their surroundings. With institutional projects, capital is a priority. With real estate that is used for unrelated business, return is less important than risk and control. The amount of noninstitutional development on clinic-owned property will be minimal, in Goss' opinion.

Although the Cleveland Clinic loaned some money at low interest rates to the Lexington Village project, this is not a standard procedure. The Clinic sees a conflict in acting as a lender, when they themselves are going to nonprofit foundations to ask for grants. Contributing to this conflict is the Clinic's size and the fact that it is such a large employer. People perceive the Clinic as a for-profit operation. This misconception contributes to an image that the Clinic is not responsive to the community.[6]

Strategies Used by the Clinic in Real Estate Development

The strategy used by the Clinic on real estate ventures depends on the circumstances. Clinitec is now exploring more sophisticated deal structures for real estate ventures. Currently, the Clinic is considering a venture with a large

developer, Tishman-Speyer Medic of New York, to develop a medical administrative office building along Euclid Avenue. In this case, the developer would do a turnkey (build to suit) project. The Clinic would lease its land to the developer, possibly at a reduced rate. The developer would build the building and manage it. The Clinic would then lease the building back from the developer, and possibly buy it back in the future. The Clinic will not be an equity partner in this scenario. [7]

The Clinic traditionally paid cash for its real estate. The Clinic has never been a tenant in another owner's building. It won't sell its land, but will set up ground leases or use land as the equity contribution to a partnership. The Clinic does not perceive itself as having the capabilities to take on real estate development projects on its own. Also, in order to avoid being a landlord, as the Clinic landbanks, it usually clears any structures from the sites. This strategy has caused problems with the community in the past, since relocation of residents can be a problem area. [8] UCI has taken a different approach to land banking. It will continue to lease out buildings on its land. This puts UCI in the complex, and sometimes undesirable situation, of acting as landlord. [9] The Clinic does not want to be viewed as a landlord or a developer, but wants control over the development of their land and surroundings.

When the Clinic contributed 50% of the funds to DCI's initial operating budget, it saw DCI as the professional

entity that would handle these development activities. The Clinic also recognizes that Clinic owned land is the carrot and the stick for the Doan Center project. If DCI and the Clinic are successful in upgrading the Clinic's context, then the Clinic believes it won't have to build housing for its workers. The market will take care of this via private developers. [10]

Clinic's View of Doan Center Project

Goss believes some subsidy or incentive is required to make redevelopment of the Doan Center area feasible. The Clinic, in partially funding Doan Center Inc., entered the project at the high risk capital stage. The doctors understand the need for the various components of the master plan. Goss sees DCI's challenge as getting developers to look at the Doan Center market area as a difficult one.

Goss sees the Clinic and DCI as totally separate. The Clinic is 1 of 9 votes on the Doan Center Board, but also has land ownership in the master plan area. Goss sees the assets of the Doan Center project as the ability to achieve a better physical environment which in turn improves the Clinic's marketability to its patients. The only liability to the Clinic right now is if nothing happens with the plan. The objective is to change the perception of where University Circle ends. [11]

Relationship between the Clinic and other Players

Since its founding, the Clinic has run counter to University Hospitals and other medical institutions in the area. The other institutions aren't growing as rapidly. The

other institutions also want an improved environment. Goss doesn't see competition between the institutions on real estate issues. He does see competition for doctors, although the Clinic, as a huge group practice, attracts a different type of doctor than University Hospital where the doctors are in private practice. The two hospitals are in competition for patients. In that respect, they are like Macy's and Gimble's. They won't communicate except on the Doan Center project. Doan Center can benefit all the institutions. In Goss' opinion, other players don't have much at risk in the project except funding for DCI.

Compatibility problems with private developers are more a function of the Clinic's location. The Clinic is the element that makes the location attractive to developers. Because of the economy in the area, the parties have to go the extra mile to see a project like Doan Center happen. Goss sees the Clinic's willingness to take on predevelopment risk in the form of risk capital as fulfilling this need.

Goss feels the Clinic is not willing to provide roomnight guarantees or to go out on a limb any further for Doan Center. They would only provide roomnight guarantees based on their own projected needs. However, they still have the option to build their own conference center as part of their complex. The Clinic has options that University Hospital doesn't have, because that hospital is more land locked. CWRU and University Hospital also need a conference center. The Clinic wouldn't develop a conference center to serve other institutions. Instead, the Clinic would build

its own, internal, center. Goss understands the need to subsidize the conference center, but not the hotel. [12]

The Clinic's Relationship with the Local Community

The Clinic has been compared to a fortress or a castle with a moat around it. Physically, it portrays this image with walls along the street edge and bridged walkways that allow visitors to avoid direct contact with the street. There are practical rationales for this appearance, such as the need to provide security for employees who come and go at odd hours or the need to provide contained, controlled access for patients within the facility. However, these reasons do not help improve the Clinic's esteem with the local community. The Clinic, as a tertiary care facility, does not accept the local community in its emergency room.[12]

The Clinic's quiet approach to land acquisition (which was done to avoid speculation or hold out sellers) left some residents suspicious of the Clinic's motives. In a 1986 newspaper article, Leon Hogg, president of the Black Economic Union was quoted as follows: "The Cleveland Clinic Foundation has never really told its story, and a lot of people, not knowing what is happening fear the unknown." He also viewed the Clinic as a, "bastion of white wealth and power." [13] During its land acquisition process, in the early 1970's, the Clinic paid off a councilman. The councilman was jailed and the Clinic's management changed. This incident is indicative of the Clinic's past problems with community relations, which it is now attempting to correct. [14]

The Clinic is interested in improving its community

relations, and has made progress with the business community. Most of these parties have a positive perception of the Clinic and its contribution to the local economy. The City also values the Clinic as an institution. However, the local community does not have such a positive perception of its neighboring institution. Perhaps factors like Goss' participation in the Fairfax neighborhoods New Cleveland-6 local development corporation, will improve community relations. The Clinic still has a way to go in this respect.

CURRENT CHALLENGES

As the Euclid Hotel Case will illustrate, implementation of the predevelopment work seems to be the overriding challenge for Doan Center. Within that, there are subproblems of funding, market forces, and institutional competition, cooperation, backing, and commitment. Issues which must be addressed at this point are:

- 1) Inter-institutional competition and cooperation. How does DCI insure that efficient exchanges transpire between the insititutions, so that each brings the most assets to the project?
- 2) Preparation of a strategy and fall back alternatives for the Mixed Use Component;
- 3) Packaging the project for private developers. Creating financial projections and alternative deal structures that will incorporate the private developer's perspective;
- 4) Keeping the pace of the project in step with the local market and national economic forces;
- 5) Capitalizing on the support that the project has from the city, the stakeholders, and increasing the support from private developers in order to create the impetus for change.

Chapter Three

THE EUCLID HOTEL PROJECT: A CASE STUDY

This section of the thesis focuses on a specific component of the Doan Center project which illustrates the issues involved with nonprofit/private partnerships in real estate development. This case description of the Euclid Hotel Project is intended to illustrate an actual attempt at structuring such a partnership. Each component within the Doan Center project is in a different stage in the development process, and none yet has reached the construction phase. However, many of the limitations and opportunities in these partnerships have surfaced during the predevelopment stage, and this case will present examples of these advantages and disadvantages.

Every component in the Doan Center area is set up to stand on its own, but the phasing of the components is planned strategically to transform the overall image of the area first. The piece most critical to this transformation is the Mixed Use Component. This component, which recently completed market and physical analysis by Enterprise Development Corporation (EDC), could potentially involve a multi-party partnership among EDC, other developers, several University Circle institutions, the Clinic, and DCI. The city would also be a player, because it will be asked to do infrastructure improvements, road relocation, possibly aid in site assembly, and seek UDAG financing.

Understanding what transpired between the parties

brought together on the Euclid Hotel Component may prove useful in preparation for the larger, more complex task of bringing together more than one institution, more than one developer, and the city for the Mixed Use Component. The intent in studying the Euclid Hotel project as a "case within a case" is to provide some insight into the complexities of partnerships between private developers and nonprofits.

The Euclid Hotel Project was originally planned as a mixed use building with market rate apartments above efficiency hotel units. The project was to be a two-party venture between the Cleveland Clinic and Forest City Dillon, a Cleveland developer. The Clinic owns the land and was to execute a ground lease with the developer. The developer would build the building and then lease back the hotel portion to the Clinic. The venture was to be a ground lease with a partial leaseback, but it was never formalized, at the Clinic's request. Instead, the hotel component will now be developed solely by Clinitec, Inc., the Clinic's for-profit arm.

In April, 1985 Doan Center Inc., The Cleveland Clinic Foundation, and Bolton Square Hotel Company (BSHC) sponsored a Request For Proposals (RFP) from private developers for the "Doan Center/Cleveland Clinic Housing Project. The project (referred to as the Euclid Hotel for this case study) was to be located on the parcels referred to as Component III in the Halcyon plan. {SEE EXHIBIT K} The location was a block bounded by Euclid Avenue, East 93rd Street, East 97th Street, and Chester Avenue. The concept was a mixed use project

which would leverage the demand for 100 units of transient housing (a moderately priced hotel with efficiency suites) to achieve a market rate housing development within the same building. The RFP called for a minimum of 150 units of 1BR and 2BR rental apartments. A budget motel, the 50-room University Center Motel, and a restaurant existed on the site and were to be demolished. The motel was operating at 95% occupancy. The Clinic was fairly sure of the demand for a facility twice the size, provided room rents could be kept to \$30/night. Market for the market rate apartments was justified by Halcyon's market study. Halcyon concluded that the area had a demand for 2600 new market rate units over a 10 year period within the Doan Center district. [1]

The Clinic was willing to set up a ground lease for the parcel, which it owned. The RFP clearly segregated the residential hotel as being a Clinic requirement, while the apartments were a DCI requirement. The Clinic was willing to take a lease on the hotel units on a triple net basis, with BSHC taking responsibility for management of this component. A restaurant would be part of the facility. Other requirements were \$30 room night rental rate and Euclid Avenue frontage for the hotel. [2]

The DCI requirements were for the apartments to rent at \$550/month. The apartments would be geared to institutional employees, and would have a high quality environment. Jointly, the Clinic and DCI called for mass and scale in conformance with master plan objectives and architectural quality to match standards set by the Clinic's existing

environment. The two uses were to be linked, but could maintain separate entrances. Landscaping and site improvements were to be high quality. The RFP also stated that DCI and the Clinic would assist with necessary zoning approvals. Finally, occupancy was desired by early 1987. [3]

As of July, 1987, the site remains as it did when the RFP was issued two years ago. However, plans are underway to construct the residential hotel and commercial space with Clinitec, Inc. acting as sole developer. This case study will examine the process undertaken when the Clinic attempted to team up with a private developer in order to accomplish its own objectives and those of DCI for the broader Doan Center area plan.

Before a response was received from other private developers, Forest City Dillon proposed that the Clinic consider them as developers on a non-competitive basis for a limited time period. A newspaper report stated that the Clinic actually approached Forest City. [4] DCI was active in soliciting Forest City's interest. Forest City Dillon, a subsidiary of Forest City had a long track record of multi-family residential construction and development. Forest City is a Cleveland-based family owned development corporation which operates on a national level.

The Clinic wanted to build a hotel for patient's families who come from a seven-state market area. Rooms would be equipped with kitchenettes and the Clinic would strive to keep costs within reasonable budgets to make the stay in Cleveland more affordable for these families. The

Clinic clearly stated in the RFP that it had no intention of assuming an at-risk position for the market rate housing. The RFP stated, "It is understood by the developer that no capital financing will be required from the Cleveland Clinic Foundation in the construction and implementation of either the transient housing or apartment house facilities." [5]

The Clinic's objectives with regard to this project were to make the development part of the Clinic's "consumer oriented marketing strategy." This was seen as a means to maintain the "viability of the institution's primary mission." A second objective was to creatively manage the Clinic's real estate holdings so that they could potentially provide a new source of revenue. As stated in the RFP, "Although the CCF will not be a source of development financing within Doan Center, it can utilize its land holdings to obtain annual returns on its real estate investments through various land lease and/or equity participation arrangements with developers." This objective sought to utilize real estate revenues as a means to "replace shrinking sources of patient-related revenues to support the important functions of research and education." Thus, the objectives of the project were seen as methods for serving the Clinic's mission. [6]

The RFP also acknowledged broader community oriented objectives relating to economic development. These relate to the basic objectives of Doan Center, Inc., as outlined in Chapter One. Euclid Avenue acts as the frontage for the Clinic's entry drive, however in terms of physical appearance

it seems to be the Clinic's backside with parking garages lining the street. DCI was concerned with the urban design qualities of this important street/corridor and saw the project as a way to improve the streetscape. The existing two-story suburban-looking motel structure was not seen as appropriate by DCI. They arrived at the concept of combining a market rate apartment component to give the project more density. [7]

As the proposed project developed, financing gaps for the project became apparent. A memo from Ken McGovern to Bill Kiser and David Goss outlined three strategies for closing these gaps:

1) The Clinic could proceed on its own to build a lower quality facility.

2) CCF could subsidize its room night rates in order to maintain a \$30/night rent. In addition, a UDAG would be necessary to cover a debt service gap for the market rate apartments.

3) CCF could help reduce the debt service required by becoming an equity participant, taking on the risks associated with a limited partner's position. [8]

As of November, a \$3.1 million UDAG application was processed for the project. [9] The Clinic was still considering the second option of the three above. However, doubts were raised about the market data for the apartment component. The market rate housing feasibility data cited in the RFP and in the UDAG application is attached in EXHIBIT O.

Addressing the Clinic's concern about the risk of the "downside potential" of the apartments, DCI pointed out that comparables were difficult to find for a project which was pioneering this type of housing at this location. DCI

regarded Forest City as an organization with a strong housing track record, excellent bank relationships, experience in difficult urban redevelopment projects, and the established Ratner family presence in Cleveland. Thus, the developer was perceived as being a stable influence for the project. The Clinic would also have right of first refusal if the developer were to sell. Finally DCI pointed out that the best way to guarantee the project's future was to take on a general partner's position. [10] The semantics at this point are interesting, because the issue was perceived as risk. A general partner's position assumes more risk, but has the benefit of control over the project's management. The Clinic was not interested in assuming either a general or limited partner's position and the associated risks.

In early 1986, the Clinic became increasingly apprehensive about the development venture and began planning the project without the apartment component. DCI was still involved but more as planners and facilitators. A letter from Herb Strawbridge to Bill Kiser outlined some of the development options the Clinic could pursue on its own. DCI was advocating the addition of retail space to the program and expansion capacity for the hotel, retail, and possible Clinic uses on the site. [11]

As of May 5, 1986 the City of Cleveland cancelled the original UDAG application, which most believe would have been approved at month's end. A May 14, 1986 article in the Plain Dealer announced, "CLINIC REJECTS VENTURE; WILL DEVELOP ON ITS OWN". The Clinic's director of communication stated, "We

just decided we would be better off to pursue this independently." The Clinic also reinforced its commitment to develop the area. McGovern stated that the Clinic's concern was to retain control over any development that occurred on the site. [12]

The Clinic, using Clinitec and DCI, continued to study the hotel/retail feasibility. Clinitec's financial consultants Laventhol and Horwath prepared a report in July, 1986 that confirmed the feasibility of \$30/night room rates for the hotel and the need for 22,000 GLA of retail space in the \$8 to \$10/SF range. The report proposed three alternative deal structures as follows:

- 1) Development for a profit, directly by Clinitec, Inc. (Wholly owned)
- 2) Development for a profit, by an outside developer. Developer to execute and own the project on land leased from the Clinic. (Ground Lease)
- 3) Joint Venture with a private developer (Joint Venture) Financing rates were assumed at 8.25% interest and a capitalization rate of 10% was used. These assumptions were also used for option 1. Participation in cash flow would be split 10% to Clinitec and 90% to the Developer, and the developer would receive 100% of the tax benefits. [13]

Each alternative had a detailed analysis of the deal structures. {See Exhibit P.}

Laventhol and Horwath recommended the wholly owned development approach because control of the land is maintained as is long term appreciation of the property. Also, Clinitec as developer can use the Clinic's favorable financing rates. The ground lease was rejected because returns to a developer were seen as too low to be attractive. The joint venture was rejected because both the developer and

Clinitec would find returns unsatisfactory, while advantages to either were not great. [14]

The Clinic followed this recommendation and Clinitec is proceeding with the \$10 million development. A Plain Dealer article on February 18, 1987 announced the plans to build the hotel/retail complex which will be under construction in the near future. The article cited further reasons for the abandonment of the Forest City partnership. David Goss stated, "The board (of governors) didn't like the joint venture. We would have been a tenant in the building which Forest City Dillon would have owned." Forest City's vice president, Ronald Ratner stated that, "the clinic had 'very legitimate concerns' about the joint venture arrangement for the first project and the parting was amicable." [15] In actuality, the issue for the Clinic was control. The Clinic was very concerned that once the project was up and running, with Forest City managing the apartment component, then the Clinic's total control over this housing would cease to exist. The Clinic would operate the hotel, but not the apartments. The concern was that if the market did not support market rate units at this location, then Forest City (to protect its investment) would lower rents and the tenant mix would become unacceptable to the Clinic. [16]

This issue of control and the risks associated with loss of control is a major conflict for the Clinic as it encounters different land development scenarios. The Clinic purchases and owns property mainly for the purpose of establishing a control mechanism for its surrounding

environment. Ground leases are a good vehicle for this, providing they are set up with terms to protect the lessor's interest. Building ownership provides control over the day to day management and operation of a development project, but also carries the associated development risks. The Clinic wants this control, but does not want to assume the financial risks. This balance between risk and control is an important theme in this project, and institutional projects generally.

The following incident further illustrates the institution's desire for control. Clinitec owns and operates the Clinic Plaza. The circumstances under which it took this position relate to the issue of environmental control. In 1985, the Clinic purchased the parcel that holds this shopping center in order to control the tenant mix. A liquor store, forced to relocate by the construction of the W.O. Walker Center, was considering relocation to the site of a Pick-n-Pay shopping center. The Clinic, upon hearing of these plans, purchased the site, which is now called Clinic Plaza. The Clinic did some cosmetic improvements and brought in a few new retailers in addition to Pick-n-Pay and the surprising result was that stores generated gross sales revenues of over \$300/SF. The success of the retail use led them to consider extension of this use across a sidestreet to form the base of the new hotel. 22,000 SF will be dedicated to retail use. These shops may evolve into support functions for hotel users and employees. They will eventually need to survive independent of the Pick-n-Pay magnet, which is speculated to relocate to a larger community retail complex

planned for the 79th Street end of the area. [17]

Participants' Perceptions

When the participants, Ken McGovern, Mike May, David Goss, and Ed Pelavin (Forest City's project manager) were interviewed in 1987, they provided a view of the project in retrospect. McGovern saw the implementation process as follows:

- 1) Concurrence from the Clinic's Board of Governors.
- 2) Review of economic and financial issues by the Clinic's Board of Trustees. Trustees concerns were financial feasibility and return. Return was constrained by the desire to charge low rates for a good quality facility. The objective was to break even, and subsidy was seen as questionable.
- 3) Actions must be rooted in the Clinic's medical mission.
- 4) The Clinic's return can be earned on a long term basis, but commitment to the long term goal of an improved physical environment was unclear. [18]

Both McGovern and May felt the Clinic was willing to take on the risk of the hotel, but not the housing. They cited the Clinic's prior experience with the Clinic Inn as a cause. The Clinic Inn was a hotel built in the 1970's on Clinic-owned land leased to a hotel management company. The hotel was mismanaged and run down. It became a, "hot pillow hotel." The Clinic was forced to buy out the hotel management company and take on the management with BSHC. The bad memory lingered. [19]

As David Goss of Clinitec reviewed the project, he concurred that control was the issue. The site was on the edge of the Clinic's campus which made control especially important. The Clinic was concerned that if the developer

did not meet proforma rents, they would do whatever was necessary to lease the units. The hotel lease had an 80 year term and Clinitec would hold the lease with BSHC to manage it. Forest City took a risk with this project. While Goss thought that the Clinic would be risk averse, he discovered later that the Clinic would assume greater risk in exchange for greater control over the project's destiny. Sacrifice of control was the risk the clinic would not assume. [20]

Ed Pelavin, of Forest City Dillon, concurred with McGovern, May, and Goss, in his assessment of the project. He also raised the point that revisions in the tax laws, anticipated with the Tax Reform of 1986, changed the developer's position on the project. Tax benefits, which would have been valuable if the project generated negative cash flow in its early years, would be less valuable or possibly eliminated. Therefore, the downside of the real estate venture was considerably different. The developer's assessment of the risks involved in the market rate apartments was increased. [21]

Two major issues are illustrated in the Euclid Hotel case. The first is the complexity of structuring a transaction between an institution and a private developer which allows each party to achieve its objectives while giving both parties the desired degree of comfort with regard to risk, return, and control. The second is the issue of market uncertainty which may have been a strong motive behind the termination of the original venture. Both of these issues and three others will be analyzed in the following

chapter .

Chapter Four

DOAN CENTER, INC.: THE NONPROFIT AS PLAYER IN THE DEVELOPMENT PROCESS

The Doan Center project provides many illustrations of nonprofits' involvement in the development process, in different roles and on different levels. This portion of the thesis will focus on the role of one nonprofit: Doan Center, Inc. (DCI).

DCI is a nonprofit corporation established to carry out predevelopment planning and analysis, broker possible development projects with private developers, and in some instances take on the developer's role. To date, the tasks of DCI have focused on predevelopment. In its predevelopment work, DCI is acting as a quasi-public agency. As the project enters phases beyond predevelopment, the role of DCI will have to adapt and conform to meet the challenges of the next phases: approvals, financing, construction, leasing, and eventually management.

This section of the thesis will explore the issues which DCI faced in the Euclid Hotel project and continues to face as other components come into play. These current challenges draw on the information presented in the Background and Current Status descriptions of the project, and particularly on the Euclid Hotel case. The preceding chapters described the project and its context. This section will be more analytic, examining Doan Center, Inc. as a player in the real estate development process. The central question here is: *What are the implications of nonprofit participation in the*

development process?

There is a distinction between a nonprofit organization like DCI and a nonprofit institution like the Cleveland Clinic Foundation. By definition, an institution implies a well established organization with longevity. The term institution can also imply an entity with special significance to a society or culture. Although the Cleveland Clinic probably meets both definitions, with its established, significant role in the Cleveland area; Doan Center, Inc. does not. These distinctions are not made to diminish DCI's importance; but to point out how well established, large, and complex the Clinic is in relation to DCI. Also, because DCI works so closely with the Clinic and other institutions, including city government, the perception of DCI as an institutional arm or representative exists in some people's minds. For clarity, the two entities will be kept separate in this analysis. When the Clinic's role has implications for DCI's role, these will be acknowledged.

Another distinction to make at this point is the difference between constraints and barriers. These two terms can be used to describe the degree to which an issue might restrict or block a project. Several issues will be raised in this analysis and an attempt will be made to distinguish between those which are constraints and those which are actual barriers to the project's progress or the problem's resolution. Making a distinction by degree of what truly blocks the project and what might just constrain it will be an important part of the judgment calls that go into the

strategic planning for the project's success.

From the challenges enumerated at the end of the last section, five general categories of issues are apparent:

- 1) Market/Economic
- 2) Political
- 3) Organization/Management
- 4) Institutional Implications
- 5) Site and Physical Issues

In examining each of these categories, the objective is to illustrate and analyze the complexities of nonprofit participation in the real estate development process.

The issues generally outlined above will be examined in greater depth. Strategic options will be set out in relation to these issues and DCI's objectives. Conditions necessary to implement these options will be explored. Finally, criteria for measuring success will be defined. As stated in the Euclid Hotel/Apartment RFP: "Any urban development process needs four elements to be successful-- leadership, land, market, and financing." [1]

MARKET/ECONOMIC ISSUES

Generally, urban redevelopment projects face market related issues that are very difficult to quantify. Although the economic context can be examined in terms of employment, population, and income trends, the submarket in which the project will exist is often nonexistent at the time that development is being considered. Therefore, calculations of land valuation, comparable rents, projected sales, etc. are

highly speculative. This tremendous market uncertainty makes such projects highly risky. At Doan Center, the institutional presence is one of the major value creators for land in the Doan Center area.

To illustrate this issue, the Cleveland market generally was not found to be healthy for hotel use, as occupancy rates in the city average 55%. [2] However, DCI believes the Doan Center area may have a market for hotel use because of the captive audience provided by Clinic users. The proposed efficiency hotel suites had the benefit of testing the market through the existing University Center Motel. The unknown markets, particularly those uses priced competitively with suburban locations, raise apprehension on the part of participants. For example, the question of whether market rate housing can really lease out at this location is still an unknown. Projects nearby, like Lexington Village, rent at subsidized rates below suburban markets. The Mayfield Triangle project, to be developed on land controlled by UCI, will be a good test for the market that Doan Center wants to capture.

Even if countless market studies were produced, some elements of the market would still be unknown. The market issue is not so much a barrier as it is a constraint. The constraint is significant because developers and their lenders will seek subsidies or guarantees to limit their risks. Given the uncertainty of some of Doan Center's components, private developers will also seek higher rewards to assume the burden of market risks.

At a broader level market issues relate to economic forces. In the case of Doan Center, the regional economy is stable, the city is declining, and the immediate area faces losses in population and income but has growth in employment. The retail, residential, hotel, and office markets depend on different aspects of the area's economy. For example, a stable regional economy with increasing expendable income may prove beneficial for a specialty retail use which draws on secondary market areas. Also, the interrelationships between markets impact the mixed use nature of Doan Center. While low rents in the city and suburbs make new housing development difficult, the fact that a smaller percentage of household income is spent on rent can benefit a retail market.

POLITICAL ISSUES

Political issues will be explored on three levels: the city, the community, and the politics internal to DCI's membership. In general, the city of Cleveland supports the project to the extent it can. The city is generally pro-development, particularly for this part of its Target Area. The city is most likely pro-Clinic, considering that the Clinic has a large employment base that generates municipal tax revenues. In a city which wants to stimulate (leverage) economic growth, on a site which contains so much institutional land held by a growing institution; the political barriers which might otherwise block a development project are lowered to the point where they may be

constraints.

In terms of constraints, the city has fiscal constraints which impact Doan Center. For Doan Center, the city has not directly provided leadership, staff, and control of this project directly. The city, in a way, has not shown the initiative taken by many cities seeking redevelopment. Therefore, it gives support where it can, such as Mayor Voinovich's desire to have groups like DCI transcend his administration. It also gives support in the form of seeking UDAG's, incorporating the DC master plan into Civic Vision, setting aside funds for site engineering, and generally keeping an open door and direct contact with the DCI leadership. This freedom and independence which DCI has in relation to the City, while still attaining the City's support, can be a true advantage to DCI.

The city of Cleveland has numerous examples of private nonprofit initiative for roles more commonly played by city governments elsewhere. The fact that the funding and part of the staff time needed to produce a comprehensive city plan like Civic Vision came from the private sector is a prime example of this. Fortunately for the citizens of Greater Cleveland, these private sector counterparts for public sector functions have managed to serve some of the city's more critical needs.

The city may not presently create a barrier to this project. Later, however, when approvals are required, and the discretion of City Council (or the School Board) is sought, this situation may change. The local city

councilmen's constituents are residents, not institutions. As the City Council or neighborhood groups become more directly involved with or affected by the project, obstacles to the project's components may emerge.

On the neighborhood level, the project may not yet have satisfied some of the objectives sought by the local groups in 1985. Some contend that direct participation in the decision making process has not yet been achieved. Equity participation was also a goal, not yet realized. Councilmen in abutting wards may be anti-Clinic. The Clinic, by employing 15-20% of the population [3] in adjacent neighborhoods, may be able to undermine a strong anti-Clinic constituency. DCI's concern is not merely with the Clinic and the Clinic's image in the neighborhood, but also with integrating neighborhood oriented uses into the project. Politically, if the community shopping center is perceived as desirable by the neighborhoods, and as more housing is built the project may succeed in reducing opposition to other uses which would not spin off neighborhood amenities. This aspect of the political issue relates to an economic issue. If the neighborhood groups see DCI's institutional membership and the master plan's focus as having a positive impact on their existence, DCI will meet less resistance. By contrast, if the perception is that taxpayers' money is subsidizing a project which does not directly meet the community's needs, a great degree of convincing about spin off or trickle down potential will be required. [4]

Internally, the politics of DCI are somewhat complex.

Many participants perceived that rivalry among the major institutions might be an underlying barrier to the project's success. This is quite possible. Until an actual project requiring cooperation among institutions is put on the table, one can only speculate. Rivalry may be more in terms of competition for patients or physicians. A development proposal which enhances all institutions' ability to attract patients could be viewed favorably by both. Because the Clinic and University Circle institutions bring different assets to the Doan Center project (one an expanding worker/visitor population and the other location rich in amenities); there is great potential in trading between these assets. If there is a power struggle in terms of project control, however, barriers can develop. The respective institutions' objectives regarding control may have a common base. Both can benefit from an improved environment in the Doan Center area. One has more directly at stake in terms of control over land holdings. The institutions may also have common goals about desired uses, (i.e. conference center). Cooperation may also be more economical in terms of redundant services like security, buses, parking, signage, etc. once the Doan Center area emerges as a true asset to the University Circle area.

Some of the participants interviewed sensed that inter-institutional problems were minor in terms of the Doan Center project. The political problems within Doan Center, Inc. seem to be more focused on DCI and the Clinic (including the Clinic being a "more equal" member of the nine member

board), and will be covered under the organization/
management issues section which follows.

ORGANIZATION/MANAGEMENT ISSUES

One of the major issues which arose from the Euclid Hotel project was the relationship between Doan Center Inc. and one of its member institutions, the Cleveland Clinic Foundation. This issue of relationship between the DCI staff and its board will be a continuing problem as components of the project are developed. DCI has a nine member board, composed primarily of institutions. However, one board member has more clout and more at risk than any of the others whenever a development proposal involves Clinic-held land. The Clinic, like DCI itself, has a vested interest in some development projects and this will continue to create a conflict between its role as board member and its role as landowner. Unless DCI's leadership can neutralize this conflict, the problem will persist. (UCI may also have inequality among its institutional members, but seems to maintain its power by managing the landbank for its area.)

With the Euclid Hotel, one of DCI's roles was to act as broker between the institutional landowner/user and the private developer. Unlike a typical broker, DCI also had a vested interest in the proposed use, density, and design of the project. The original RFP presented DCI, CCF, and Bolton Square Hotel Corp. (BSHC) as a unified group making the offering. The DCI objectives were more related to the market rate residential component, while the Clinic and BSHC were

interested in the 100 unit residential hotel. At some point the three parties diverged, or perhaps the unity was never truly achieved. When the project did not proceed, the DCI staff's major concern was for its own credibility with the larger community, and more importantly, its empowerment--the "Paper Tiger" problem. In situations where the Clinic is a major stakeholder (both landowner and building user), the Clinic may continue to call the shots. If DCI is not to become a puppet with the Clinic pulling its strings, strategies which decrease the Clinic's impact on components must be derived. (Perhaps the Clinic should not be expected to take a risk position beyond that of ground lessor or building lessee on projects where the Clinic holds the land. Options which can be viable with or without the Clinic's participation could be pursued on land not held by the Clinic, if that is ever possible.)

The problem may not have been that DCI was out of touch with the true concerns of the Clinic. The Clinic itself may have been uncertain about its own concerns. From Goss' viewpoint, the Clinic itself initially saw the issue as risk but shifted the issue to control as they pulled out of the Euclid Hotel Project. Risk and control are interrelated on real estate development projects. Even if control were the obstacle, there are means within a ground lease or joint venture agreement to delegate control among the parties so that the Clinic's concerns could be alleviated. From the information available, there was no attempt to reexamine the ground lease agreement between the Clinic and Forest City in

order to give both parties comfort about the control issue. In a way, both parties seemed content to let the project drop. Market concerns led the developer to perceive that the lost opportunity was not too great, or at best, unknown.

One management issue which is apparent from the case study is the confusion about the role of Doan Center, Inc. Both DCI and the Clinic share this problem of multiplicity of roles. DCI may be taking on a role that the public sector normally plays as a redevelopment authority. DCI may be taking on the role that the private sector plays as a private developer. In either case, DCI is also playing the role of mediator between its board members, the public sector, and the private sector. One might also question its role as a mediator.

From the amount of consensus building that has been done, one would perceive the Doan Center development as highly controversial. But the controversy, at this point is not completely clear. In a classic urban redevelopment project reconciling the city's interests and the developer's interests would be a constant challenge. This type of tension is not yet apparent for the components of the Doan Center project. Perhaps, the staff at DCI has been so successful at table setting and getting the parties to buy into the project that they have avoided the conflicting interests that normally emerge when a development project is undertaken. It is more likely, controversial projects have not yet gotten to the point where opposition would emerge. Also, the City may be so eager to see some economic and

physical revitalization in Doan Center that it will not jeopardize or alienate private developers or institutions.

It is fair to ask whether the relationship between DCI and the Clinic is working as well as it could be. The lesson learned from the Euclid Hotel project may be that the Clinic's actions are unpredictable. Yet, one predictable aspect of the Clinic's reactions is that it will put its interests for environmental control before the interests of realizing projects which maximize gains for the Doan Center project. If this is the "bottom line", then DCI needs to have a more direct line into the Clinic's power structure, through its own leadership, via Herb Strawbridge. Another option would be for DCI to start packaging projects in ways that would make the Clinic's alternatives to buying into the projects less desirable than if they do. Is that an impossible task? Which deal structures would give the Clinic what it wants and DCI what it wants?

As each component of the Doan Center project evolves, DCI, the Clinic, and other board members will have different objectives about control, risk, reward, and timing. Tailoring the ownership and management structures on a project by project basis will be required.

One might also question the Clinic's motives in participating in the Doan Center process. Has the Clinic really bought into the master plan concept or is it providing funding and membership as an extension of its desire to be in control? If the latter is the case, the project will only move ahead on the Clinic's terms. DCI will need to develop

an excellent sense about these terms in advance, or take a trial and error approach.

DCI's role seems to straddle the position of planner and developer. One might wonder whether the skills of identifying concerns and building consensus are transferrable to the next stages of development. Although these skills are needed all the way along--the same people may not necessarily have the attributes required to strategically drive this project into reality. One set of skills is more detail oriented; the other is broad brush. Perhaps the best resolution is to leave the former skills to the professionals and the latter to the lay leadership. Also, there may be instances where complete consensus is not required or not attainable. The concern for achieving a unified backing to every project may obstruct the ability to see some projects realized. DCI's ability to adapt its role to each component and phase of the project can be an asset for a project like Doan Center. Evidently, DCI has begun doing this. As it has entered into a phase where marketing projects to developers on a financial basis will be required, DCI has begun preparing proforma analyses from a developer's perspective.

The leadership, visionary and driving force may be lacking at this point. While the foundations laid by DCI during predevelopment may provide a very sturdy base on which to build the project, some leader may be needed who has the drive to implement the project. Alternatively, this may be a strategic move; reserving the strength of DCI's leadership for key components. Selecting key projects to push and going

slow at first in order to go fast later may be the correct tactic on a project of this type. The slow, incremental approach to the project may be more realistic, given its scale and local market conditions. However, the Mixed Use Component is still the keystone piece that can radically transform the area's image. Its successful realization is essential to realizing DCI's objectives.

INSTITUTIONAL PARTICIPATION ISSUES

Institutional participation raises some conflicting issues for the DCI. DCI's board is primarily composed of institutions, each with its own mission. The institutions bring many assets and amenities to the project, and at the same time bring some liabilities and constraints. The assets include an expanding employment base (which others can capture), physical expansion, cultural elements valued by the public, established track records, longevity, ability to extend time horizon for returns, good will (to the extent that mission and public perception confirm that), and commitment to the location. The liabilities include interinstitutional competition for consumer base, physical expansion seen as takeover or fortress, inaccessibility to some of the public sector, inertia, multiplicity of roles, complex organization and management structure, public image problems carried over from the past, and desire to control surroundings which can override or conflict with project goals, and a general ambivalence with regard to real estate development.

In addition to these, there is another factor which makes institutional participation unique. Measurements of success are often unclear and differ from institution to institution. To some extent, the private sector can be measured by its profit margins or stockholder's dividends. To some extent, the public sector can be evaluated by its electorate. The nonprofit institution has less clear indicators or evaluators of its performance. The nonprofit does not have the same "bottom line" interest as its private counterpart; although it is heavily influenced by fiscal constraints. The nonprofit also does not have the feedback on achievement of mission that public officials sometimes do. The nonprofit institution functions in both realms but has far more ambiguous performance criteria.

Another factor which makes institutional presence complex is the distinction between its for-profit and nonprofit ventures. The tax exempt status, which may be a bonus, also carries restrictions on what pursuits are for and not for profit. The IRS definition is ambiguous. The Clinic's policy is to be cautious, by relegating any for-profit pursuits to the realm of its for-profit subsidiary, Clinitec, Inc. With regard to real estate ventures, this issue has been the subject of debate recently. For example, churches which sell land holdings or air rights under their tax exempt shield have been the focus of public criticism. [5]

When a nonprofit institution achieves financial success, as the Clinic has, conflicts become even more evident. The

Clinic is approached to contribute capital or tax exempt financing sources to real estate endeavors, while at the same time it is approaching foundations for grant support on mission-related projects. The appeal of tax exempt financing, or the asset of undertaking a joint venture with no need for tax benefits, has been diminished with changes brought on by the Tax Reform of 1986.

More specifically, in terms of real estate development, institutions like the Clinic have conflicts about being perceived as real estate developers. Development clearly is not its business, nor its area of expertise. The land banking undertaken over the last decade has left the Clinic with more land than its expansion capacity calls for. The Clinic is faced with a choice of holding or selling its land, and prefers to hold because of the control that landownership provides. Also, as the Euclid Hotel RFP stated, returns from real estate development ventures can help offset some of the financial limitations that reform in the health care industry has produced. Development of its own facilities is acceptable to the institution. Staying out of the real estate business entirely may not be a realistic alternative for an institution like the Clinic.

Risk and return take on different meanings when an institution is involved in real estate development. Positive returns on a project like the Euclid Hotel were not a requirement for the Clinic. A project which could break even was the expectation. At the same time the Clinic's aversion to risk meant that there were limitations on what the Clinic

would guarantee or subsidize in order to achieve a break even financial status. Non-institutional real estate development is not a priority for the Clinic, unless control of its surroundings is jeopardized. The Clinic's desire to build housing for its employees has also diminished in priority since the original stakeholder analysis was undertaken. Now, the Clinic's position is to leave that problem to private sector market forces. If there is a demand for this type of housing, the Clinic believes a private developer will satisfy it.

This raises another issue, that of compatibility between institutions and private developers. Although DCI will act as broker between the two, that can be a difficult task when one party perceives itself as incompatible with the other. The Clinic believes that private developers ask the institution to bear more risk than they should. The Clinic sees itself as bringing the value to the location, being the attraction to the developer. Though the Clinic understands that economic forces will require all parties to "go the extra mile" in a venture like Doan Center, the Clinic believes it has already done so by providing risk capital for the predevelopment study. The Clinic is not yet willing to provide funding or guarantees requested by private developers, other than commitments to cover its own use of a facility. [6]

Private developers and institutions also have conflicting time frames. A developer may perceive time as money, particularly if a project is highly leveraged. An

institution like the Clinic has a longer time horizon. Though this difference can often be the basis for complementary partnerships, it can also be a constraint, particularly when the development project is risky and returns are long awaited.

Decision making is another problem. An institution is not structured in a way which allows individuals to act autonomously when representing the institution. Some developers are structured to decide and act quickly, as this can make or break a deal in a healthy market.

Some doctors see real estate as a threat. Hospital and clinic boards may not have many real estate development professionals who are familiar with the concepts of real estate finance. The Clinic conducts its real estate acquisitions on a cash basis. It issued debt for the first time in 1983, to fund the expansion of its facilities. [7] This approach may not be compatible with the financing concepts used by private developers.

Institutions, by definition, are not quick to move or change. DCI has a continuous challenge in rallying one major stakeholder and all its other institutional board members for action on a project like Doan Center.

SITE/PHYSICAL ISSUES

In comparison to the issues enumerated above, these issues are more straightforward. The one exception is the site currently being considered for the Mixed Use Component. This site has both physical and political problems. As each

component is activated, and the site assembly process begins; site issues will constantly tie into institutional issues. Land control is one of the Clinic's major interests. Even for parcels not controlled by the Clinic, the Clinic's interests will play a part. As uses come into play which do not necessarily coincide with the Clinic's agenda, the Clinic has the ability to buy the land and exert site control. Without buying the land, the Clinic can also exert its influence as a DCI board member. Another issue for some of the parcels will be involving the city and other neighbors in site assembly. This can be a very sensitive issue, when parcels are owned by numerous individuals, each with his/her own agendas. If the city exercises its powers of eminent domain, the ultimate use of the site must serve a public purpose, and the landholders must be compensated.

STRATEGIC OPTIONS

In simple terms, strategies for accomplishing the goals of the Doan Center project can fall into two alternative approaches. The first is to take a strong master plan development approach where the whole is perceived to be greater than the sum of the parts. Every component is viewed in terms of how well it achieves the overriding objective: to get the master plan implemented. Strategies then evolve which select or sacrifice certain pieces for the good of the whole. With this approach, leadership and staff take a strong position to achieve a single minded final result. The model for this would be a redevelopment authority, empowered

by legislation which gives it the right to carry out a master plan. Another model might be a master developer who brokers each project's developers for a fee and acts as the unified force to achieve the master plan in the arena of the private market place.

The second approach is to let the master plan adapt as components come into play. Every piece is seen as equally valuable, and each piece contributes to the general progress of urban redevelopment. The master plan concept transforms as each component comes on line. This planning concept is more organic and incremental than the first. This approach also allows for more participation by all the stakeholders in a more egalitarian setting. The approach taken by the DCI staff thus far seems to fall into this second category.

The question now is which approach best suits the objectives of Doan Center given the issues the project and staff face as outlined above. The political arena is somewhat complacent and pro-development. The market/economic conditions are weak on a large scale but on a submarket scale more viable, although risky. The organizational conditions are complex because of the imbalance of the board and the simulation of public sector roles by private nonprofit players. The physical/site issues are not overly problematic (except for the mixed use component). Finally, the institutional participation brings a third level of complexity to the more common public/private relationship.

Given all of these issues, which strategic approach best suits the project at this point? Possibly both. Momentum is

key in urban redevelopment. For the type of transformation that Doan Center wants to accomplish, an initial impact that provides the impetus for other changes makes sense. Once this first step is achieved, then the second strategy comes into play. There is not yet a controversy to mediate because the controversial piece has not yet been proposed. The mixed use component could be the controversial piece. Currently, development is either taking a community-based or institutional route, dictated by market forces. The piece that may be most uncertain in the market, but most necessary to achieve the linkage and turnaround required needs to be formally proposed. The strategy then follows the first route. Once that piece is put on the table, the second strategy comes into play.

Because DCI has pursued consensus building upfront and has gone slow first in order to avoid obstacles later, the action must now be set in motion. In some cases, the market itself would be the catalyst. In others, a city agency working in conjunction with a private developer would take on this task. In this case, the private developer needs to be brought in, unless EDC fits this role. DCI will, in effect act as the redevelopment authority, with the Clinic and other board members as its city government. Then the project becomes analogous to an urban redevelopment plan, controlled by a redevelopment authority, undertaken on city owned land. The Clinic has to be behind this project, to the extent that they are willing to assume risks (normally assumed by the city) in order to see their surrounding environment

transformed. If the Clinic is truly not willing or ready to put much more at stake, DCI has the difficult task of trying to work around a major constraint. If projects are only possible on land that the Clinic does not control, then DCI should explore mechanisms to take land control itself.

One such mechanism would be the UCI landbank approach, but this requires additional funding beyond DCI's operating budget. Another mechanism would be the central nonprofit development corporation now being planned by Cleveland Tomorrow. This corporation would utilize Cleveland Tomorrow's access to funds and private business support in order to facilitate the goals of smaller nonprofit development entities like DCI. This plan is still in the conceptual stage, but may eventually be a feasible option for DCI.

Finally, DCI's best option may be to continue working with the Clinic by structuring ground lease deals where the Clinic does not compound its risk as landowner with other development risks. Some institutions, with significant clout, are able to command unsubordinated ground leases. Turnkey buildings by private developers who are not looking to the Clinic for subsidies, loans, or guarantees, seem to be acceptable to the Clinic. These buildings, like the one proposed by Tishman-Speyer Medic, are dictated by market demand. When the Clinic is ground lessor on projects with more market risk, DCI may have to look elsewhere to fill financing gaps created by the short term market. An alternative structure would be for the Clinic to contribute

its land as an equity partner. Joint ventures which provide guaranteed or preferred returns could be set up. While the developer might be looking for its return in the early years, the Clinic may be willing to defer a return to the project's later years.

The Mixed Use Component is a good framework within which strategies can be tested. The staff has accomplished its role as table setters and much of the predevelopment study is finished. The problem now seems to be getting a project proposal assembled and put on the table. At the same time, some controversial site issues need to be resolved. Although market forces would sometimes be the catalyst for a development to proceed, with urban revitalization, this catalyst is often absent. Another catalyst would be leadership with vision. DCI may have this leadership with Herb Strawbridge, given his ability to attract Rouse's interest.

EDC is temporarily on hold, leaving site resolution to the DCI staff, whose local connections will be utilized for this effort. DCI seems to be in the process of assessing the site barriers and alternatives. Both parties recognize that the site will be a delicate issue and feel that two years for completion of site assembly is realistic. In this case, DCI will be the implementor and make judgments about the most feasible proposal and a strategy to carry it forward. As Dixon Harvey of EDC saw it, there won't be many chances to make this component work. Careful strategic planning and sensitivity toward the major stakeholders will be crucial to

the component's success. Fallback options need to be generated which would phase the use of the site, in case complete site assembly cannot be achieved. At the same time, DCI has to convince the institutions of the project's validity and solicit guarantees for the hotel/conference center use.

DCI is balancing the interests of many parties on this component. Unlike the Euclid Hotel, land is controlled in part by the School Board, in part by the city, in part by UCI and by other private interests. None of the proposed mixed use site is under Clinic control. The Clinic's role will be as a potential project user. This may alleviate some of the constraints DCI faced with the Euclid Hotel. However, far more complex multi-party agreements will be required. DCI can utilize its past experience as a broker to these agreements to find the best fit for this project. In order to exert more control and authority in this implementation role, DCI and UCI might explore a joint venture to take control of the site, prior to its disposition.

CRITERIA FOR SUCCESS

DCI will constantly be checking whether the project is meeting its original objectives in a timely manner. In addition, the following general set of criteria can provide a self-test as to whether a private, nonprofit entity works:[8]

- 1) Is it empowered?
- 2) Does the staff have ability and leadership?
- 3) Does it operate as close as possible to the way its for-profit counterpart operates, in this case a private

developer?

4) Does it have credibility with the key players?

5) Does it have flexibility to get grants?

6) Can it access sources of funding?

Examined in terms of each of these criteria, DCI may be struggling on empowerment (1), operating mode (3), and funding (6).

Generally, this analysis raises the following questions: Can a private nonprofit take on the role of developer, especially when its board is institutionally based? Is the insitutional nature of Doan Center's board an asset or a liability? These questions will be addressed in the following chapter.

Chapter Five

GENERAL ISSUES RAISED BY THE DOAN CENTER CASE: IMPLICATIONS FOR SIMILAR NONPROFITS

One of the original objectives of this thesis was to examine what makes nonprofits distinct as they participate in the real estate development process. These distinctions include their position with respect to the public and private sectors, their missions, and their attitudes about risk, return, and time horizon. Although there is no typical nonprofit player, just as there is no typical for-profit developer, a comparison between the two types can shed light on the unique aspects of nonprofit players.

The case of Doan Center and specifically the Euclid Hotel project illustrate many of the issues relevant to this question about nonprofits. While nonprofits bring many assets to the real estate process, they also bring an added layer of complexity. This is particularly true when nonprofits interact with the public and private sector. Some circumstances raised in this study are unique to Doan Center, and its political and economic context. These prevent the transfer of all conclusions about this nonprofit's role to that of other projects in other markets.

This chapter will stress those general lessons in the Doan Center experience that might apply to nonprofits in other contexts. Issues which are unique to the Cleveland market, and an urban redevelopment project like Doan Center, will be noted as well.

Nonprofits have a special status that creates both

advantages and disadvantages when these entities undertake real estate development projects. Their special status is derived from the power structures of their boards, the missions and objectives which drive them, their public image, their internal organizations, and the special relationships they cultivate with city governments and lenders.

Doan Center, Inc.'s board has primarily institutional representation, including many of the project area's stakeholders. In turn, the boards of the participating institutions themselves include some of the more powerful and influential people in Cleveland. There is also a lot of cross-fertilization among boards. For example, Ken McGovern and David Goss sit on the Board of New Cleveland-6, and McGovern is also on the Board of Midtown Corridor. Jerry Jarrett, who is the CEO of Ameritrust bank, is also on the Clinic's Board, a member of the board of trustees of UCI, and chairperson of the Trustees Committee of the Cleveland Foundation. The Cleveland Clinic is an associate member institution of University Circle, Inc.; while many of UCI's largest member institutions sit on the board of DCI. The network of private nonprofit institutions, corporations, and foundations in the City of Cleveland is very tightly knit.

Nonprofit organizations are unique because they usually strive to provide a public good. In this respect, their missions often run parallel to government bodies. Nonprofits with a very broad public agenda, like DCI, can still restrict their missions to certain aspects of the public good. In this respect they diverge from government bodies. Nonprofits

seem to occupy a middle zone between the public sector (whose obligation is to the citizens who support them) and the private sector (whose obligation is to shareholders or private individuals). The nonprofits have a duty to their boards, their sponsors, their missions, and a perceived or real obligation to the general public.

The missions of nonprofit organizations are often what give them special status in the eyes of the public. Although the public does not directly choose the direction of nonprofits the way that voters choose elected officials; the public does seem to hold these nonprofits in special esteem. This is especially true when the missions that give nonprofits their reason for being coincide with the desires of certain public sectors. Generally, nonprofits may be viewed with less skepticism than private businesses or real estate developers.

Finally, because nonprofits do have a commitment to some aspect of the public good, the nonprofits form special relationships with local government bodies. Often, the nonprofits are in a position to assist with the objectives of local government. This is definitely the case with DCI. Even when missions do not overlap with the desires of government, nonprofits may still have more direct access and favorable treatment by government. Nonprofit institutions probably illustrate this best. The longevity and stability of nonprofit institutions make them permanent fixtures in their communities. Although they do not vote, their presence is felt and often a source of power. When an institution is

as important to a local economy and tax base as the Cleveland Clinic is to Cleveland; its influence at City Hall cannot be underestimated. Also, the power structure of the nonprofit boards can imply political influence in greater force than a single private corporation.

These factors often give nonprofits advantages as far as public review and approval, access to public or tax exempt funding, favorable financing rates, and priority on public agendas. Another major advantage for large scale projects is that institutions are often landbankers and are willing to execute ground leases. Ground leases can greatly reduce predevelopment risk. The costs of site assembly and carrying costs for the land are avoided while development approvals are sought. Also, initial land costs are amortized over the term of the lease. These financial considerations are important for large master plan projects.

These advantages can be somewhat theoretical. A major factor which can alter these advantages is the relationship the nonprofit has with the local community. Also, market forces which may create pro-development or no-growth constituencies will impact the reception a nonprofit gets from the community. When political and economic climates are overlaid onto the situation, even a very influential, public oriented institution, can run into the numerous obstacles of the real estate development process.

The advantages enumerated above can also be disadvantages, to some extent, as nonprofits deal in the world of real estate. The boards which provide a power

structure for institutions also tend to have complex organizational structures. The Clinic is a group practice of 500 physicians, run by a Board of Governors and a Board of Trustees. Also, real estate development is not usually the primary mission of the organizations, nor is it the area of expertise of the decision making bodies. Keeping an arm's length from participation in the real estate world is a common tendency for nonprofits.

Nonprofit missions are not usually real estate related. If the mission happens to be oriented to real estate development, like Doan Center Inc.'s is, this direction will often be tempered by associated goals which private developers do not encounter. In the case of Doan Center, the development is extremely risky and profit is not the major motivator. When missions are not real estate oriented, as in the Clinic's case, the attitude is often that real estate development is not the business, objective, or expertise of the institution. Therefore, development of noninstitutional facilities takes a very low priority.

The desire to maintain a positive public image will make nonprofits very careful about selecting partners for real estate ventures. In the cases where real estate is not mission related, joint ventures are often necessary because the nonprofits do not have in-house expertise. The tendency for nonprofits to be held under public scrutiny, and for many observers to have higher expectations about their products than they would for the private sector, creates a liability out of an asset. As for relationships with local

governments, the influence created by the longevity of nonprofit institutions also sets performance criteria to a higher level. When governments are open to deal making or negotiated development, nonprofits may not have the freedom to pursue this option in the way their private counterparts do. However, of the four factors described: power structure; missions; public image; and special status with city government; the last factor probably has far more advantages than disadvantages.

Another major focus of this study was to examine the relationship between nonprofits and their private sector counterparts--the real estate developers. One hypothesis might be that the less institutional the nonprofit is, the closer it comes to acting like its private sector counterpart. There are some very institutional development corporations, just as there are some very entrepreneurial institutions; so this theory is not necessarily valid.

A second hypothesis is that a complementary relationship between a nonprofit and a private developer is the optimal situation. Each party can contribute and execute those aspects which they do best. In the abstract, this is the rationale behind public/private partnerships. In reality, the public sector and private sector do not necessarily divide up the work according to optimal efficiency. Public/private partnerships usually take on projects with greater challenges than either sector could meet separately. Both sectors must pursue every option within their respective domains just to get the projects to work. This model seems

to fit the Doan Center project. In the case of Doan Center, the partnership seems to be three-way. The model is more a public/private/nonprofit or quasi-public/private partnership.

To understand the potential complementary relationships that can be cultivated between nonprofits and private developers, one must look at the following factors: risk profile, reward objective, time horizon, and tax status. These factors establish some of the parameters for structuring successful joint ventures between the two players.

Parallels exist between the more common partnership structures of private developers and institutional lenders, like pension funds and insurance companies. In these partnerships, the lender is typically risk averse, willing to forego high yields in order to balance risk aversion, able to maintain an extended time horizon for returns, and often able to utilize tax exempt funds. The developers, especially less corporate ones, typically will bear a greater personal risk provided rewards will compensate for this, have a shorter time horizon for expected returns, and do not have tax exempt status. For these reasons, developers often take on a general partner's position, assuming more liability in exchange for greater control over the operations and management of a project. When lenders participate in cash flow or residuals, they parallel the role of limited partner. Some lenders assume an equity position, with convertible loans.

When organizations like DCI can utilize the large spectrum of creative financing and complex deal structuring techniques available, they can become very adept at tailoring these ventures to the objectives of the participants. This would be especially useful in resolving the Clinic's objectives with regard to control. These deal structures would be more complex than those outlined for the Euclid Hotel (wholly owned, joint venture, and ground lease). Each project component would require a unique deal structure, as the positions and objectives of the parties involved would vary.

A further understanding of the distinctions between nonprofits and their private counterparts is necessary. These distinctions relate to a nonprofit's position in the spectrum between public and private sectors. The closer the nonprofit falls to one end or the other will dictate which of the following issues are applicable.

Many of the following issues were evident in the Euclid Hotel Case and the general background of the Doan Center project. When a nonprofit is an institution (like the Clinic) or a quasi-public organization (like Doan Center), its management structure tends to be more complex and somewhat static in terms of decision making. This is due partly to a fiduciary responsibility on the part of the professional staff to its board. The ability to act quickly in order to maintain a competitive edge on a real estate opportunity is somewhat restricted, unless the professional staff has complete independence and responsibility for these

actions. When market conditions do not dictate quick actions, this ability diminishes in importance. Private developers are often viewed as having this attribute, but this may also be a result of the marketplace. When the tradeoff between risk and reward makes the consequences of quick actions less burdensome (i.e., when the downside is reduced by positive market forces), then the speed at which decisions can be made is a desirable attribute.

Another issue which is apparent when a nonprofit is a player, is performance measurement. Conventional measures of success for private enterprise are often financial. Bottom line may not be a criterion for a nonprofit entity that takes on a project for motives other than purely financial ones. Nonprofits tend to measure financial success at a break even point far lower than their private counterpart's assessment of acceptable returns. Projects which require gap financing, other subsidy sources, and longer time horizons for positive returns will have success measures that also relate to achievement of non-financial objectives.

Funding sources for nonprofits (often other nonprofits like foundations) do not necessarily perform due diligence the way a private lender does. Once foundations disburse grants, their best way to influence performance in the future is to hold the grantee accountable when further grants are sought. Sometimes, this factor can contribute to an inertia that exists for nonprofits. Once they are established and funded, the measures of productivity that would mean success or failure for their private counterparts can be cushioned

for the nonprofit. Less established nonprofits face funding crises fairly often in their early years. To survive, they must be adept at persuading funding sources of the legitimacy of their existence. Because different parties brought into the process will have different criteria for success, a common set for all parties is difficult to establish and maintain. A third issue, which arose in the Euclid Hotel case and which will continue to challenge the Doan Center project, is the effect of federal tax reform. Changes in the tax laws have implications in terms of the attractiveness of nonprofits to private partners.

- 1) Tax driven deals or those that relied heavily on tax benefits in order to reduce the downside of a deal now lose their appeal.

- 2) The gap between tax exempt financing and conventional financing is decreased as income tax rates are reduced, making tax exempt financing less valuable.

- 3) Recent focus and debate over the use and abuse of tax exempt status. Those endeavors which are not related to the mission that creates the tax exempt status are taxable. Property held by a nonprofit but used for unrelated business is taxable. However, the definition of unrelated business is sometimes vague and puts nonprofits in the position of being self-policing or scrutinized by the IRS.

This final point has more importance for nonprofits participating in weaker real estate markets. In stronger markets, where the land itself is a valuable asset, tax law changes will not be as detrimental to nonprofits' appeal.

Projects like Doan Center, which involve large scale redevelopment on land controlled, to a large extent, by a nonprofit institution are an emerging prototype. In the case of Doan Center, responsibility for master planning and

predevelopment is in the hands of another nonprofit entity, rather than the city or the landowner. This makes Doan Center unique in some respects. Another aspect of the Doan Center case which is unique is the market problem which creates financing gaps. These gaps are caused by limited revenues set by market rents that cannot cover construction and land costs, even when land costs are fairly low.

Under different political and economic conditions, other issues of nonprofit participation might arise. When a local real estate market is thriving, institutional presence may not be the only value creator for land holdings.

Institutions may find themselves holding valuable real estate assets which were originally purchased for expansion or land use control. Many universities, churches, and hospitals to a lesser extent have been in this position. Examples of institutional land holdings being developed for commercial purposes include Princeton University's Forrestal Center [1], M.I.T.'s University Park, Duke University [2], and the College of William and Mary.

Valuable land holdings also bring the problem of development pressures and strong local anti-development constituencies. Institutional sponsorship of real estate development projects under these circumstances can create conflicts in terms of image and community relations. When projects meet strong local resistance, a joint venture with a private developer may prove useful in shielding the institution from these conflicts. In turn, the institution may offer established relationships with municipal government

as a way of mitigating a difficult approval process.

The issues examined in this case and its analysis provide a basic framework for understanding nonprofit participation more broadly. Although nonprofits bring additional complexity to the real estate development process, they also bring many assets. The most complex and advantageous of these is the objective to direct development towards a greater public good.

ENDNOTES

Chapter One

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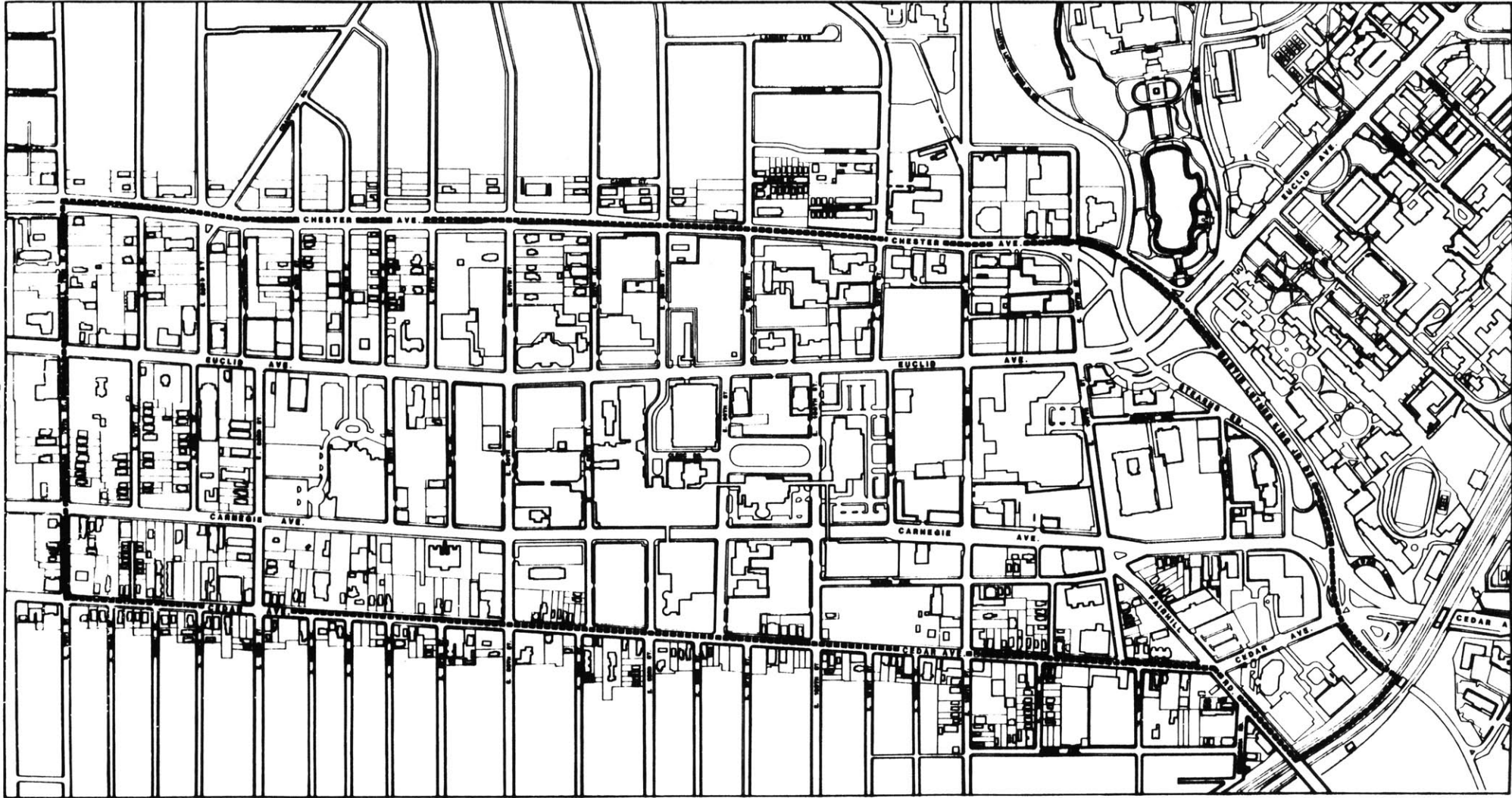
LIST OF EXHIBITS

- Exhibit A: View of the Doan Center area looking towards downtown Cleveland.
- Exhibit B: Map of the Doan Center Project Area.
- Exhibit C: Map of Site in relation to Downtown and Suburbs
- Exhibit D: 1) Dual Hub Corridor
2) Target Area showing Dual Hub Corridor
- Exhibit E: Doan Center and Surrounding Neighborhoods
- Exhibit F: Map of Doan Center and University Circle
- Exhibit G: Map of the Clinic in relation to Doan Center
- Exhibit H: Map showing Counties in Region
- Exhibit I: Target Area Map
- Exhibit J: 1) Doan Center Census Tract Areas
2) Population Trends, Doan Center Area
3) Population Changes and Projections (Hough and Fairfax)
- Exhibit K: 1) Doan Center Master Plan, 1984 (Halcyon)
2) Development Budget Summary by Project Component
- Exhibit L: DCI Organization
- Exhibit M: Doan Center Master Plan, 1987 (Enterprise Development Corporation)
- Exhibit N: Mixed Use Component, 1987 (EDC)
- Exhibit O: Housing Market Information (from RFP)
- Exhibit P: Euclid Hotel Development Alternatives (Laventhol and Horwath)



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EXHIBIT A
Source: Doan Center, Inc.



**DOAN
CENTER**

Source: Doan Center, Inc.

<p>DATE: _____ SCALE: _____</p>	
<p>DATE MAP PREPARED: JULY 1, 1966 BY: Gould/Amortization, Inc. ARCHITECTS AND CITY PLANNERS 404 East 99 Street, Columbia, Mo. 65204</p>	



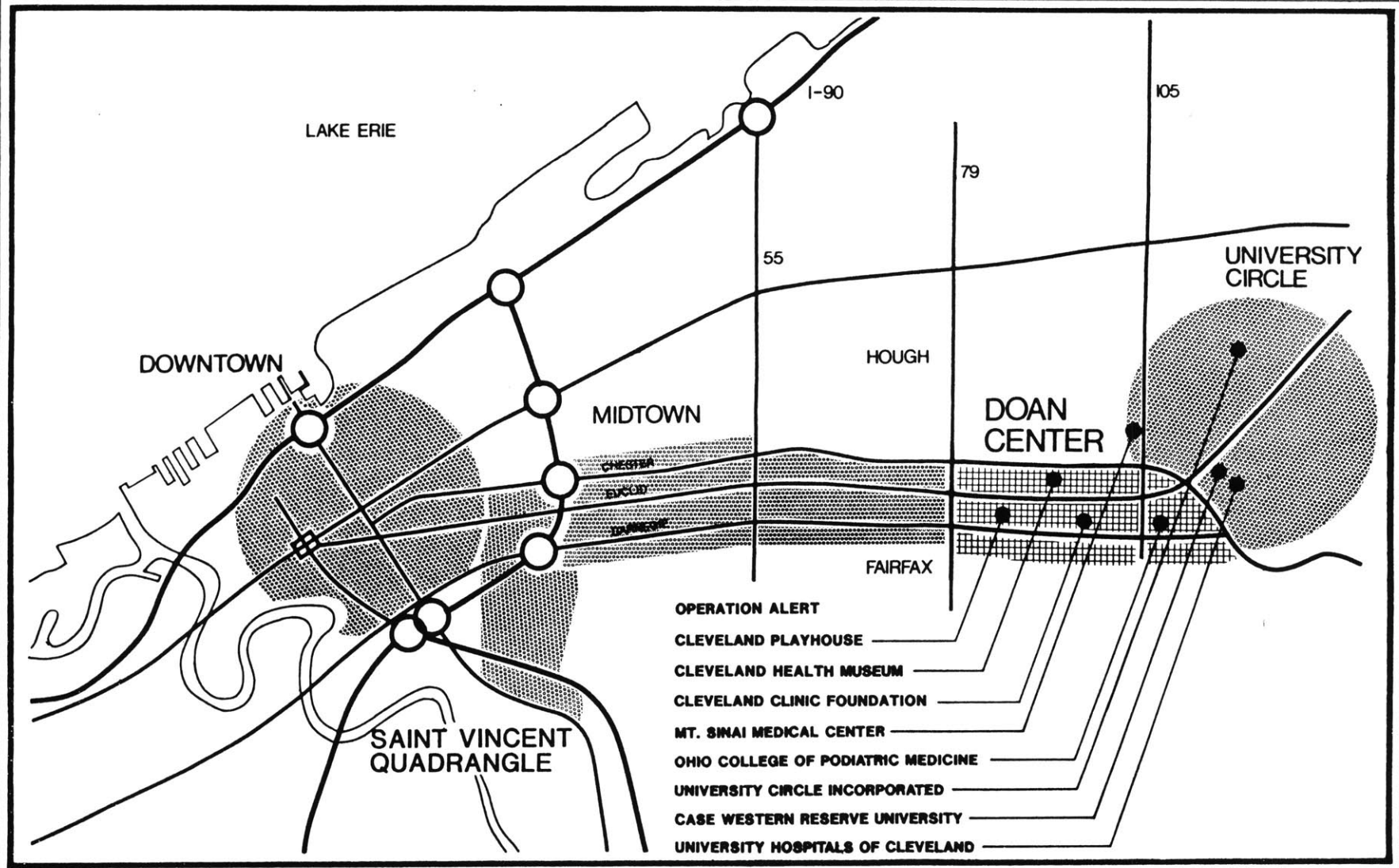
Location Map

**Survey of Selected Retail Centers
Cleveland, Ohio**

KEY

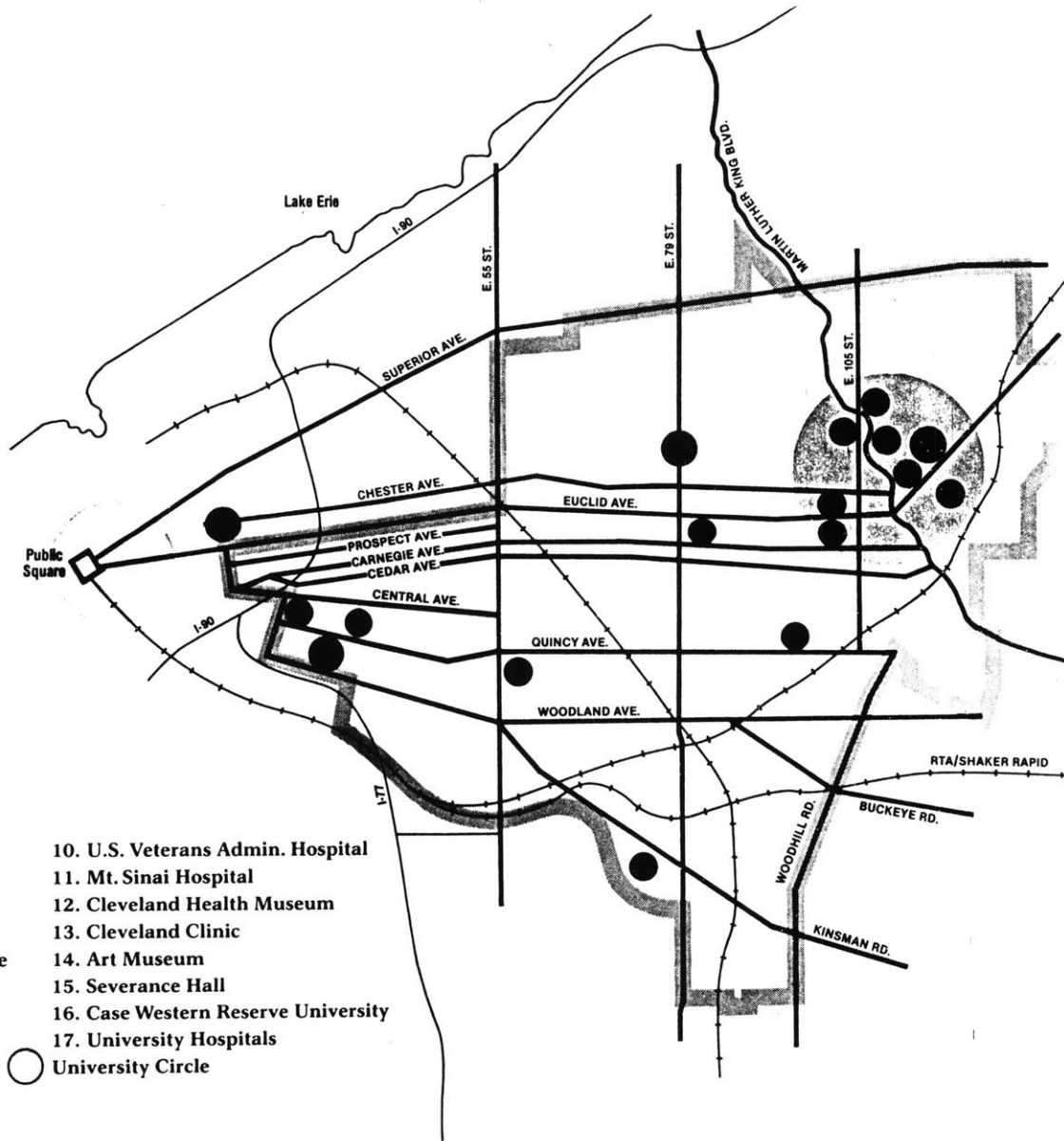
- EXISTING
- UNDER CONST.
- ◇ PROPOSED





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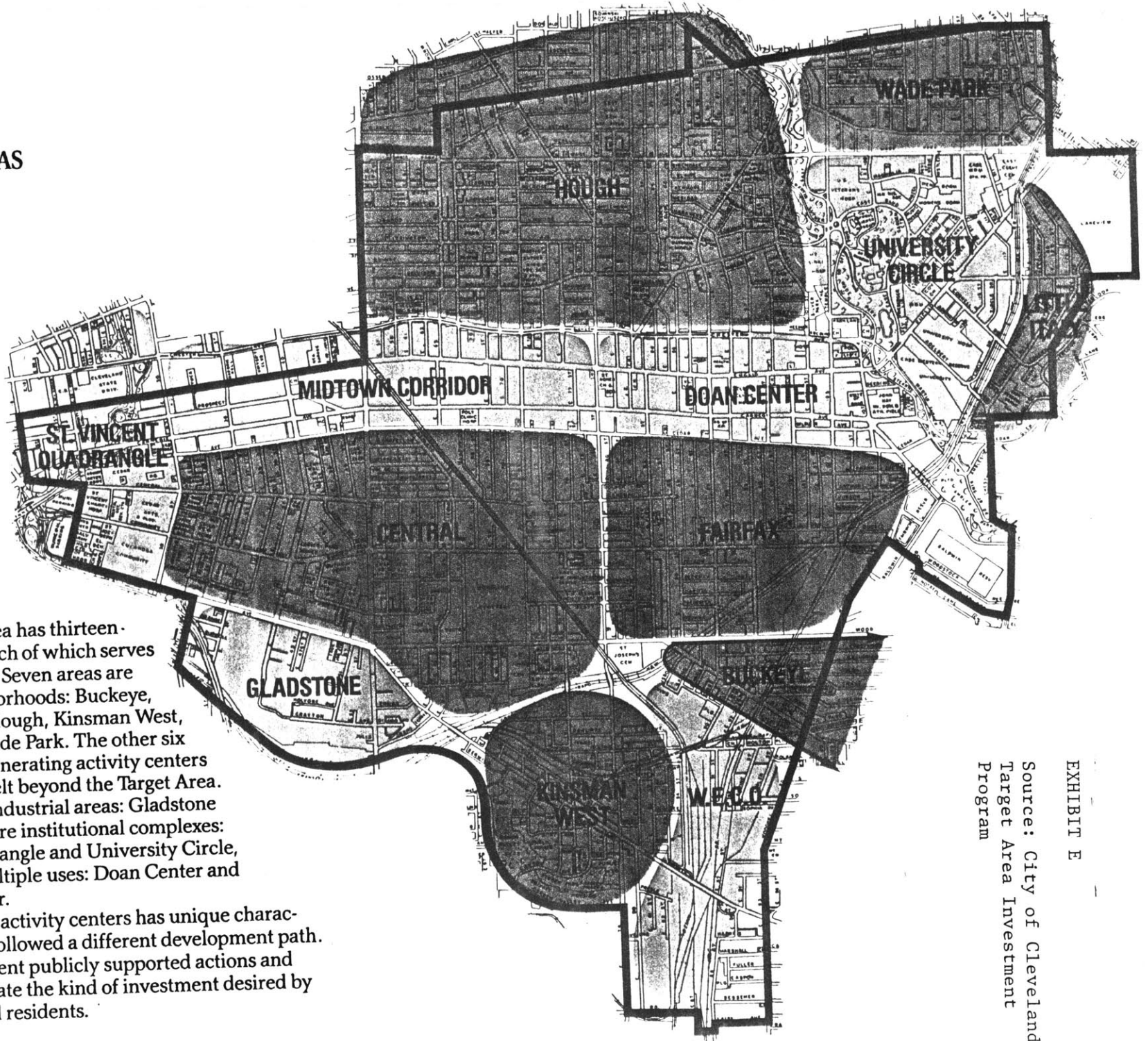
EXHIBIT D-2
 Source: City
 of Cleveland
 Target Area
 Investment
 Program



THE TARGET AREA

- The Downtown Area
- 1. Cleveland State University
- 2. St. Vincent Hospital
- 3. Nouvelle Espoire Housing
- 4. Cuyahoga Community College
- 5. East Tech
- 6. Lexington Village
- 7. Cleveland Playhouse
- 8. Garden Valley
- 9. Karamu House
- 10. U.S. Veterans Admin. Hospital
- 11. Mt. Sinai Hospital
- 12. Cleveland Health Museum
- 13. Cleveland Clinic
- 14. Art Museum
- 15. Severance Hall
- 16. Case Western Reserve University
- 17. University Hospitals
- University Circle

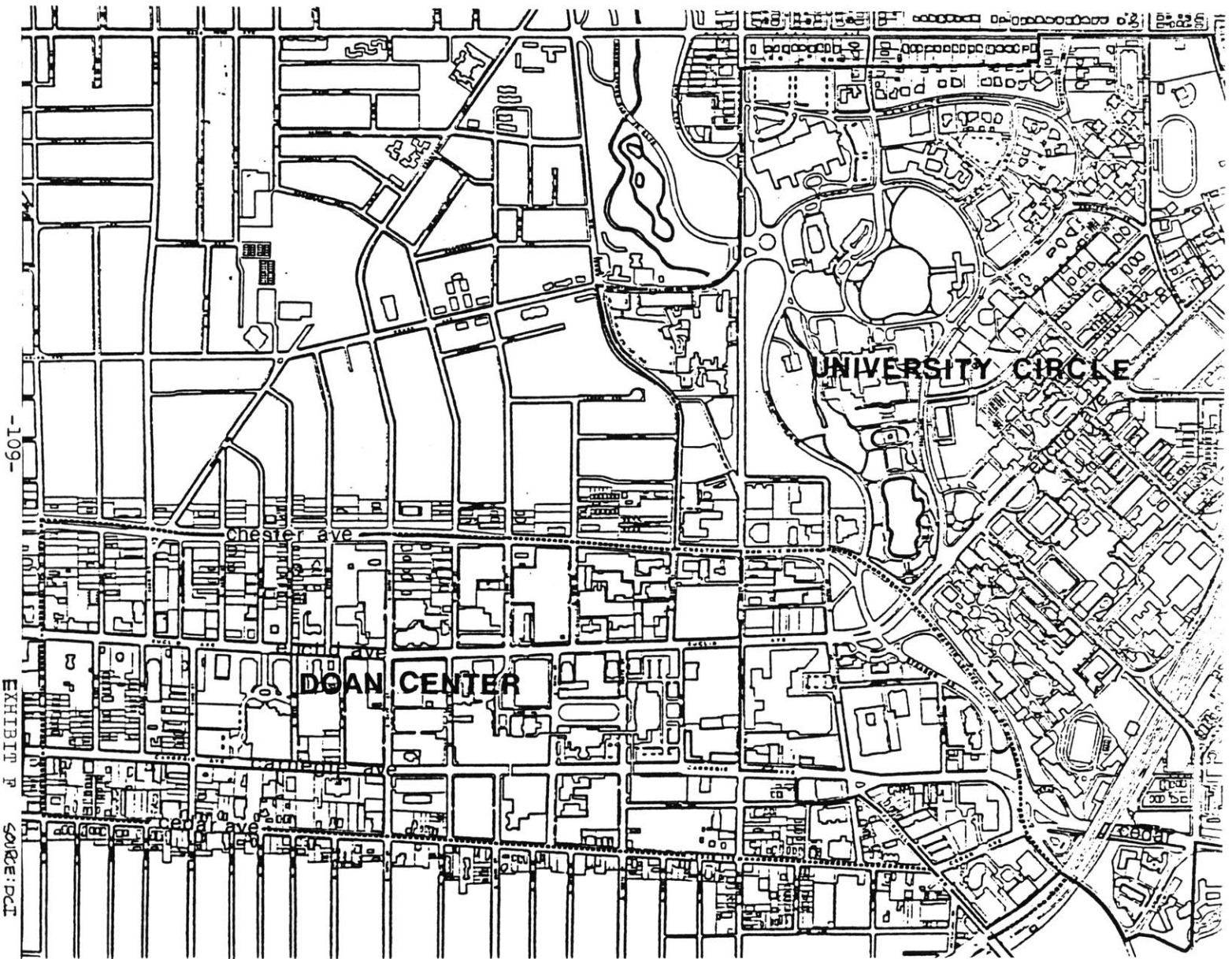
THE ACTION AREAS



The Target Area has thirteen activity centers, each of which serves a distinct purpose. Seven areas are residential neighborhoods: Buckeye, Central, Fairfax, Hough, Kinsman West, Little Italy and Wade Park. The other six are regional job-generating activity centers whose impact is felt beyond the Target Area. Two of these are industrial areas: Gladstone and WECO; two are institutional complexes: St. Vincent Quadrangle and University Circle, and two serve multiple uses: Doan Center and Midtown Corridor.

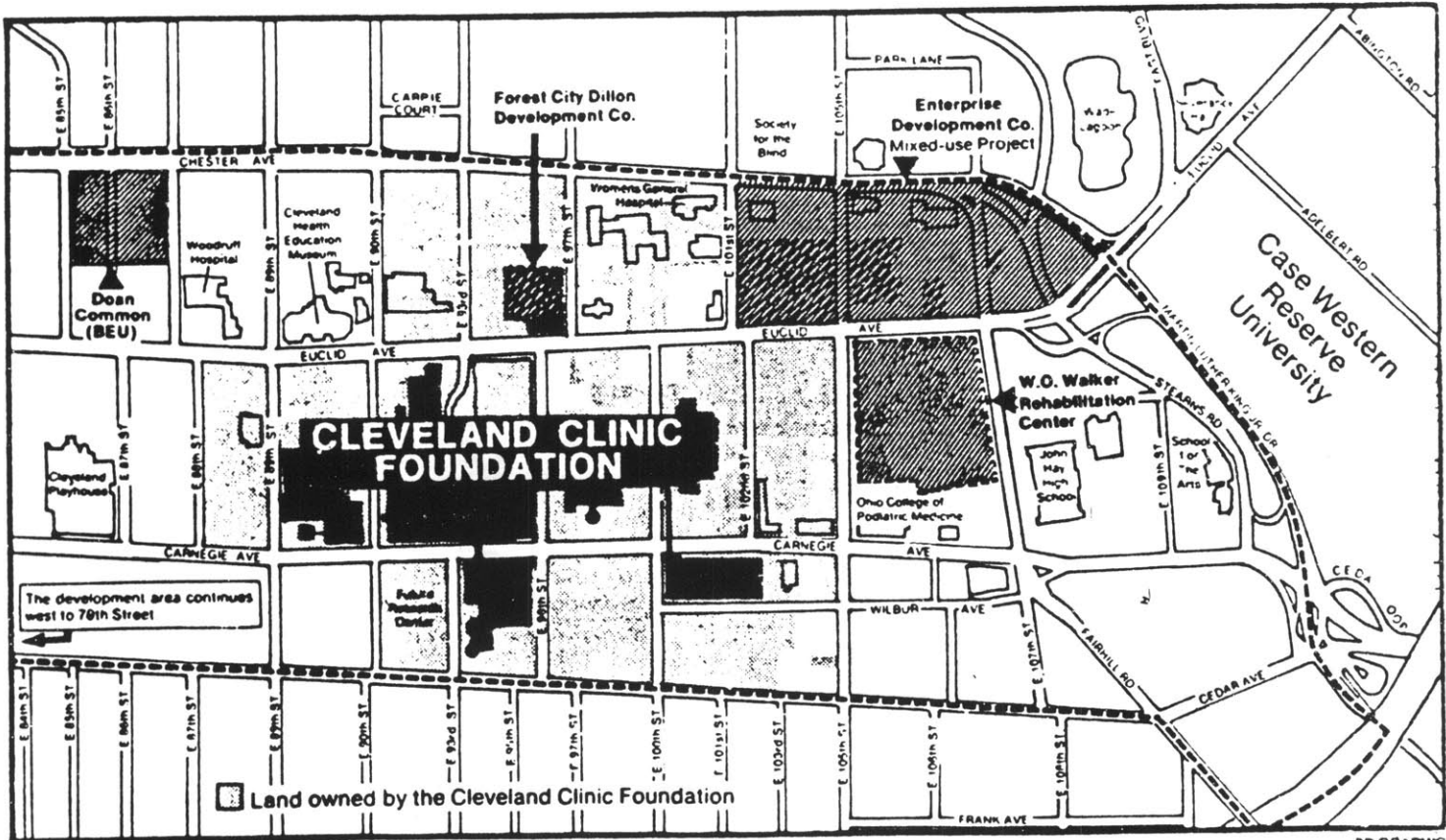
Each of these activity centers has unique characteristics and has followed a different development path. Each needs different publicly supported actions and projects to stimulate the kind of investment desired by its businesses and residents.

EXHIBIT E
Source: City of Cleveland
Target Area Investment
Program



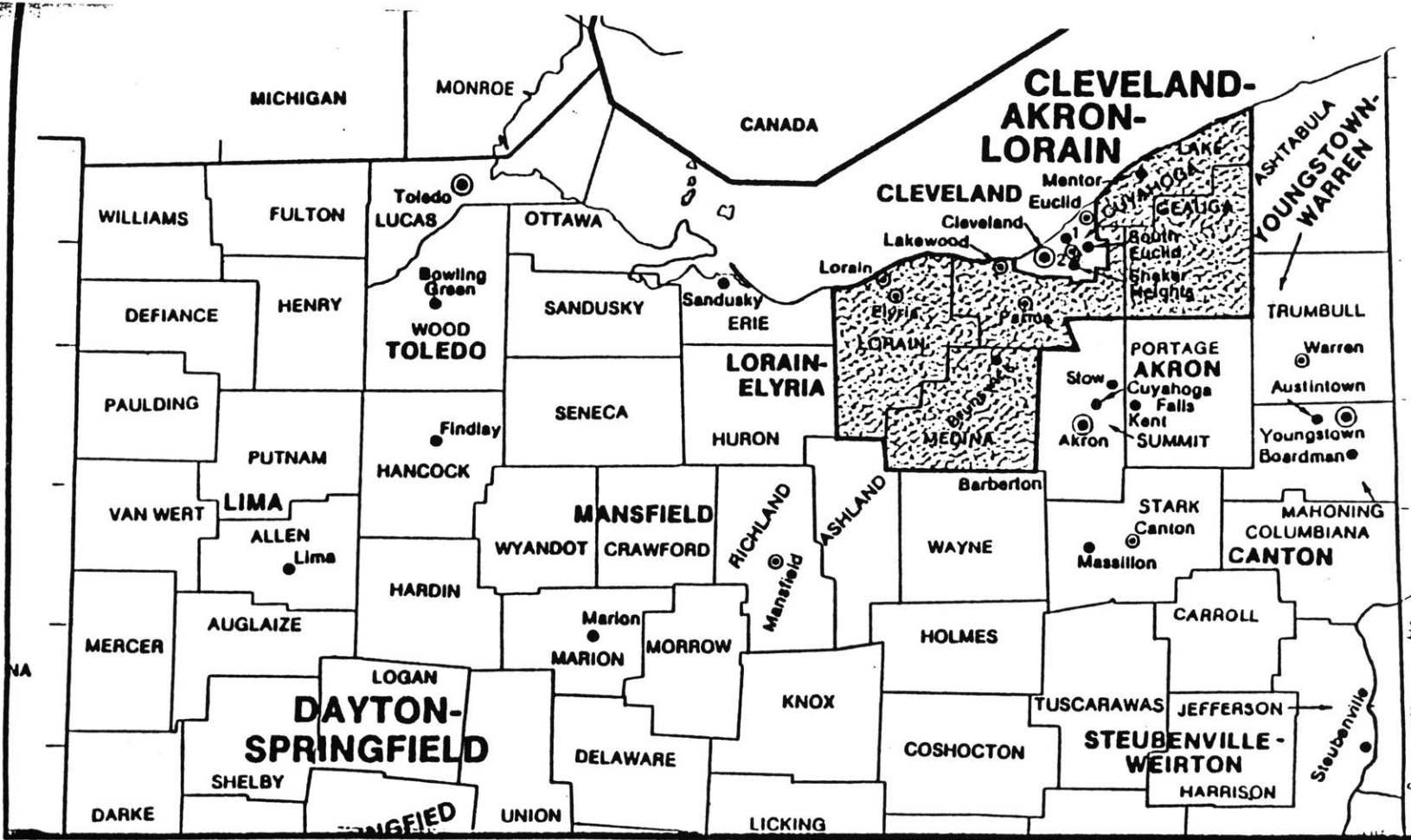
-109-

EXHIBIT F SOURCE: DCT



Major developments in Doan Center.

PD GRAPHIC



Location Map

**Tertiary Retail Trade Area
Doan Center/University Circle Site**

SOURCE: EDC Reconnaissance Report

KEY



TERTIARY TRADE AREA



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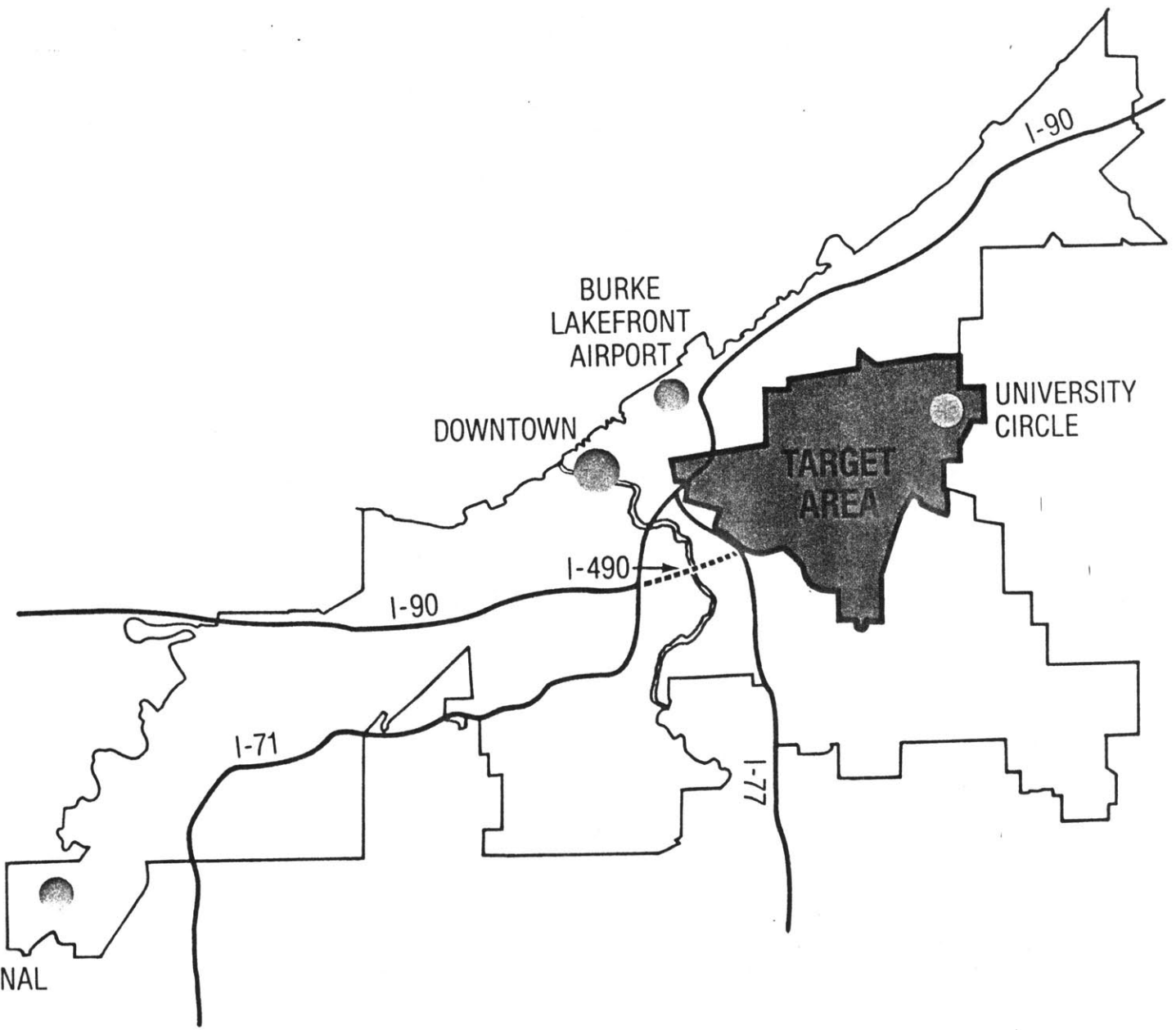


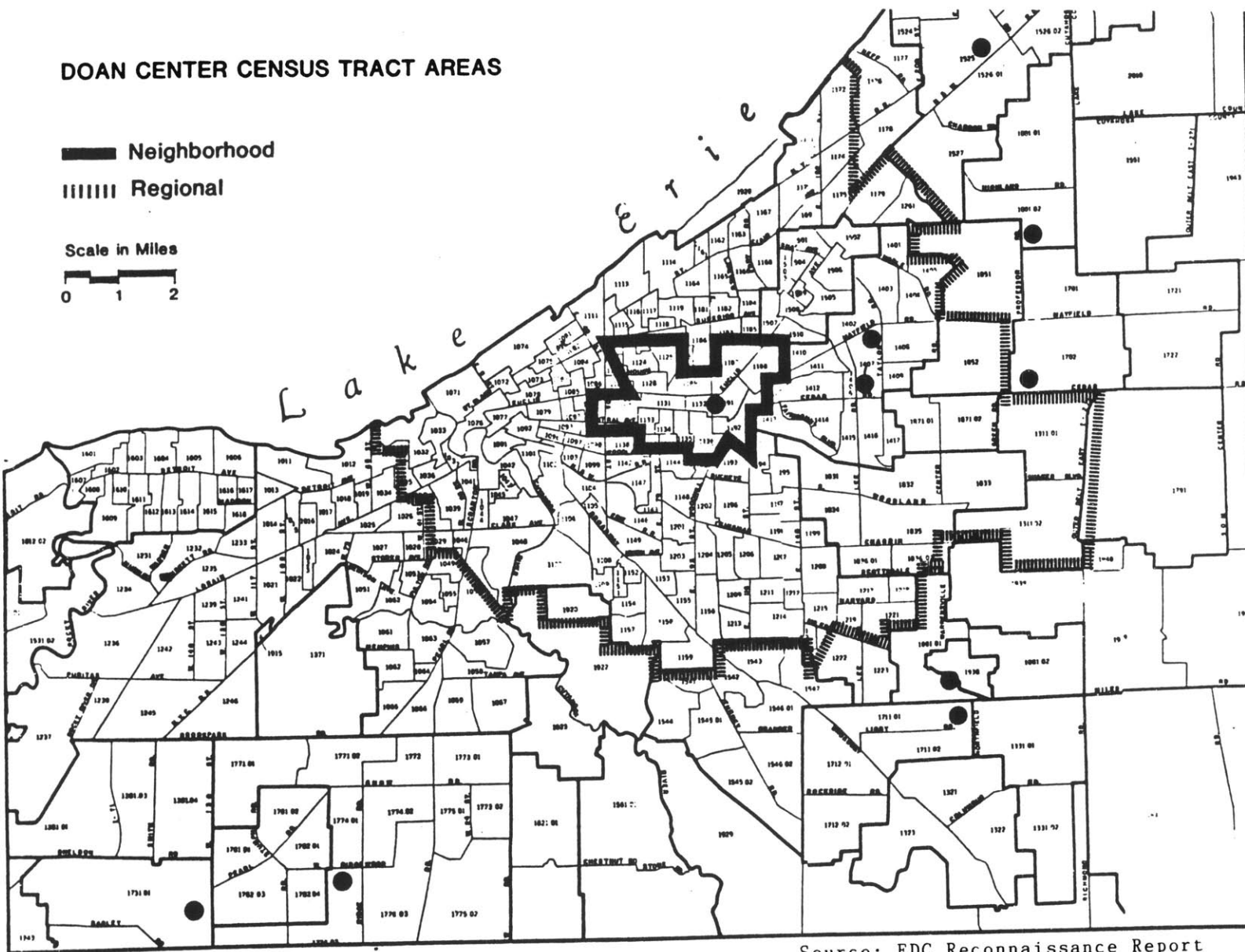
EXHIBIT I
Source: Target Area Investment Program
City of Cleveland

DOAN CENTER CENSUS TRACT AREAS

█ Neighborhood

▤ Regional

Scale in Miles



-113-

EXHIBIT J-1

Source: EDC Reconnaissance Report

TABLE 2.5

POPULATION TRENDS, DOAN CENTER AREA

Census Tract	POPULATION			HOUSEHOLDS		
	1970	1980	Change 1970-1980	1970	1980	Change 1970-1980
University Circle						
1187	4,498	3,449	-23.2%	1,133	788	-30.5%
1188	3,533	2,822	-20.1	1,396	1,450	3.9
1191	1,479	899	-39.2	559	324	-42.0
1192	<u>3,294</u>	<u>2,601</u>	<u>-21.0</u>	<u>923</u>	<u>893</u>	<u>8.5</u>
Total	12,804	9,771	-23.7%	3,911	3,455	-11.7%
Hough*						
1124	6,139	2,547	-58.5%	1,634	835	-48.9%
1125	5,037	2,093	-58.4	1,355	645	-52.4%
1126	3,041	2,142	-29.6	777	729	-6.2
1128	4,644	1,881	-59.2	1,602	846	-47.2
1129	2,839	1,496	-47.3	1,026	665	-32.2
1186	4,806	4,156	-13.5	1,982	1,968	-0.7
1189	<u>7,514</u>	<u>4,047</u>	<u>-46.1</u>	<u>2,791</u>	<u>1,752</u>	<u>-37.2</u>
Total	34,020	18,362	-46.0%	11,167	7,440	-33.4%
Fairfax**						
1131	3,421	1,139	-66.7%	1,683	554	-67.1%
1132	1,661	733	-55.9	834	393	-52.9
1133	3,392	1,997	-41.1	1,237	854	-31.0
1134	2,489	1,846	-25.8	853	690	-19.1
1135	4,570	2,865	-37.3	1,611	1,673	-33.4
1136	<u>3,131</u>	<u>2,368</u>	<u>-24.4</u>	<u>1,094</u>	<u>925</u>	<u>-15.4</u>
Total	18,664	10,948	-41.3%	7,312	4,489	-38.6%
Total Doan Center	65,488	39,081	-40.3%	22,390	15,384	-31.3%

* Not including Census Tracts 1121, 1122, 1123, and 1127.

**Not including Census Tracts 1139 and 1141.

Source: US Bureau of the Census

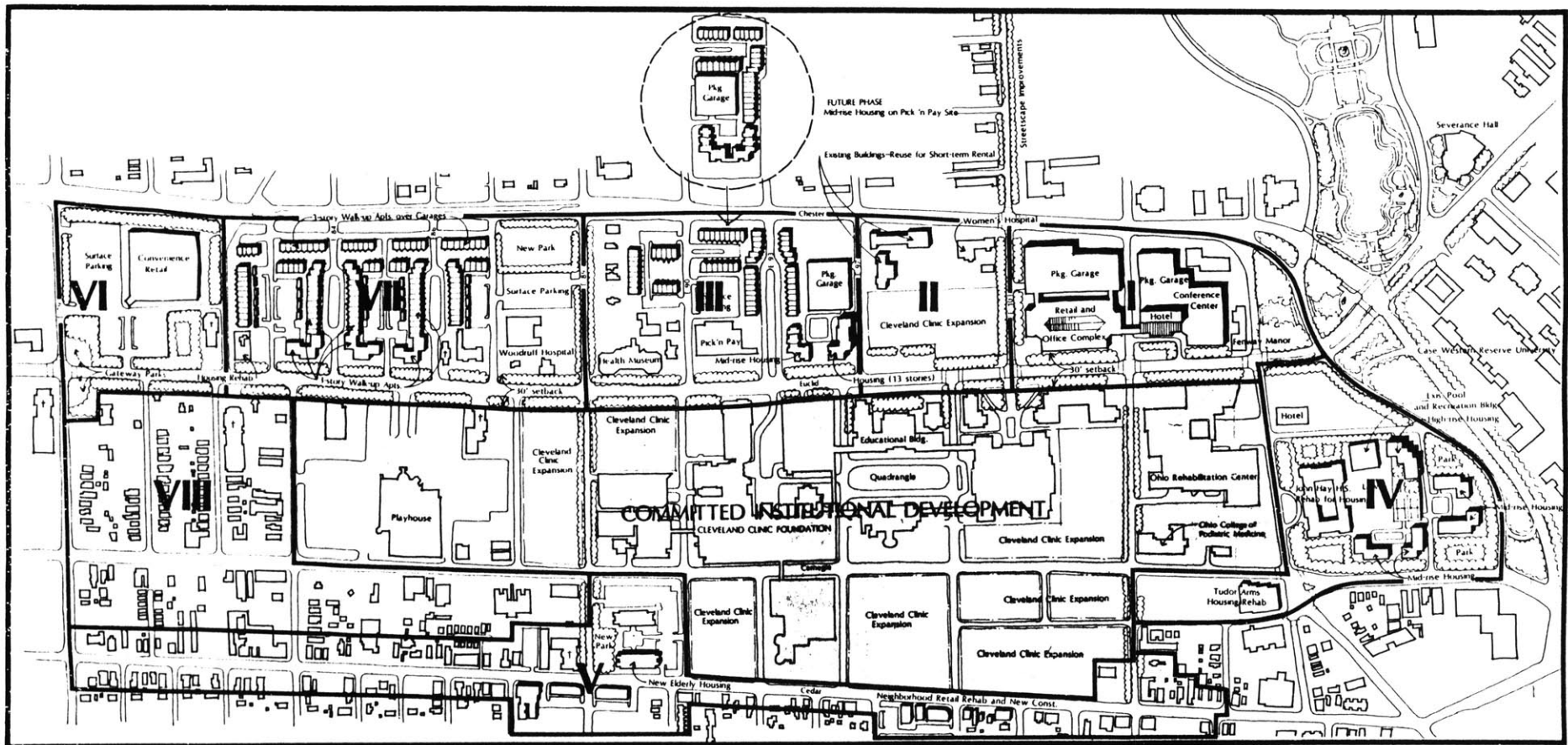
PERCENT POPULATION CHANGE BY SPA

SPA	POP. 1970	% POP. CHANGE	POP. 1980	% POP. CHANGE	POP. 1990	% POP. CHANGE	POP. 2000
1 ARCHWOOD/DENISON	13299	-19.26	10738	-12.08	9441	-16.85	7850
2 BUCKEYE/SHAKER	18496	-11.62	16347	-10.89	14567	-13.47	12605
3 CENTRAL	27229	-28.89	19363	-19.35	15616	-12.99	13587
4 CLARK/FULTON	27912	-17.55	23013	-10.57	20580	-15.24	17443
5 CORLETT	21034	-11.95	18521	-9.22	16813	-12.19	14764
6 CUDELL	13408	-15.31	11355	-9.20	10310	-14.52	8813
7 DETROIT SHOREWAY/NEA	29891	-30.61	20741	-18.08	16992	-16.85	14128
8 DOWNTOWN	3761	27.60	4799	6.67	5119	59.02	8140
9 EDGEWATER	10772	-10.62	9628	-3.93	9250	-8.80	8436
10 EUCLID/GREEN	9185	-12.98	7993	-10.30	7170	-13.15	6227
*11 FAIRFAX	22157	-42.02	12847	-14.19	11024	-14.86	9386
12 FOREST HILLS	30857	-29.09	21881	-17.09	18142	-16.86	15084
13 GLENVILLE	47842	-36.57	30348	-17.20	25128	-16.86	20892
*14 HOUGH	45487	-44.31	25330	-17.49	20899	-11.73	18447
15 INDUSTRIAL VALLEY	1498	-60.81	587	-23.00	452	-16.81	376
16 JEFFERSON	25633	-15.56	21644	-6.97	20136	-6.76	18775
17 KAMHS CORNER	26570	-14.89	22614	-7.40	20940	-11.70	18490
18 KINSMAN	15361	-43.45	8686	-23.24	6667	-16.87	5542
19 LEE/MILES	21951	-12.41	19226	-8.47	17598	-12.85	15336
20 MT. PLEASANT	33613	-17.68	27671	-12.19	24297	-16.86	20200
21 NORTH BROADWAY	13424	-28.28	9628	-9.82	8683	-14.08	7460
22 NORTH COLLINWOOD	22439	-7.78	20693	-6.89	19268	-9.21	17493
23 OHIO CITY/NEAR WEST	20324	-34.01	13412	-17.80	11025	-6.06	10357
24 OLD BROOKLYN	43239	-13.93	37217	-6.48	34806	-6.51	32540
25 GOODRICH/KIRTLAND PA	8719	-34.20	5737	-3.83	5517	-7.52	5102
26 PURITAS/LONGMEAD	20622	-14.92	17546	-6.87	16341	-6.52	15275
27 RIVERSIDE	10805	-26.23	7971	-6.80	7429	-12.28	6517
28 ST. CLAIR/SUPERIOR	21910	-32.05	14888	-13.47	12883	-16.34	10778
29 SOUTH BROADWAY	31800	-25.57	23668	-7.02	22007	-9.66	19881
30 SOUTH COLLINWOOD	22359	-19.33	18038	-14.21	15475	-15.10	13138
31 TREMONT	16322	-37.05	10275	-22.16	7998	-16.84	6651
32 UNION/MILES PARK	23214	-16.86	19299	-15.18	16369	-14.91	13928
33 UNIVERSITY	12804	-23.69	9771	-18.04	8008	-6.37	7498
34 WEST BOULEVARD	21964	-17.26	18173	-5.73	17131	-6.53	16013
35 WOODLAND HILLS	14676	-4.48	14019	-17.74	11532	-16.87	9587

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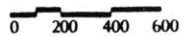
EXHIBIT J-3

Source: City of Cleveland
Executive Summary Population
Trends



DOAN CENTER
Cleveland, Ohio

February, 1984



Sasaki Associates, Inc.

Planning, Architecture, Landscape Architecture, Urban Design, and Engineering. Environmental Services.
145 Federal Street, Waltham, Massachusetts 02127
(617) 939-1800 Telex 927461



HALCYON LTD.
Development Consultants
55 High Street
Hartford, Connecticut 06103
(203) 527-1888
Cable HALCYON

PROJECT COMPONENTS

- | | |
|-----------------------------------|-----------------------------------|
| I Mixed-Use Complex | V Cedar Avenue Revitalization |
| II Institutional Development | VI Convenience Shopping Center |
| III East 89th-96th Street Housing | VII East 82nd-89th Street Housing |
| IV Stearns Road Housing | VIII Neighborhood Rehabilitation |

Source: Doan Center, Inc.

SECTION 1.4
DEVELOPMENT BUDGET SUMMARY
BY PROJECT COMPONENT

<u>PROJECT COMPONENTS</u>	<u>Development Cost</u>
Component I:	
o 350 Room Hotel	\$32,950,000
o 175,000 s.f. retail complex (2 levels) (120,000 s.f. G.L.A.)	23,925,000
o 140,000 s.f. office space above retail (120,000 s.f. G.L.A.)	14,700,000
o 40,000 s.f. conference center	4,500,000
o 800 car parking garage	6,600,000
o 350 car parking garage	2,750,000
o Public Improvements	1,000,000
o Land acquisition	6,800,000
	<u>\$93,225,000</u>
Component II:	
o Long term acquisition and Clinic expansion	0*
o Public Improvements and demolition	\$ 625,000
o Potential rehab activity for low cost, long term transient housing and day care facility	0*
o Woman's Hospital parking	0*
	<u>\$ 625,000</u>
Component III:	
<u>Phase I</u>	
o 346 units, new construction housing (70 units/acre) (208 midrise, 138 townhouses)	\$24,390,000
o 90 units, 1 bedroom rehab	2,325,000
o 428 cars structured parking	3,000,000
o 116 cars surface parking (with foundation)	532,000
o Woodruff Hospital Park	0*
	<u>\$32,247,000</u>
<u>Phase II</u>	
o 156 units new construction (mid-rise) & 47 units new construction (townhouses)	\$17,200,000
o 195 car parking garage above surface parking	1,570,000
o Public Improvements	600,000
	<u>\$19,370,000</u>

* These are considered institutional project costs not to be borne by projects

PROJECT COMPONENTS

Development
Cost

Component IV: Alternative 1: Rehabilitation Focus

o John Hay High School adaptive reuse 105 units	\$ 7,350,000
o 130 car parking deck	1,250,000
o 500 units mid & high-rise units	48,000,000
o 600 car parking deck	5,750,000
o 2.6 acre park	395,000
o Tudor Arms rehab 110 units	5,800,000
o Surface parking 137 cars	200,000
	<u>\$68,745,000</u>

Alternative 2: Integrated Focus

o 170 units high rise	\$16,850,000
o 212 car parking deck	2,000,000
o 500 units mid & high rise units	48,000,000
o 600 car parking deck	5,750,000
o Tudor Arms rehab 110 units	5,800,000
o Surface parking 137 cars	200,000
o John Hay High School adaptive reuse 105 units	7,350,000
o 130 car parking deck	1,256,000
o 2.6 acre park and 0.6 acre park	485,000
	<u>\$87,625,000</u>

Alternative 3: Redevelopment Focus

o 170 high rise units	\$16,850,000
o 170 mid rise units	16,850,000
o 424 parking spaces	4,000,000
o 500 units mid & high rise units	48,000,000
o 600 car parking deck	5,750,000
o Tudor Arms rehab - 110 units	5,800,000
o Surface parking - 137 cars	200,000
	<u>\$97,450,000</u>

Component V: o 200 units elderly housing near Play House	\$11,400,000
o 10,000 s.f. retail rehabilitation (Cedar)	780,000
o Park 1/2 acre	336,000
o 12,000 s.f. retail	975,000
o 30 surface car spaces	164,000
	<u>\$13,655,000</u>

Component VI: o 80,000 s.f. convenience retail center and 350 car surface parking	\$ 6,500,000
o Symbolic entry - 1 acre	330,000
o Church Park - 30,000 square feet	100,000
o Land acquisition & relocation	895,000
	<u>\$ 7,825,000</u>

PROJECT COMPONENTS

Development
Cost

Component VII: o	343 mixed income townhouse units	\$17,125,000
o	128 garages	1,165,000
o	215 structured parking spaces	1,635,000
o	Land acquisition and relocation	3,615,000
		<u>\$23,540,000</u>

Component VIII: o Housing rehab area (Not in project budget)

TOTAL \$257,242,000-\$285,947,000

DOAN CENTER INCORPORATED ORGANIZATION

DCI was incorporated as a 501(c)3 non-profit corporation on July 1, 1984. It is a membership organization comprised of institutional members and their designees to the Board. The trustees and their affiliation are as follows:

John M. Baker, Esq.	The Ohio College of Podiatric Medicine
Lowell F. Bernard	Cleveland Health Education Museum
Dr. James A. Block	University Hospitals of Cleveland
William E. Conway	Ex Officio
David G. Hill, Esq.	Operation Alert
Dr. William S. Kiser	The Cleveland Clinic Foundation
G. Robert Klein	The Cleveland Play House
Joseph D. Pigott	University Circle Incorporated
David V. Ragone	Case Western Reserve University
Robert J. Shakno	Mt. Sinai Medical Center of Cleveland
Herbert E. Strawbridge	Ex Officio
Richard B. Tullis	Ex Officio

1986-87 OFFICERS

Chairman	Herbert E. Strawbridge
Vice Chairman	William E. Conway
President	Kenneth W. McGovern
Vice President	Michael J. May
Treasurer	Kenneth J. Pinkerton
Secretary	David N. Goss
Asst. Corp. Secretary	Marvelous Ray Baker

8/1/86

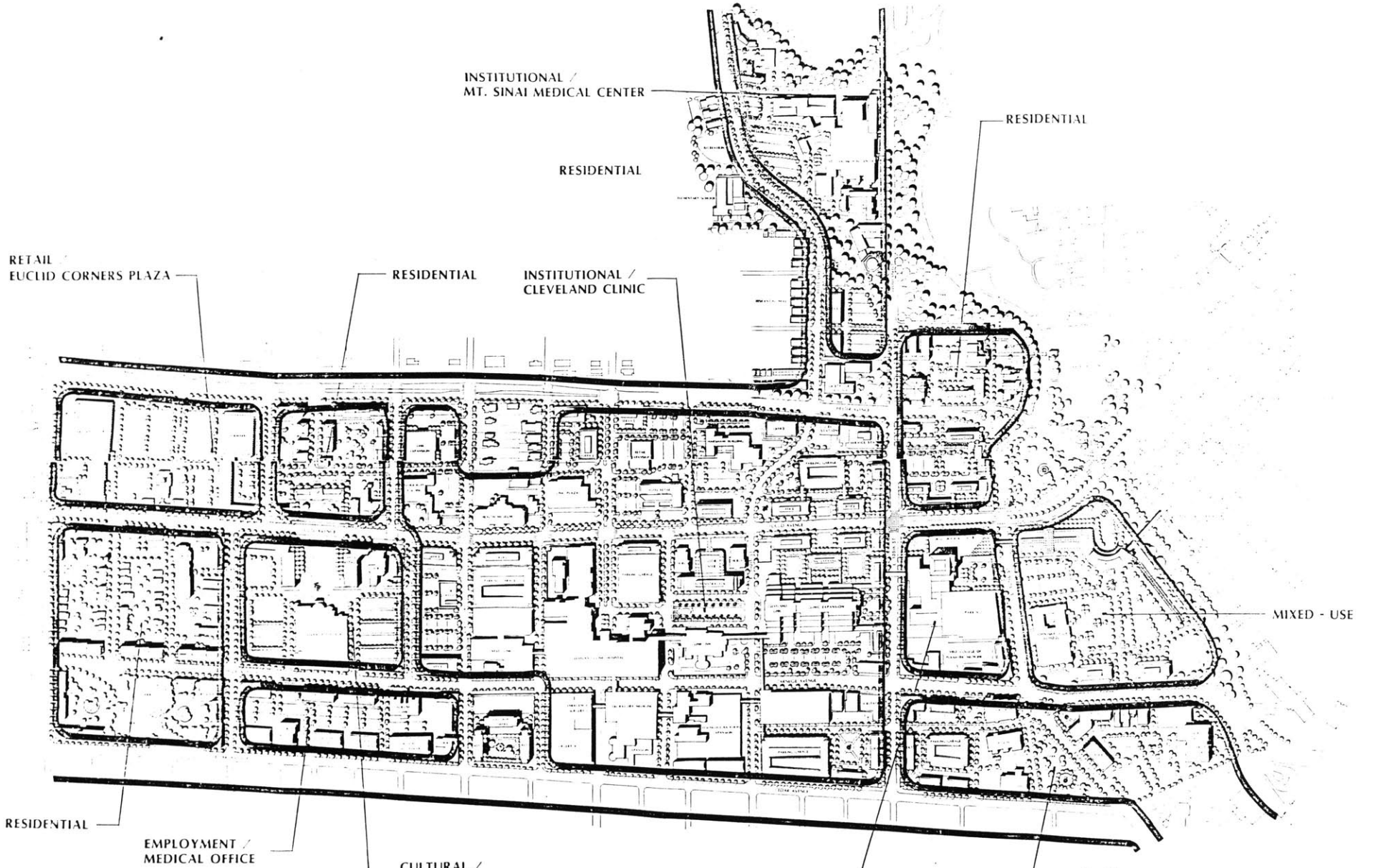
EXHIBIT L

Source:

Doan Center, Inc.

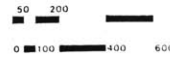
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EXHIBIT M
Source: DCI



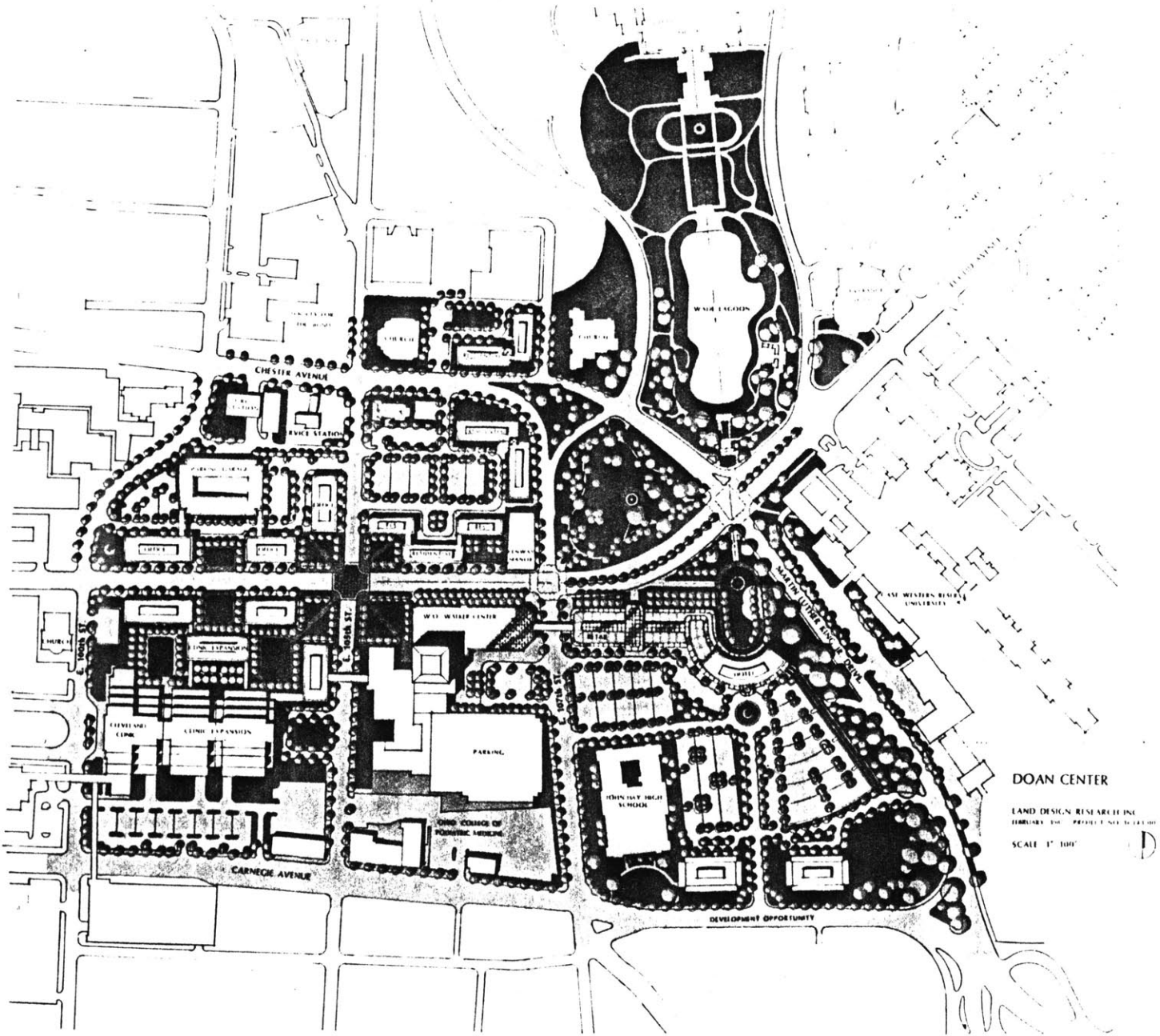
DRAFT
FOR INFORMATION ONLY

April 1987



Scale North





DOAN CENTER

LAND DESIGN RESEARCH INC.
 FEBRUARY 1987 PROJECT NO. 87-001
 SCALE 1" = 100'



H. HOUSING MARKET INFORMATION

Since 1980, several extensive studies have been undertaken to determine the market feasibility of developing market-rate housing in the Doan Center/Cleveland Clinic area. All have found the area's major medical, educational, and cultural institutions expressing a strong desire and need for expanded long-term living opportunities for the 30,000+ employees and the millions of yearly visitors who frequent the area. New markets have been emerging for both rental and sales housing units due largely to recent expansion and improvement programs by these institutions which have resulted in steady area employment growth and vastly improved physical conditions in the Doan Center environment. Noticeable change has been seen in the community's perception of safety, services, etc., as well.

The Doan Center/University Circle area continues to be one of Cleveland's strongest sectors of vitality and growth as witnessed by the following institutional expansion projects:

- o The Cleveland Clinic Foundation is nearing completion of its \$185 million expansion program, which, with its new keystone out-patient facility designed by Cesar Pelli, is drastically changing the face of the Doan Center area.
- o The new W. O. Walker Rehabilitation Complex, estimated at \$60 million, is now beginning construction at East 105th Street and Euclid Avenue, providing 300 new jobs to Doan Center.
- o The new Cleveland Play House complex, designed by native son Phillip Johnson, at East 86th Street was just completed at a cost of \$7 million.
- o University Hospitals of Cleveland is nearing completion of the construction of its \$30 million Health Center complex at Abington Road.
- o The Mt. Sinai Medical Center has added a new \$59 million surgical wing and entrance.

- o Case Western Reserve University continues its program of extensive renovation of existing facilities including engineering and medical laboratories, Adelberht Hall and Guilford House.
- o The Western Reserve Historical Society recently opened its new library on Magnolia Drive at a cost of \$4 million.
- o The Cleveland Museum of Art has completed nine new galleries and a two-story library at a cost of \$4 million.
- o The Cleveland Institute of Art has creatively reused the former Ford Auto Assembly Plant on Euclid Avenue for arts programs and commercial uses, also at a cost of \$4 million.

The above activity totals an estimated \$400 million in committed captial investment which has made the area a major focal point in the city's overall rebuilding effort.

Several housing projects are underway or being proposed by local housing developers mainly as a result of the above activity. These include the following projects which represent the first new conventional housing constructed on Cleveland's near east side in 50 years:

- o Conversion of the former Otis Mansion on Magnolia Drive in nearby University Circle has been completed by the Magnolia Park Development Company. Within this 8,000 sq. ft. mansion and carriage house, four new condominium units have been created, with prices ranging from \$97,000 to \$158,000. Two have been sold and plans are underway to convert more mansions on Magnolia Drive.
- o The Keyes-Treuhaft Company will break ground next month for the construction of 16 new \$100,000 condominium units on Bellflower Road in University Circle. The design of the multi-unit facility will closely resemble the architectural scale and features fo the large mansions in that area.
- o Proposals are being received for the large-scale, mixed-use development of the "Triangle" site at the intersection of Mayfield Road and Euclid Avenue. The market-rate housing and retail portions of the project are presently being reviewed by University Circle, Inc., Case Western Resrve University, University Hospitals, and the City to judge physical design and financial benefits to the area.
- o Construction has begun in the conversion by Steven Bucharri, Inc. of the vacant Murray Hill High School (on Murray Hill Road near University Circle) to retail, office space and 40 condominium units.

- o Construction is underway on the 183-unit, first phase of Lexington Village at East 79th Street and Hough Avenue, just north of Doan Center. This apartment complex is being co-developed by McCormack, Baron & Associates of St. Louis and the Famicos Foundation.

Several major housing market studies have been commissioned in the last five years by groups associated with the Doan Center area including University Circle, Inc., the Cleveland Clinic Foundation, Hough Area Development Corporation and the Doan Center Task Force. All have had positive findings with regard to employees' and visitors' desire to live in the area, as well as their ability to pay market rates for new housing. Copies of these studies are included in the prospectus.

The most recent analysis prepared for housing in Doan Center was completed in March of 1984 by Halcyon Ltd. of Hartford, Connecticut. This study identified potential market demand for 2,600 newly built housing units over a ten-year period within the Doan Center Development District.

Of this total existing demand, approximately 1,850 households are expected to consist of Doan Center area employees, resulting from the steady employment growth and new employees and gradual movement of present employees back to the Doan area where they work. The demand for the additional 750 units is expected to come from a small percentage of the households that would normally locate in Cleveland Heights or on the East Side of Cleveland. A summary of Halcyon's main findings about the Doan Center residential market area is as follows:

- o Although the overall number of households in Cuyahoga County is projected to decline through 1995, the number of households headed by persons aged 35-44 is projected to increase by 12.1% between 1980 and 1995.
- o The Doan Center employment base is exceptionally strong; overall employment grew by 15.0% between 1977 and 1982, and is expected to increase by 15.3% between 1982 and 1987.
- o Incomes of Doan Center area employees indicate that approximately 85% of these employees could afford to rent an apartment priced between \$450 and \$750 or purchase a unit priced between \$45,000 and \$75,000. Of those, 38.6% could afford even more expensive units.
- o The 3,009 households which purchased a home in Cleveland in 1982 had a median income of \$23,480. However, the average sales price of \$27,333 indicates that buyers are settling for less than they can afford because of a lack of quality homes available or they are buying homes that require extensive repair.

EXHIBIT 0
(cont'd)

- o There was an annual average of 715 sales of 1- and 2-family dwellings in Cleveland Heights between 1979 and 1982. The average price was \$61,000 in 1982 and approximately 22% of all homebuyers in that year moved to Cleveland Heights from the Doan Center/University Circle area.
- o There has been a recent increase in new housing construction in Cleveland Heights and new projects are now underway in the University Circle area. Developers that Halcyon interviewed recognized the strong potential of the Doan Center employment and visitor base for new rental and condominium housing projects there.

Several internal surveys were conducted in 1983 within departments of the Cleveland Clinic Foundation in cooperation with both Halcyon, Ltd. and also Team Four - Economic and Market Research Consultants of St. Louis, Missouri. Copies of these studies are included in the prospectus. The major findings of these efforts were as follows:

- o A survey of the Cleveland Clinic Fellows indicated that 66% would consider living in the Doan Center area subject to the types of units available, the price, and the condition of the housing and the neighborhood. Because they are on temporary assignment, the majority indicated that they would prefer to rent, while 44% indicated that they could afford a monthly rent between \$400 and \$600.
- o A survey of Cleveland Clinic Registered Nurses indicated that 46% would consider living in the Doan Center area, subject to the types of units available, the price and the condition of the housing and neighborhood. Forty-five percent are currently paying over \$400 per month on housing costs or rent.
- o A survey of 1,100 CCF non-medical employees who earned \$30,000 or less indicated that 33% of these employees were interested in renting a townhouse or apartment in the Lexington Village complex proposed for the Hough neighborhood despite its relatively isolated location. The major reasons for this interest were in the following priority order:
 - (1) Prefer living closer to their job.
 - (2) Convenience of Cleveland's cultural institutions nearby.
 - (3) Desire to be part of area revitalization.
 - (4) Convenience to downtown.

EXHIBIT 0
(cont'd)

**CLEVELAND CLINIC
DEVELOPMENT ALTERNATIVE MATRIX
PROPOSED MIXED USE DEVELOPMENT**

ALTERNATIVE	DEAL STRUCTURE	KEY ASSUMPTIONS	ADVANTAGES/ DISADVANTAGES	RETURNS
Clinitec - Wholly Owned Development	<ul style="list-style-type: none"> - Clinitec, Inc. constructs, secures financing and retains ownership over project and land. - Construction and permanent financing through commercial bank. (Ameritrust) - Guarantee required for favorable financing. - Financing terms: 8.25% annual interest rate 3 points - loan fees 25 year amortization 10 year call/"balloon" payment 	<ul style="list-style-type: none"> - Construction manager hired for fee - Clinitec will need approximately \$1.8 million in equity - Numerous soft costs - Clinic Foundation guarantees or compensating balances will be necessary to obtain financing 	<p><u>Advantages:</u></p> <ul style="list-style-type: none"> - Development may increase the value of other land holdings - Needed retail services and hotel are provided - In comparison to the other development options, Clinitec retains control of the land - Potential upside benefits retained by Clinitec, Inc. <p><u>Disadvantages:</u></p> <ul style="list-style-type: none"> - Risk of development cost overruns, etc. - Responsibility of implementation and management - Clinitec, Inc. tax loss/carry forwards prohibit use of projects tax benefits - Additional leverage to Clinitec, Inc. 	<ul style="list-style-type: none"> - Pre-tax = 2.7% - After-tax IRR = 4.7% - Land appreciation
Ground Lease - Developer Owner	<ul style="list-style-type: none"> - Clinitec leases land for 35 years with three 5 year options (subordinated) - Developer builds, operates and obtains financing - Property reverts upon lease expiration 	<ul style="list-style-type: none"> - Reputable developer engaged - Ground lease at 5% of historical cost stabilized - Structure the lease with upside % of net operating income - Developers fees of 5% of total costs - Developers overhead est. at 5% of hard costs 	<p><u>Advantages:</u></p> <ul style="list-style-type: none"> - No management risks on development - Land ownership reversion - No financial risk <p><u>Disadvantages:</u></p> <ul style="list-style-type: none"> - Limited control during lease term - Risk of developer mismanagement 	<ul style="list-style-type: none"> - Low developer return; IRR pre-tax = 4.7% IRR after-tax = 6.2% Virtually all benefits passed on to attract a developer - Clinitec return from ground lease rent = .5% - Upside potential if property performs over projections

SOURCE: Laventhol & Horwath

CLEVELAND CLINIC
DEVELOPMENT ALTERNATIVE MATRIX
PROPOSED MIXED USE DEVELOPMENT (Continued)

ALTERNATIVE	DEAL STRUCTURE	KEY ASSUMPTIONS	ADVANTAGES/ DISADVANTAGES	RETURNS
Joint Venture	<ul style="list-style-type: none"> - Clinitec contributes land as equity - Developer provides cash equity - No guarantee of debt - Developer manages construction & retail, and leases & operates retail - Clinitec manages hotel - Cash available split: Clinitec - 10% Developer - 90% - Operating tax losses split: Clinic - 0% Developer - 100% - Clinitec buys out developer at the end of 25 years to retain land - Financing terms: 8.25% annual interest rate 3 points - loan fees 25 year amortization 10 year call/"balloon" payment 	<ul style="list-style-type: none"> - Reputable developer engaged - Developers fees at 5% of total costs - Developers overhead estimated at 5% of hard costs - Clinitec obtains financing 	<p><u>Advantages:</u></p> <ul style="list-style-type: none"> - No management risk on development - Land ownership reversion - No cash equity contribution <p><u>Disadvantages:</u></p> <ul style="list-style-type: none"> - Limited control during lease term - Risk of developer management - Debt obligation with less upside - Cost of buy back. 	<ul style="list-style-type: none"> - Developer - Pre-Tax IRR = 10.9% After-tax IRR = 15.4% - Clinitec IRR = <11.0%> - Value to Clinitec in land appreciation

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EXHIBIT P

SOURCE: Laventhol & Horwath

APPENDIX A

NOTE ON SOURCES

This appendix outlines the parties that were interviewed about the Doan Center project. It also includes a brief description of those organizations which are not described in the body of the text. Information for the descriptive summaries in this appendix comes from interviews and the organizations' annual reports.

Interviewees

DOAN CENTER INC.:

Kenneth W. McGovern, President
Michael J. May, Vice President

CLEVELAND CLINIC:

David N. Goss, Executive Director
Clinitec, Inc.

CITY OF CLEVELAND:

Robert N. Brown, Project Manager
Cleveland Citywide Plan, City Planning Commission

Gary Conley, Former Director, Economic Development
(now at North Coast Development Development Corporation)

FOUNDATIONS (sponsors of Doan Center, Inc.):

The Cleveland Foundation
Jay Talbot

The George Gund Foundation
Dan Berry, Program Officer

OTHER NONPROFITS:

Cleveland Tomorrow
Richard Shatten, Executive Director

University Circle, Inc.
Brian Gleisser, Vice President for Community Development

Midtown Corridor
Peggy Murphy, Executive Director

NOAH, Neighbors Organized for Action and Housing
Bernard Tompkins, Executive Director

DEVELOPERS

Enterprise Development Corporation
Dixon Harvey, Project Manager

Forest City Dillon
Ed Pelavin, Project Manager

Appendix A (continued)

DESCRIPTIONS OF ORGANIZATIONS

UNIVERSITY CIRCLE, INC.:

University Circle, Inc. is a nonprofit corporation, with a large institutional membership of 37 cultural, medical, and educational facilities. In relation to Doan Center, Inc., University Circle, Inc. (UCI) can be seen as the parent organization. UCI was founded in 1957 to perform landbanking functions for its member institutions. The landbank was seen as a way to avoid speculation and bidding up of land values in the University Circle area. UCI also prepared a comprehensive plan for University Circle in an urban renewal style. That plan was never fully realized, as non-institutional uses have been able to coexist with their institutional neighbors. Funding for UCI came from private individuals, not institutions. As land is needed by member institutions, UCI sells it to them based on a formula, not a bid price. Land is now going for \$3/SF along Euclid Avenue. The Cleveland Foundation is a major sponsor of University Circle, Inc.

In addition to its planning and landbank functions, UCI also provides service and maintenance functions to its members. UCI manages a security force, a bus system, and residential properties in the University Circle area. Its President is Joseph Pigott and its Chairman of the Board is Richard Tullis. The Cleveland Clinic Foundation is an associate member of UCI. There are 25 associate members of UCI who participate in planning functions for areas beyond the U.C. police district boundaries. One area of overlap between UCI and Doan Center is the proposed location of the Mixed Use Component. Although most of the land in the proposed site is School Board or city-owned, UCI actually owns a small parcel. UCI was dubbed a "shadow government" in a recent newspaper article.

University Circle Inc.'s Vice President for Community Development, Brian Gleisser, interacts with the professional staff of Doan Center, Inc. Gleisser is also in the midst of a private/non-profit partnership for a residential development called the Mayfield Triangle.

MIDTOWN CORRIDOR

Midtown Corridor was established in 1982 as a nonprofit coproation formed by business and property owners along the Euclid Corridor to the west of Doan Center. Its mission is job retention and creation, physical planning and economic development. The business sponsors are primarily small businesses, and Midtown Corridor also strives to be a small business incubator.

Like University Circle, Inc. Midtown Corridor is also involved in landbanking. One of its more recent projects is

an urban commerce park on 20 acres of land, which the city assemble and cleared in conjunction with Hough Area Development Corporation. Peggy Murphy, Midtown's Executive Director, approached the city with an interest in marketing the commerce park to local businesses. An interesting partnership was structured between Midtown, the City's Economic Development Dept., and the Cleveland Foundation which provided funding to Midtown. Midtown will oversee the marketing, development and project implementation of the 20 acre Midtown Commerce Park. Midtown is able to purchase the land from the city for \$1/SF. Midtown received \$800,000 in funds from the Cleveland Foundation, which was then used to purchase the land from the city.

Midtown has a very large membership base (approx. 275) and volunteer support. With a grass roots approach, Midtown has managed to improve the visual quality of the environment. In its short existence, Midtown has set the stage for substantial reinvestment in one of the City's more deteriorated areas. [Ken McGovern of DCI is on Midtown's Board as is Bernard Thompkins of NOAH.]

THE CLEVELAND FOUNDATION:

The Cleveland Foundation was founded in 1914 and was the first community trust in the country. The Cleveland Foundation uses funds "to enhance the quality of life for all citizens of Greater Cleveland." The Cleveland Foundation sponsors numerous health, human services, cultural and educational institutions and programs. In its 1986 Annual Report, the Cleveland Foundation outlined a strategy to focus its commitments on the Cleveland Public Schools and neighborhood revitalization, particularly in terms of housing needs. The Cleveland Foundation's Trustees and Distribution Committee represents some of Cleveland's most prominent citizens. The Foundation is extremely well capitalized and had revenues in 1986 close to \$40 million with expenses of \$22.4 million and a fund balance at year's end of \$426 million.

The Cleveland Foundation provided funds for Doan Center, Inc. (\$300,000 over 3 years) to undertake the predevelopment study for the Mixed Use Component. It also sponsors University Circle Inc, Midtown Corridor, NOAH and Cleveland Tomorrow.

THE GEORGE GUND FOUNDATION:

The Gund Foundation was established in 1952 by George Gund, then president of Cleveland Trust Bank (now Ameritrust). The Gund Foundation's mission states that as a private non profit institution, it has the, "sole purpose of contributing to human well-being and the progress of society in general. Over the years, program objective and emphases have been modified to meet the changing opportunities and problems of our society, but the Foundation's basic goal of advancing human welfare remains constant."

The Gund Foundation is particularly committed to educational, cultural, and neighborhood based development efforts. Given that all three of these concerns fall into the University Circle vicinity, the Gund Foundation has been a supporter of both UCI and DCI. The Gund Foundation is interested in the potential of the Dual Hub Corridor concept, and sees the Doan Center as the way to link University Circle and the Clinic area. The Gund Foundation also funded the Cleveland Tomorrow study which led to the formation of that organization.

CLEVELAND TOMMORROW:

Cleveland Tomorrow is yet another non profit corporation which is involved in Doan Center, perhaps in a less direct way than those previously discussed. Cleveland Tomorrow is a nonprofit corporation sponsored by the 44 top corporations in the city. Cleveland Tomorrow calls on its members not only for financial support, but also for contributions of their corporate expertise.

Cleveland Tomorrow (CT) is involved in the city's major update of its 1949 master plan called Civic Vision. The organization provided substantive funds for the planning process and plays an active role in the City's decision making. Other projects that Cleveland Tomorrow is involved with are the Domed Stadium proposal, North Coast Development Corp. (which is planning Cleveland's answer to Baltimore's Inner Harbor), and The Playhouse Square Foundation.

Cleveland Tomorrow is also very active in neighborhood development. Two entities are critical to this: Cleveland Housing Network (CHN) and Cleveland Neighborhood Partnership Group (CNPNG). For the Cleveland Housing Network, CT worked with Rouse's Enterprise Foundation to set up corporate equity funding for neighborhood groups involved in housing development. Corporations are now eligible for tax credits for investments in low income housing. Nine Neighborhood Groups participate and have developed 330 units of housing. The program leases homes to low income families. The families are responsible for completing the renovation on their homes which the Network finishes to 85% completion. After 15 years, the families are eligible for home ownership. 380 units are managed by CHN.

CT is the administrator for CNPNG. CT believes neighborhood based organizations are the best vehicle for developing housing, but their major obstacle is budgets. With \$1 million in foundation funds, six of the best neighborhood groups were selected to receive grants in order to eliminate that obstacle in the next few years. Best is defined as most promising agenda.

CT has raised \$400,000 from its members, but its operating budget is only \$270,000. Members are CEO's of the 40 largest companies in Cleveland. The history of CT is that it grew out of a 1980 McKinsey study on Cleveland's economic development funded by the Gund Foundation. CT was formed in 1982 and is loosely modeled after Pittsburgh's Allegheny

Conference, the Minnesota Business Partnership, NYC partnership, and Central Atlanta Progress. About 1/3 of CT's time goes to physical development projects.

CT believes that job creation can be accomplished by universities, entrepreneurs, and the financial marketplace. Cleveland Tomorrow began a \$13 million venture capital fund, which has now grown to a \$100 million venture capital fund. Through the universities, it started a Center for Technology and a Center for Entrepreneurship. Cleveland's physical development is based more on UDAG's and CDBG's for neighborhoods. Neighborhood development has been a priority. Just recently, the city began taking back land cleared but not used for urban renewal in order to use it.

Richard Shatten, Executive Director, is kept well informed by Doan Center, Inc. He expects that Doan Center may seek operating support from Cleveland Tomorrow. He is now looking into setting up a \$30 to \$50 million nonprofit development corporation to take on real estate development projects like Doan Center. Doan Center may ask for money. Doan Center needs a loan guarantee for the mixed use project and an equity investor. Cleveland Tomorrow's Development Corporation may have more sources of equity and more of a power base in its leadership, than groups like Doan Center.

NEIGHBORS ORGANIZED FOR ACTION IN HOUSING (NOAH):

To the north and south of Doan Center are Hough and Fairfax neighborhoods. Both areas have organized groups to undertake neighborhood revitalization particularly in terms of improving the housing stock. Two groups in particular will have a role in neighborhood redevelopment with implications for Doan Center. These groups are Neighbors Organized for Action in Housing (NOAH) and New Cleveland-6. New Cleveland-6, headed by Kenny Lumpkin is based in the Fairfax area. Both Ken McGovern of DCI and David Goss of the Cleveland Clinic are on the board of New Cleveland-6. A partnership between NOAH and New Cleveland-6 was selected to receive a grant through the Cleveland Neighborhood Partnership Group administered by Cleveland Tomorrow. NOAH, perhaps the more established of the two will be the focus of this section.

NOAH is a nonprofit corporation committed to the development and management of housing and to address the problem of a community's physical deterioration in the neighborhood northwest of the Doan Center project. NOAH now manages 600 units and is involved with some commercial projects. Bernard Thompkins is the Executive Director.

NOAH views itself as a business, based on rental income and management fees. Previously, NOAH could do rehab work for the tax benefits, but now projects will be done based more on the pure economics of the deal. Thompkins thinks the new tax laws will decrease the rate at which real estate appreciates. Thompkins guessed that DCI has begun dealing with NOAH because of NOAH's ability to accomplish residential development.

ACKNOWLEDGMENTS

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