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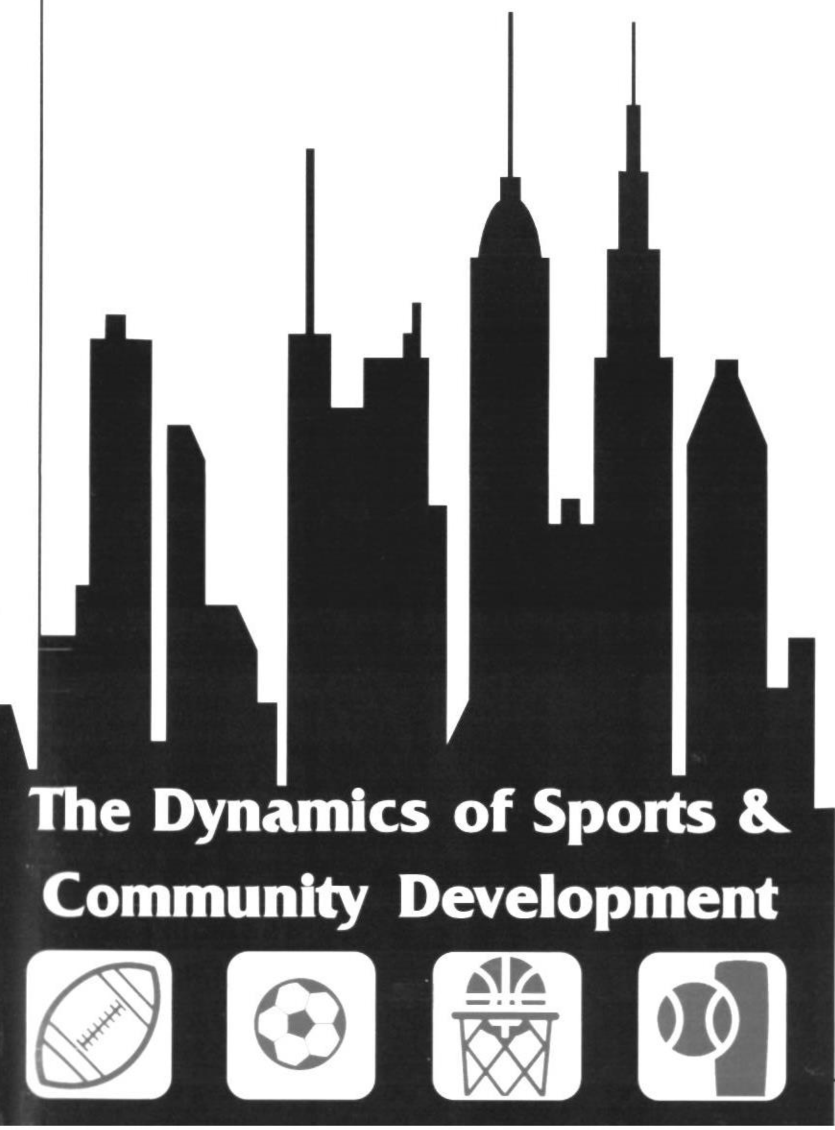


SPECIAL EDITION

THE COUNSELORS OF REAL ESTATE™
(American Society of Real Estate Counselors)

ABOUT THE COUNSELORS OF REAL ESTATE

The Counselors of Real Estate, now in its 43rd year, is an international group of high profile professionals including members of prominent real estate, financial, legal and accounting firms as well as leaders of government and academia who provide expert, objective advice on real property and land-related matters.

Membership is selective, extended by invitation only on either a self-initiated or sponsored basis. The organization's **CRE Designation** *(the Counselor of Real Estate)* is awarded to all members in recognition of superior problem solving ability in various areas of specialization such as litigation support, asset management, workouts, valuation, feasibility studies, acquisitions/dispositions and general analysis.

Networking is the hallmark of The Counselor organization. Throughout the year, educational programs provide Counselors with opportunities, both nationally and locally, to meet with fellow members and professional colleagues to discuss the latest trends affecting commercial real estate. A publications program, highlighted by our award winning professional journal, *Real Estate Issues*, provides a venue for members to showcase their knowledge of such areas as office buildings, retail centers, hotels/motels, real estate counseling , etc.

What is a real estate counselor?

A counselor is a real estate practitioner whose primary business is providing expert, experienced advisory services to clients for agreed-upon fees. Counseling denotes an activity that is, by its nature, relational. The client relies upon the counselor for skilled and objective aid in the client's real estate needs, implying both trust on the part of the client and trustworthiness on the part of the counselor. The counselor typically has acquired a broad range of experience in the real estate field, possesses technical competency in more than one real estate discipline, and places those competencies at the service of the client. While objective in analysis, the counselor directs his efforts toward the client's best interests through the development of particular strategies, evaluating options available to the client, advocacy of the client's interests, and - where required - execution of strategy on the client's behalf.

Those designated as Counselors of Real Estate (CRE) have been recognized and esteemed by their peers as persons meeting the above definition in an exemplary fashion. They have demonstrated knowledge, experience, integrity and judgment in their real estate expertise. The CRE subscribes to and is bound by The Counselors' Code of Ethics and Standards of Professional Practice and endeavors to generously assist fellow CREs who are performing client services in a spirit of collegiality. Thus, the commitment to the individual client is complemented by a commitment to raise the standard of counseling practice for the industry as a whole.

Users of counseling services

The demand increases for expert counseling in real estate matters worldwide. Through the years, institutions, estates, individuals, corporations and federal, state and local governments have recognized the necessity and value of a Counselor's objectivity in providing advice. These real estate professionals honor the confidentiality and fiduciary responsibility of the client-counselor relationship.

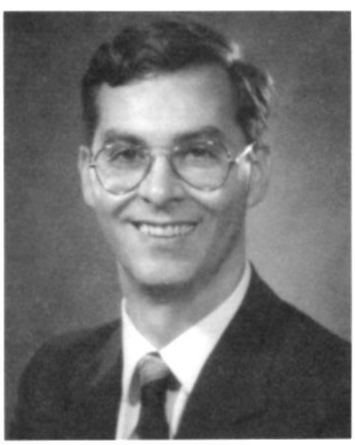
CREs service both domestic and foreign clients. Assignments have been accepted in Africa, Asia, the United Kingdom, the Caribbean, Central and South America, Europe and the Middle East. The Counselor has the benefit of proven knowledge and experience which qualifies him for practical application and proper interpretation of trends affecting real estate. A major player in the technological revolution, the Counselor regularly accesses the most advanced methodologies, techniques and computer-generated evaluation procedures available.

Determinants of compensation

The CRE is compensated by pre-agreed fee or salary for services, rather than by commission or contingent fee. The counseling fee itself is assured and rendered for advice rather than achievement or outcome of the transaction. Overall compensation can be determined by the complexity of the service performed, its value to the client, the time and expense involved, the breadth of the Counselor's knowledge and experience, and the responsibilities assumed. **Anyone involved in real estate should consider consulting with a CRE.**

For more information on The Counselors of Real Estate, contact The Counselors' office, 430 North Michigan Avenue, Chicago, Illinois 60611; phone 312.329.8427; fax 312.329.8881; Web Site http://www.cre.org/ ■

HUGH F. KELLY, CRE RECEIVES 1996 BALLARD AWARD



Hugh F. Kelly, CRE

Hugh F. Kelly, CRE, senior vice president and national director of the Research Group at Landauer Associates, Inc., New York, has been named the 1996 recipient of the William S. Ballard Award for his article, "Recent Evidence on Investor Preferences and Yield Requirements," in the August edition of *Real Estate Issues.* The annual award given by The Counselors of Real Estate recognizes the author whose work best exemplifies the high standards of content maintained in *Real Estate Issues,* the organization's professional journal.

In his article, Kelly addresses both the current behavior of the investment community along with an eye toward future expectations. He provides a capsule summary of activities by property type to illustrate that the liquidity crisis of the early 1990s was indeed a temporary phenomenon rather than a precursor of permanent structural change in the commercial property investment arena.

Kelly has been with Landauer since 1979 and has participated in many of the company's largest counseling assignments including the investment analysis of New York's World Trade Center, the site location of the Saturn automobile plant and the "Cities of Tomorrow" study which examined the growth prospects and investment opportunities in 125 metropolitan areas in the U.S., Canada and Mexico. He has been the principal author of Landauer's annual *Real Estate Market Forecast* since 1985, besides being a frequent author for trade publications and a much-traveled speaker to professional audiences in the real estate industry and in academia.

Funding for the William S. Ballard Award, which carries an honorarium of $500, is provided by the generous contribution of the William S. Ballard Scholarship Fund in memory of the late Ballard, a former member of The Counselors of Real Estate.

Articles in consideration for the 1997 competition of the Ballard Award must be submitted to *Real Estate Issues* by September 1.

Real Estate Issues

CONTENTS

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DEPARTMENTS

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THE BUSINESS OF SPORTS

Halbert C. Smith, CRE

As we all know, professional sports are **BIG** business. So are some amateur sports, particularly college football and basketball. However, this Special Edition of *Real Estate Issues* is devoted to the impact of professional sports on a city's economic and social life, especially as it relates to the construction of new stadiums and sports arenas. The decision to construct or not to construct a new sports facility can involve the expenditure of huge amounts of capital, often our tax dollars. Many CREs (Counselors of Real Estate) have worked with cities and private entities to analyze the economic, financial and social aspects of professional sports and the new facilities which often are required to retain or attract big-league teams.

Articles in this edition address the many questions that arise when major sports franchises want to expand or move or when cities want to attract or retain them. How large or small is the economic impact of an NFL football team or a major league baseball team? What are the marginal impacts of a new facility? Will the economic benefits outweigh the costs? What is the social impact both in terms of a community's vitality and the programs that may have to be foregone or abandoned in order to help fund the new facility? And what effect will a major sports team have on the city's ability to attract new components to its economic base and ultimately to improve the economic and social climate for its citizens?

The authors in this edition present a broad overview on the business of sports facilities. The president of the Jacksonville Jaquars, a relatively new NFL franchise, discusses the concerns relevant to developing a new major franchise, and the 1997 president of The Counselors writes about the process of counseling public entities. Others report on studies concerning team performance and risk, the impact of sports on economic development and the factors which are driving the present boom in stadium construction.

Apparently our affinity for sports, either as participants or observers, borders on the insatiable. Undoubtedly this trend seems bound to continue as long as the population increases and the economy remains relatively strong. CREs are playing a vital role in providing services for real estate decision making to the participants in this growth—the cities, team management and property owners. Counselors are analyzing the impacts and implications of professionals sports for the various interests involved. This edition of *REI* should provide an important source of information for CREs and others involved now or in the future in the fascinating area of sports-related counseling and real estate.

Hal Smith

Halbert C. Smith, CRE
Editor in chief

THE PRESIDENT SPEAKS

SPORTS FRANCHISES– THE REAL KEY TO THE CITY

Logan H. Babin, Jr., CRE

My year as 1996 president of The Counselors of Real Estate is about to end. The best thing to happen in my professional real estate career has been the honor and privilege to serve as president of this prestigious organization. Most appropriately, my presidential year began at The Counselor's national convention in Atlanta, Georgia, where the education programs focused on the business of sports, the theme of this *Real Estate Issues*. I have come full circle with the subject during the past 12 months.

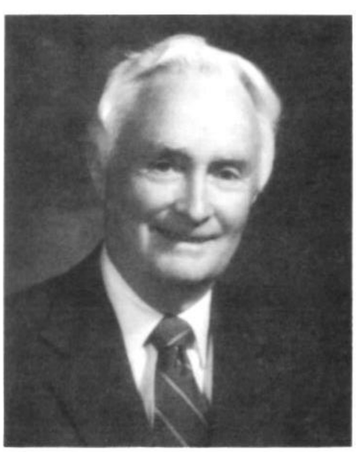
In Atlanta we learned that, for the most part, American cities do not consider themselves to be first-class unless they have an NFL franchise. The addition of a major league baseball team or NBA franchise are considered pluses, but the key determinant is the NFL football team. Whether this observation is true or not, it reflects the importance placed by our cities on major league sports teams.

In an effort to attract and hold these sports franchises, America's cities first are expending public funds to build bigger and better sports facilities, frequently with the issuance of tax free bonds to finance construction, and then they are signing leases which generate huge profits for team owners. Recently these practices have come into question by some legislators and public groups without any measurable success.

The "if you build it they will come" attitude seems to be the order of the day. We can cite some great success stories, and conversely, some very expensive vacant monuments. Where will it all lead? Who knows. This edition of *Real Estate Issues* provides some of the answers.

Logan H. Babin, Jr., CRE
1996 President
The Counselors of Real Estate

CHARLES H. SPAULDING NAMED RECIPIENT OF THE 1996 JAMES D. LANDAUER AWARD



Charles H. Spaulding

The Counselors of Real Estate has presented Charles H. (Hank) Spaulding with the 1996 James D. Landauer Award. The award is given annually, when appropriate, to a real estate professional who has furthered the ethical and professional ideals of The Counselors of Real Estate and its CRE (Counselor of Real Estate) Designation. Spaulding was honored recently during a luncheon presentation at The Counselors' Annual Convention in San Francisco.

Spaulding was recognized by The Counselors for his lifetime career of achievement as a real estate professional. A former CRE, he was founder and first director of the Center for Real Estate at the Massachusetts Institute of Technology (MIT) in Cambridge where he later was named as chairman. He currently is honorary chairman of the Center. He also founded and until recently served as chairman of Spaulding Investment Company, Inc., in Boston, a company which analyzes and manages commercial and investment properties. Earlier as president and then chairman of Spaulding & Slye, he was instrumental in the company developing and building many commercial and residential projects in Boston, Washington, DC, Charlotte and Oklahoma City.

Spaulding received a Bachelor of Science degree in Civil Engineering from the Massachusetts Institute of Technology and later did graduate work at Columbia and Boston Universities.

A man for all seasons in real estate, his other industry-related activities have included serving as a past director of the Lincoln Institute and the Boston Community Development Corporation and as a trustee of the Mutual Bank of Savings and The Lahey Clinic. He presently is a life member of MIT's Board of Trustees and is actively involved on several advisory committees.

The Landauer Award is named for the late James D. Landauer, CRE, who played a key role in the establishment of The Counselor organization and the preeminence of the real estate counseling profession. Other recipients of the award have included Roland Rodrock Randall, CRE; James E. Gibbons, CRE; Roy P. Drachman, CRE; John Robert White, CRE; Boyd T. Barnard, CRE; George M. Lovejoy, Jr., CRE; Daniel J.Rose, CRE; Jared Shlaes, CRE; J. Daryl Lippincott, CRE; and Charles Shaw.

NEW SPORTS FACILITIES IN THE 1990s–A TALE OF ELEPHANTS AND BLIND MEN

by David M. Seldin

It was six men of Indostan[1]
To learning much inclined,
Who went to see the Elephant
(Though all of them were blind),
That each by observation
Might satisfy his mind.

The First approached the Elephant,
And happening to fall
Against his broad and sturdy side,
At once began to bawl:
"God bless me! but the Elephant
Is very like a wall!"

I am the owner of a professional sports team in a major U.S. market. At an away game, as I look out on the opposing team's field of dreams, I think about my player roster, my cash flow statement and my current stadium. Terror overcomes me. I conclude that a new stadium is salvation for my franchise. I better call the mayor when I get home.

The Second, feeling of the tusk,
Cried, "Ho! what have we here
So very round and smooth and sharp?
To me 'tis mighty clear
This wonder of an Elephant
Is very like a spear!'"

I am the mayor of a major U.S. city. The owner of our major league team tells me he wants a new stadium. He wants the city to pay nearly all the cost. He tells me that he cannot compete with his current facility and that he may have to move if I don't help him. I look out the window at all the other needs—schools, crime, infrastructure, job-intensive economic development . . . Terror overcomes me. I conclude that a new stadium is an early exit from public life. Better put out the word that we don't give welfare to millionaires.

The Third approached the animal,
And happening to take
The squirming trunk within his hands,
Thus boldly up and spake:
"I see" quoth he, "the Elephant
Is very like a snake."

I am the mayor of a major U.S. city. The owner of our major league team tells me he wants a new stadium. He wants the city to pay nearly all the cost. He tells me that he cannot compete with his current facility and that he may have to move if I don't help him. I remember following the team as a child—sometimes sneaking a radio into bed to listen to a night game after bedtime. I think about the frenzy the team provokes each season. I think

__David M. Seldin__ is president and chief operating officer of the NFL's Jacksonville Jaguars.

about *losing our team*. Terror overcomes me. I conclude that a new stadium is essential for my city. Better see how much we can increase hotel and rental car taxes.

The Fourth reached out his eager hand,
And felt about the knee.
"What most this wondrous beast is like
Is mighty plain," quoth he;
"'Tis clear enough the Elephant
Is very like a tree!"

I am the mayor of a mid-market, growing city. Lots of development, lots of jobs, little stature. If I build a stadium for a team, I can *"advance to go"* in one turn. I can get what the big guys have. I can become major league. Now that'll be one sure-fire corporate relocation sales pitch for that next site selector. I look at *USA Today* and see that all the competing mid-market, growing cities are getting teams. Terror overcomes me. I conclude that a new stadium is our path to glory. I'll need a list of distressed sports teams. Better yet, who's expanding this year?

The Fifth who chanced to touch the ear,
Said: "E'en the blindest man
Can tell what this resembles most:
Deny the fact who can,
This marvel of an Elephant
Is very like a fan!"

I am the commissioner of a major league sport. The owner of a team in a major U.S. market has just called to tell me that that he is moving his team to a new city. He says he's done everything in his power to get a new stadium, but the politicians just wouldn't listen . . . He says he can't compete in his old facility—the fans just won't come to an old dump. I look at the map and see that other teams have recently gotten new stadiums that produce enormous revenues; and yet another group of teams has left their cities for new stadiums in other cities. I see large revenue differences emerging across my league and know that this breeds instability. I look at my phone messages and see calls from three U.S. senators, 30 reporters and 3,000 fans—from *each* of the two cities. Terror overcomes me. I conclude that new stadiums are nuclear power—phenomenal energy for my sport, but also weapons so powerful that as soon as one guy has one . . . Oh well, better call the senators back first.

The Sixth no sooner had begun
About the beast to grope,
Than, seizing on the swinging tail
That fell within his scope,
"I see" quoth he, "the Elephant
Is very like a rope!"

I am a senior partner in a sports architectural firm. Wow, what a day. Calls from five sports team owners, four mayors, three county executives, two bond underwriters and the commissioner of a major league sport. I look out my office door at teams of my architects at work on a dozen other sports projects. Terror overcomes me. How will we do all this work? I conclude that new stadiums are a lot like Christmas. Better call them all and tell them their projects are feasible.

And so these men of Indostan
Disputed loud and long,
Each in his own opinion
Exceeding stiff and strong,
Though each was partly in the right,
And all were in the wrong!

So, oft in theologic wars,
The disputants, I ween,
Rail on in utter ignorance
Of what each other mean,
And prate about an Elephant
Not one of them has seen!

So here we go, yet another epistle on new stadiums. Seems you cannot pick up the popular press, much less the industry and academic journals, without encountering the new stadium issue. Economists to the right of us, economists to the left of us—volleyed and thundered. Stadiums drive economic growth, stadiums sap economic growth. Fans are served by new stadiums with high amenities, fans are abused by new stadiums with high prices. Teams are essential to civic pride, teams are leeches on the public weal. Rest assured that a unifying theory for these issues will not be found in this article.

With apologies for the absence of a grand theory, how about some simple, but workable tools? Perhaps under some of the thrash, there might be some rather ordinary things going on.

Expansion to Jacksonville—
Site Selection NFL-Style

On November 30, 1993, in what was called "the greatest upset in sports history" the National Football League awarded an expansion franchise to Jacksonville, Florida. Jacksonville joined Charlotte, North Carolina, which received a franchise one month earlier, as the winners in the league's first expansion competition in two decades. The Charlotte and Jacksonville awards were to the dismay of proposed team owners, politicians and fans in Baltimore[2], Memphis[3] and St. Louis[4], the three other expansion competition finalists.

The expansion competition was a major story throughout the country and dominated the news and sports fronts in each of the candidate cities for several years. As an example there were over 100 front page stories about expansion in the Jacksonville daily newspaper in 1991—one every third day. But strip away the media coverage and hype, and what you have is a straightforward site selection exercise by an expanding business. Seeking the best possible probability of success, the NFL established three criteria for the selection process:

- *ownership*—net worth, liquidity, business strength and composition of the proposed ownership group,
- *stadium*—ability of the proposed home stadium to generate net cash flow for the new team and visiting teams, and
- *city*—ability of the business community and overall fan base to support the team.

Viewed from the perspective of one of the competitors, the criteria might look like this:

- *Ownership*
  1. Are these people in City X for real, or are they promoters looking for a score?
  2. If we give them a team, can they afford the purchase price and afford to pay the bills for a while?
  3. Do they seem to have any idea of what to do if they get a team?
  4. Do they have any tie to City X? (See question 1)
  5. We've got to go to three league meetings a year with these people for the duration. Do they pass the Toledo test?[5]
- *Stadium*
  1. Is this stadium for real? Can it be built as proposed? Technically? Financially? Is the money in place?
  2. Can the stadium deliver the goods from a revenue perspective? Suites? Club Seats? Other revenue streams?
  3. Who gets these goodies? What is the economic arrangement with the landlord?
  4. Do the proposed owners have any construction or financing risk? Are we betting this new franchise's future on the ability of these people to be real estate developers in addition to sports team managers?
- *City*
  1. Is City X strong? Growing? Stable? Not overly dependent on any particular industry?
  2. Do the people in City X want a team?
  3. Do the businesses in City X want a team?
  4. Do we believe them?
  5. Is there enough individual and business community money to buy all the wonderful products available under *Stadium* (#2)?
  6. How much competition will a new NFL team face? (See #5.)

Straightforward. The same type of analysis any cautious franchiser might undertake, not to mention any prudent franchisee facing a large franchise fee. The NFL established these criteria and executed against them.

- Investment bankers reviewed the proposed owners' financial condition, while FBI-types investigated each proposed owner's closet. League experts analyzed each group's projections.
- Stadium experts tore apart the proposed facilities. Stadium leases were studied, bond underwriters cross-examined, construction timetables analyzed.
- Demographic analysis was commissioned for each market, disposable incomes compared, growth rates studied. Sports pedigrees were scrutinized. Were other teams supported, adored? Market analyses were performed on supply and demand of sports and entertainment product. And finally, the NFL permitted a presale of suites and club seats in each market to demonstrate actual demand.

Strip away the media coverage and hype and what you have is a straightforward site selection exercise employing standard real estate methodology: Can it be built? Can it be financed? Will any one buy it? Can we trust the developer? Let's see the presale results!

Stadium Design—Or Why A Seating Bowl Is Just Another Beachfront High-Rise Condo

Contestant: "Alec, I'll take 'Immutable Real Estate Rules' for $500".

Alec: "So important, your professor tells you in triplicate".

Each reader wonders how anyone would presume to invoke this most basic tenet in a *Real Estate Issues* article. So basic a tenet indeed.

1984

As the story goes, in 1984 Joe Robbie (founder and then owner of the Miami Dolphins) unveiled a revolutionary concept in stadium design—club seats. Wider seats on an exclusive level, offering access to an upscale concourse, partially shielded from the rain, some other added amenities—priced 300%-600% over other tickets. **"Unheard of, crazy, it'll never work."** Worked just fine.

The one part that didn't work just fine was that the club seat concourse went all the way around the stadium—so a large number of these enhanced seats were in the end zones and corners. No surprise, they were the hardest seats to sell.

Nearly every professional sports facility built since Joe Robbie Stadium includes club seats. They are a widely accepted product, bridging the enormous gulf between regular seats and luxurious suites. In essence, providing the mid-market business and the up-market individual with an enhanced—but not prohibitively priced—way to enjoy the game. And all these club seats were designed to go all the way around all these new facilities.

Joe Robbie Stadium (renamed Pro Player Park), opened in August, 1987, features 10,000 horizontal club seats—shaded.

Jacksonville Municipal Stadium, opened in August, 1995, features 10,000 vertical club seats—shaded.

1991
The design of 'A New Stadium For Jacksonville.' "Gee, why don't we take all the seats at mid-field and make them club seats? That way we won't be trying to sell seats at a premium in the end zone." **"Unheard of, crazy, it'll never work."** Worked just fine.

Seat Pricing—Why A Seating Bowl Is Just Another Beachfront High-Rise Condo—II
Oceanfront, ocean view, pool front, pool view, no view. Tier A, Tier B, Tier C. Lots of products, lots of price-points. Customers have a variety of preferences and a variety of budgets. What do you know—the customers sort themselves out all by themselves.

Fifty yard line, 25 yard line, goal line, end zone. Lower deck, upper deck. Beer for sale, beer not for sale (family section). Lots of products, but historically in most stadiums, not many price points or not much variation in price points. Why? Perceived ceiling on ticket prices? Too much box office complexity? Absence of revenue pressure? Let's try it. Eight price points from $150 per game to $15 per game. Let the fans decide where they want to sit; they'll sort themselves out. **"Unheard of, crazy, it'll never work."** Worked just fine.

Fan Talk
"I can't wait to get to the game. Boy, this is great. Look at this place—its beautiful. I hope we play OK. I hope we try to play OK."

I am a fan. Wow, we got a team. WOW, WE GOT A TEAM! Should I buy tickets? WHADDAYA MEAN, SHOULD I BUY TICKETS—get outta my way, I'm going to buy tickets. Wow, they're expensive. Oh well.

"You know, we're really trying to win. Look at all those guys we're signing. I hope we win. I hope we keep trying to win."

"You know, this place still looks great, the bathrooms are even clean."

"You know, my husband volunteers with the Police Athletic League.They just got a big grant from the Team Foundation."

"Hey, we might just win. Be quiet, I'm trying to watch the game."

Final Thoughts
In the absence of a unifying theory, workable tools will have to suffice. The same simple things that mark a successful building, development or business.

Customers like choices. Customers want to be in control. Customers want value for money.

Customers like good service. They like to know you are trying to give good service. They cannot abide indifference.

Customers buy from *someone*. They care about who that is. The product is not separate from the manufacturer. How they feel about you is part of how they feel about your product.

In Jacksonville, our new stadium is still a honeymoon cottage. Every one of our 200 people, from our owner to our mascot, strives to work each day to leave a fresh mint on the pillow. We'd better.

NOTES
1. *The Blind Men and the Elephant* (A Hindu fable by John Godfrey Saxe).
2. In 1996, the Maryland Stadium Authority entered into an agreement with the Cleveland Browns to relocate to Baltimore. A new stadium will be constructed for the team now known as the Ravens.
3. In 1996, the Sports Authority of Davidson County (Nashville) entered into an agreement with the Houston Oilers to relocate to Nashville. A new stadium will be constructed for the team.
4. In 1995, the St. Louis Convention Bureau entered into an agreement with the Los Angeles Rams to relocate to St. Louis. The Rams now play in a new domed stadium.
5. With apologies to the City of Toledo—the litmus test in hiring decisions at professional service firms. In evaluating the candidate and making a hire\no hire recommendation, think about a flight cancellation during a business trip that forces you to spend the evening in Toledo with this person.

WHAT EXPLAINS THE STADIUM CONSTRUCTION BOOM

by Robert A. Baade

Stadiums and arenas for professional sports are being proposed and constructed at a record pace. The impetus for stadium mania extends beyond the world of professional sports; financial developments in several sectors of the economy have conspired to foster the boom in stadium construction. The purpose of this article is to identify and analyze the genesis of this mania by looking at the various financial imperatives on the supply and demand sides of the professional sports industry and in the realm of state and local government.

A conservative estimate is that there are 30 stadiums proposed or under construction for the professional sports industry.[1] This number involves approximately one-third of professional sports' infrastructure, but if those owners who have expressed discontent with their current facilities are included, the number swells to almost one-half. Since the cost of an average stadium constructed today easily eclipses $100 million, the threat posed for taxpayers is substantial. In fact, the bill for the 30 stadiums that are under serious consideration or construction exceeds $4 billion.

A substantial portion of the pressure to build new stadiums emanates from the owners of professional sports franchises. The second section of the paper identifies and analyzes developments on the supply side of the professional sports industry that contribute to the sports facility construction boom. In part, the number and character of the stadiums proposed and under construction accommodate what owners perceive as fan needs and wants. The third section of the paper discusses structural changes in the U.S. economy that have influenced fan demands relating to stadiums and arenas. The fourth portion of the paper focuses on financial developments in state and local governments that have encouraged government participation in stadium projects even though many of these facilities serve as replacements for those structures considered economically obsolete from the owner's perspective. Conclusions and the practical implications of the recent spate of stadium construction are offered in the paper's final section.

Developments On The Supply Side Of The Professional Sports Industry

New or substantial renovations of playing facilities have been approved or are being planned for more than 60 professional sports teams, slightly over half

Robert A. Baade is the James D. Vail Professor of Economics at Lake Forest College. He holds Masters and Ph.D. degrees in economics from the University of Wisconsin-Madison. Baade has conducted research on the economics of professional sports for more than a decade, and he has published more than a dozen papers on this subject. Baade has received particular attention for his research on the impact of stadiums and teams on metropolitan economies.

the clubs operating in 1996, throughout the United States and Canada in the four major professional sports: baseball, basketball, football and hockey.[2] Several factors in addition to increasing player costs have intensified the interest in new stadium construction.

When the late Joe Robbie grew frustrated with the inability of the City of Miami to convince voters to fund a renovation of the Orange Bowl, he decided to privately finance the construction of a new stadium for his National Football League (NFL) Dolphins. Robbie hatched a plan in the mid-1980s (Dolphins Stadium hosted its first game in 1987) to parlay the up-front money he received from the sale or lease of luxury seats into the financing needed to build the stadium. Robbie's strategy can be viewed as a watershed if for no reason other than owners, in general, recognized the potential financial windfall promised by luxury seating. Auburn Hills in suburban Detroit (home of the NBA Pistons) and the United Center in Chicago (home of the NBA Bulls and NHL Blackhawks) are two examples of facilities that have delivered on that promise.

Unrestricted Stadium Income

For individual owners, venue revenues, dollar for dollar, are more valuable than revenues from more traditional sources, such as the team's share of national television broadcast revenues or the receipts garnered from the ticket sales to the general public (assuming no variation in the costs incurred in generating various revenues). Why? Because the league tax rate on shared revenues is greater than zero, while the effective tax rate on revenues that are not subject to sharing is zero. The NFL and other leagues, in general, have made no provision for the division of revenues from luxury seating and several other venue revenues such as fees for signage, in-stadium advertising, income from the operation of stadium clubs, etc. Until such provision is made (until the current roster of owners agree on the distribution of what is now their unrestricted stadium income), many venue revenues will remain the exclusive property of the team that generates them, and the primary incentive for new facility construction will persist.

Sports Cartels

Individual owner behavior with respect to "out-of-the-pool" revenue conforms to theory which is descriptive of the behavior of a cartel's individual members in at least two ways. First, when a cartel is conceived, the agreement reflects current institutions and market conditions. For example, initial league agreements in Major League Baseball (MLB) reflected the importance of gate receipts relative to other sources of revenue, such as fees from the local television broadcast of games. In general, once the rules governing the operation of the cartel are promulgated, it is difficult to modify them even when important institutional changes occur. In the case of MLB, the New York Yankees, Chicago Cubs, Atlanta Braves, to name a few teams, receive substantial revenues from the local television stations which broadcast their games. To share these revenues would enrich other MLB teams but at the expense of the teams responsible for them. Modifying league rules to reflect institutional change is a zero-sum game, and any change will be resisted by those who stand to lose.

Second, sports cartels are not immune from the threat facing all cartels. Sports leagues increase profits for individual members by making joint output and pricing decisions or acting as the sole bargaining agent in resource acquisition. Individual teams, however, recognize that their economic interests can be served better by breaking the league rules. If there is no effective prohibition against cheating, inevitably it occurs.

Jerry Jones And The Dallas Cowboys

Jerry Jones, owner of the Dallas Cowboys of the NFL, has emerged as an innovative maverick who breaks and bends the cartel's rules. Jones designed a financial strategy that emphasized revenue streams not designated for redistribution by the league office through agreement. Not coincidentally, the Cowboys have won three of the last four Super Bowls, emblematic of League supremacy, and have parlayed their on-the-field success into off-the-field riches. The Cowboys by most measures have become the single most valuable franchise in all of professional sports in the United States.[3]

Since the days of former Commissioner Pete Rozelle, the NFL has taken the view that the league represents a partnership for all practical business and economic intents and purposes. If the individual teams comprising a sports league constitute a wholly integrated joint venture (contests require at least two participants), then leagues realize their interests are advanced through creating competitive parity. The absence of closely contested games jeopardizes fan interest and league stability. From the NFL's perspective, Jerry Jones poses a threat in that his aggressive financial play potentially upsets competitive balance by skewing the distribution of revenues. What separates Jones and the Cowboys from the rest of the NFL pack is that the over $30 million generated annually through the operation of Cowboys' stadium is more than twice as much as the NFL runner-up in venue revenue generated in 1994.[4]

One method for addressing the problem personified by Jerry Jones is to level the economic playing field and extend revenue sharing to luxury seating and other income streams currently exempt from revenue sharing. Such a strategy requires stadiums for each team that, from an economic perspective, qualify as state of the art. The NFL and other leagues have organized stadium committees whose function, in part, is to support the efforts of individual teams to convince their sometimes skeptical and financially strapped host cities to do their part to finance the NFL's efforts to uphold the ideal of league financial democracy. In the Winter 1994 edition of the *NFL Report*, the column headline *The Commissioner's Report* read: "First-Class Stadiums: NFL Priority".[5]

In addition, individual leagues recognize that entertainment dollars are scarce, and there exists interleague competition for consumer loyalty and spending. This financial contest has increasingly emphasized playing facilities; owners agree that fan-friendly structures are of significant strategic importance. To quote from *The Commissioner's Report* in the article cited in the preceding paragraph, Paul Tagliabue, the current NFL Commissioner wrote:

> "The survey (commissioned by *Money* magazine) reinforced our own priority on stadium matters. It is more important than ever that we as a league focus on our stadiums because of the high expectations of our fans. As the *Money* survey indicated, in this increasingly competitive entertainment environment, fans expect first-class service in the form of stadium convenience, comfort, cleanliness and value."

Venue Revenue

In light of Commissioner Tagliabue's emphasis on new stadiums, his message should sound a warning to the 16 cities in which NFL lease agreements expire in the next ten years. It would not be too much of an oversimplification to argue that planned or actual new stadium construction or renovation in professional sports is determined by an individual team's venue revenue as a percentage of the league average. Equation 1 represents this theory.

Equation 1: $FC_{i,t} = f(VR_{i,t-n}/\Sigma VR_{j,t-n}/k)$,

where, $FC_{i,t}$ = city *i*'s plan for or actual construction of a sports facility at time *t*;

$VR_{i,t-1}/\Sigma VR_{j,t-n}/k$ = venue revenue as a percentage of the league average for city *i* at time $t-n$.

One could expect that the coefficient for the independent variable $[dFC_{i,t}/d(VR_{i,t-n}/\Sigma VR_{i,t-n}/k)]$ would be negative. The lagged characterization of the independent variable reflects, in part, the time required to recognize a financial competition problem, since it takes time for a financial disadvantage in professional sports to manifest itself in a deterioration in competitiveness on the field (player contracts are generally multi-year and operating losses may be tolerated for a time). In addition it takes more than a trivial amount of time to negotiate the political obstacles to planning or building a new sports facility. Using this model it is not hard to understand why new baseball stadiums are being considered for Minnesota, Milwaukee and Cincinnati. The venue revenues, as a percentage of the league average, for these three cities in 1994 were 35 percent, 47 percent and 66 percent of the league average, respectively.[6] There are other MLB teams and teams in other professional sports that exhibit even lower revenue as a percentage of the league average than these three teams. Virtually all teams with deficient venue revenues are clamoring for new playing facilities.

Once again the Dallas Cowboys can be used to exemplify the changing financial structure of professional sports as it relates to the emerging importance of venue revenues. In 1982, gate receipts, broadcast revenues and other revenues (this category presumably incorporates venue revenues) constituted 34 percent, 58 percent and 8 percent, respectively, of total revenues for professional football.[7] In 1995 the Cowboys venue revenues of approximately $37 million accounted for more than 30 percent of the team's total revenues which a relatively recent publication placed at $100 million in 1995.[8]

Economic Obsolescence

One major lesson gleaned from the experience with new stadium construction is that stadiums are replaced not because of their physical obsolescence, but because of their economic obsolescence. Consequently, the shelf life of stadiums and arenas has been substantially reduced. Three of the more egregious examples of the perils the new economics of sport pose for facilities and cities can be found in Charlotte, Miami and Minneapolis. Despite having built an arena for the NBA Hornets in 1988, the second largest in the league,[9] Charlotte's arena generates only 37 percent of the NBA arena revenue average. The emphasis on luxury seating and the relative paucity of it in the current facility (12 suites) has compelled debate for a new arena in Charlotte.

Miami also has an eight year old arena for the NBA Heat. It, too, has suffered financially as a consequence of 16 luxury suites and an NBA low 14,503 seats. Broward County, just a short distance up the coast from Dade County, in which Miami is located, has sought the NBA Miami Heat and the NHL Florida Panthers as tenants for a new arena it is proposing to build. In the ensuing financial tug of war, a "Solomon compromise" (from the perspective of team owners) has been struck. Broward County will host the Panthers in a new arena and Dade County will construct a new facility for the

Heat. A 30-mile stretch of I-95 will now be occupied by three arenas. The Panthers will play in a $212 million facility in Sunrise, and the Heat will occupy a $165 million arena in Miami. Meanwhile, the $53 million Miami arena, on which the city still owes $39 million, has an uncertain future.[10]

From the point of view of taxpayers in the two counties, stadiums have been overbuilt (oversupplied) in metropolitan Miami. Separate owners for the local NBA and NHL franchises coupled with the normal operation of league cartels have conspired to produce this outcome. Both owners feared that sharing an arena would mean revenue disputes and compromises; each owner believed that revenues and profits could be maximized in an exclusive facility. The negative externality (includes a negative pecuniary externality brought about by the increased facility competition for highly attended events in the greater Miami area) could be addressed by the private sector. If incentives existed that encouraged sharing a facility or if the firms merged under a single owner, the externally would be internalized. The public sector policy prescription is also straightforward. The appropriate procedure would be to impose a tax (decrease the subsidy), thereby moderating the incentive to build both arenas. County governments, through providing subsidies, instituted policies diametrically opposed to reducing the oversupply of sports facilities in metropolitan Miami.[11]

Minneapolis built a domed stadium in 1982 to accommodate the NFL's Vikings and the MLB's Twins. The new stadium debate in Minneapolis is compelled by the same forces extant in Charlotte, but with an additional important dimension at work. The multipurpose facility, particularly as it relates to accommodating both football and baseball, is on the endangered species list. As is true in Miami, the owners of sports teams in Minneapolis do not want to share stadium proceeds with other team owners. Consequently, multipurpose stadiums for football and baseball (domed football stadiums used for basketball as well) will not likely exist beyond the year 2000. Recent events confirm the trend. In Cincinnati (Hamilton County voters approved separate new stadiums for the MLB Reds and NFL Bengals), Milwaukee (the NFL Green Bay Packers will no longer play three regular season games in Milwaukee's County Stadium, home of the MLB Brewers), Cleveland (the MLB Indians now play in Jacobs field, an exclusive baseball park), and Seattle (the MLB Mariners have succeeded in convincing King County to build a baseball-only, retractable dome stadium; the NFL Seahawks have threatened to move to Los Angeles if relevant governments do not fund a new stadium for their exclusive use).

Developments On The Demand Side Of The Professional Sports Industry

So far, the analysis in this article has focused on the supply side of the stadium issue. However, there are factors that determine the demand for professional sports which are essential to explain the number of stadiums built, their design and location in the past and present. The supply of stadiums and their amenities are derivative to fan spending in total and in particular. In this regard several general trends can be identified.

Teams and stadiums have followed the migration of the United States population to the West and South and from the central cities to city peripheries. From earliest times, stadium locations have been influenced by predominant modes of transportation. First, rail and bus links encouraged central city locations for stadiums, and then the emergence of the automobile contributed to the development of the suburban stadium appropriately described as a playing facility surrounded by a sea of asphalt.

Increased Incomes, Increased Demands

As incomes have increased throughout most of the 20th century, stadiums have reflected income trends and accompanying shifts in demand patterns. As affluence spread, fans have moved from the outfield grass, to hardback bleacher seats, to individual seats with armrests, to luxury loges. The market for spectator sports has also become more segmented as the distribution of income in the United States becomes more skewed; the demand for luxury loges and stadium clubs reflects the growing inequality of income in the 1980s and 1990s. In short, stadium location and design past and present takes its cues from the fans. Skyboxes are built because certain fans want them and can afford them. Increased venue revenues in professional sports reflect demographic shifts, corollary shifts in demands and team responses to these structural changes in the economy.

Clearly the distribution of income in the United States has become more skewed during the 1980s and early 1990s. In particular, income has been increasingly concentrated in the hands of the top fifth and top five percent of all income recipients. This greater concentration at the top of the income ladder allows for a greater demand for the luxury seats and amenities that are critical to the financial success of the new generation of stadiums.

Consider the information recorded in Table 1 on the distribution of income during 1980 through 1992.

Table 1

Percent Distribution of Aggregate Income by Quintile for the United States in 1980 and 1992

	1980 (all families)	1992 (all families)
Lowest fifth	5.2%	4.4%
Second fifth	11.5%	10.5%
Third fifth	17.5%	16.5%
Fourth fifth	24.3%	24.0%
Highest fifth	41.5%	44.6%
Top five percent	15.3%	17.6%

Source: U.S. Department of Commerce, *Statistical Abstract of the United States*, 114th Edition, 1994, Table No. 716, p. 470.

Of course, demand is determined by more than income, but the growing inequality in the distribution of income correlates very strongly with the current character of the demand for professional sports spectating. In a recent issue of *American Demographics*, it was observed:

> ". . .Today, baseball is a sport for the well-off. The likelihood of attending a baseball game increases steadily with household income. Twenty-one percent of adults with household incomes of $75,000 (the upper limit for the fourth quintile in Table 1 was $64,300 in 1992) or more attend baseball games making them 72 percent more likely than the average to do so.
>
> Other major sports also have an upscale audience. Football, basketball and hockey all have above-average attendance rates among those with household incomes of $40,000 or more.
>
> Baseball's customers are much more upsacle than they were ten years ago. People with household incomes of $50,000 or more were more likely in 1995 than in 1985 to attend baseball games (Dortch, 1996)."[12]

Baseball stadiums, in particular, have become smaller and more elegant. This trend reflects the growing inequality in the distribution of income. More is concentrated in fewer hands.

The Local Government Imperative

The construction of professional sports stadiums has required an infusion of public funds for two reasons. First, professional sports leagues function as cartels, and, to enhance the financial performance of the member teams, leagues maintain an excess demand for franchises. Cities compete with one another for the limited supply of teams, and the winning city bid has included government financial assistance for the construction of sports infrastructure. Gresham's law has application to the sports industry. Those cities that do not provide subsidies risk losing or not acquiring a franchise. If an investment in professional sport is not prudent, then it follows that "bad money does chase out good money" as a consequence of city competition for the limited number of teams.

Second, the cost of a contemporary stadium is staggering, and despite increased revenues from luxury seating, stadium clubs, personal seat licenses, etc., few stadiums hold the promise of a profitable operation.[13] Even when a stadium is advertised as a private project, close scrutiny of the stadium financial particulars generally reveal government subventions in the form of land offered at below-market value, tax abatement or the provision of infrastructure such as streets, public transportation access, sewers, etc.

Why do cities financially support professional sports even when a growing body of evidence indicates the financial contribution of sports to a large metropolitan economy is marginal, perhaps negative?[14] Stadiums represent one aspect of a larger city financial strategy or trend that evolved over decades and came to full bloom in response to President Ronald Reagan's new federalism. President Reagan stressed state and local fiscal autonomy. This meant the federal government shared less with state and local governments, and state governments shared less with local governments. Less money from higher levels of government coupled with growing urban financial needs forced local governments to become more creative and enterprising in dealing with their financial crises that cut on both the revenue and cost sides. To be precise, direct local government spending increased by 90 percent over the Reagan years (from $259 million in 1980 to $491 million in 1988), while the fraction of total state and local government revenue provided by the federal government decreased from 18.4 percent in 1980 to 13.3 percent in 1988.[15] What emerged is local government that can be characterized as more entrepreneurial, including more prone to taking risks.

Risk-Taking

Such risk-taking sometimes produces unfortunate outcomes such as the financial devastation recently of Orange County, California. Local and state governments are more likely to exercise risk in business ventures than in financial wheeling and dealing. These levels of government have invested heavily in entertainment-related activities. The proliferation of theme parks, convention centers, festivals and lotteries complement more traditional commercial and industrial investments, and they are all manifestations of local government entrepreneurial urges that attempt to garner more local residents' discretionary income as well as lure new dollars from beyond the immediate area.

Destination Cities

In this regard, public support for and subsidies to professional sports stadiums and arenas are not substantially different from other edifice complexes and strategies. Cleveland's decision to spend $100 million to build the Rock and Roll Hall of Fame is only a difference in degree not kind with its commitment of $400 million for Gund Arena (home of the NBA Cavaliers) and Jacobs Field (for the MLB Indians).

Thomas Dorsey has characterized the relatively recent behavior of municipal government very well:

> "I think what we are entering now is the entrepreneurial phase of municipal government . . . You are seeing a linkage between airport, highway, convention center, stadia financing. They are being integrated into a single economic package that's designed to draw people into that entity—a destination city."[16]

The destination city will provide an inflow of funds to replace those no longer furnished by higher levels of government. That is the hope of local government officials, and professional sports stadiums are an important spoke in a strategy born out of economic imperative.

Conclusions And Policy Implications

Sports stadiums and arenas are being planned and built in unprecedented numbers. There is a temptation to attribute the intense pace of construction to rapacious owners and greedy players. To be sure, financial developments on the supply side of the professional sports industry have contributed significantly to stadium mania, but economic developments elsewhere in the economy are co-conspirators.

Skyboxes and stadium clubs would not be built if there was no demand for them. Indeed, the market segmentation manifested in current stadium design reflects a growing inequality in the distribution of income in the United States and a growing corporate presence at the ballpark. Business once promoted and conducted in boardrooms and restaurants now is facilitated in skyboxes and stadium clubs.

State and municipal governments have countered the financial stress brought on by a more parsimonious federal government and other negative trends, such as suburban relocation of businesses, by becoming more entrepreneurial. Stadiums, arenas and convention centers constitute part of a broader developmental strategy that is designed to improve a local or state government balance of payments position and, to a large extent, replace the inflow of money no longer provided by higher-level governments. The emphasis is on making the city or state a destination for consumers and businesses beyond the state and municipal borders.

This strategy is inherently risky; it is workable as long as few others employ it. The extent to which cities and states embrace the strategy jeopardizes a substantial taxpayer investment. The cost of new stadiums and arenas planned between now and the year 2000 exceeds $4 billion. The danger is that cities live in an Alice-In-Wonderland world where they have to run faster and faster just to stay where they are. At this point it would be prudent for state and local governments to collectively reassess the destination strategy at least as it relates to professional sports.

The reality is that professional sports are not a major contributor to state and local economies. Most of the spending on professional sports substitutes for other recreational spending within the community or is compensated for by financial outflows triggered by characteristics in some ways unique to the professional sports industry.

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2. This figure was determined through combining the information provided in the Johnson and Belko *Pittsburgh Post Gazette* 1995 article that identified facility construction plans for the MLB, NFL and NHL with the NBA construction plans identified in a September 18, 1995 survey undertaken by *USA Today*. See Johnson and Belko, op. cit., p. A1.
3. See, for example, "Sports Value," *Financial World*, August-September 1995, p. 3. In this supplement to the regular *Financial World* magazine, the value of the Dallas Cowboys was estimated to be $238 million.
4. In 1994, stadium revenues for the Cowboys were $37.3 million and $15.4 million for the Miami Dolphins, the NFL stadium venue runner-up. The third-place finisher, the Philadelphia Eagles, generated $8.3 million in venue revenues. See Bob Verdi, "Browns Move Bears Watching—and Worrying", *Chicago Tribune*, November 7, 1995, Section 4, pp. 1 and 5.
5. National Football League. "The Commissioner's Report." *NFL Report*, Winter 1994, p. 2.
6. *Financial World*. "Speaking of Numbers: Who Needs New Venues and Where to Build Them." *Sports Value*, August-September 1995, p. 3.
7. Waggoner, Glen. "Money Games." *Esquire*, June 1982, pp. 49-60.
8. Pierson, Don. "Jerry's Way." *Chicago Tribune*, November 23, 1995, Section 4, p. 1.
9. The Charlotte Coliseum has 23,906 seats. The Alamodome in San Antonio can be configured to seat more for basketball, but the NBA Spurs are threatening to leave San Antonio if a new arena for their exclusive use is not provided.
10. Heylar, John. "For Team Owners, More Is Never Enough." *The Wall Street Journal*, May 3, 1996, p. B7.
11. There is another possible solution to the problem of overbuilding. Ronald Coase (1962) has theorized that the private sector will take measures to internalize externalities that exist. Transactions costs and/or a lack of information could prevent the development of a social institution or a merging of firms/teams necessary to such internalization. Stadiums may be oversupplied because of misinformation or overestimations of revenues generated by the stadiums separately. In such instances, it is conceivable that the public sector could bribe the teams into sharing a facility. Indeed, the public sector should pursue such a strategy, theoretically, as long as the bribe is less than the cost of building and operating a second stadium and the money value of the negative pecuniary externalities created by inter-stadium competition for highly attended events. Alternatively, the public sector could bribe one team into selling out to the other owner thus internalizing the externality through a merger.

There is some evidence that the Coase theorem has applicability to hockey and basketball. Teams in the NBA and NHL are increasingly under the control of a single owner or ownership by the compatibility of site lines for basketball and hockey that allow the sports to be played in the same arena. No such compatability exists for football and baseball (football/baseball and either basketball or hockey for that matter), and the resulting transaction costs (moveable seating, for example) are likely sufficiently high to discourage the merger Coase hypothesized.

12. Dortch, Shannon. "The Future of Baseball." *American Demographics and Consumer Trends,* April 1996, p. 24.
13. Shropshire (1995) looked at a sample of ten cities that built or plan to build a stadium or arena in 1995 or 1996. The average cost of building these ten stadiums or arenas was estimated at $159.5 million. The lowest priced facility, $120 million, was an arena built in Vancouver in 1995. See Stropshire, Kenneth L. *The Sports Franchise Game: Cities in Pursuit of Sports Franchises, Events, Stadiums and Arenas.* (Philadelphia: University of Pennsylvania Press). 1995.
14. See, for example: (1) Robert A. Baade and Richard F. Dye, *The Impact of Stadiums and Professional Sports on Metropolitan Area Development, Growth and Change,* Spring 1990. (2) Andrew Zimbalist, *Baseball and Billions,* (New York: Basic Books, Harper Collins publishers), 1992. (3) James Quirk and Rodney D. Fort, *Paydirt,* (Princeton, N.J.: Princeton University Press), 1992. (4) Benjamin A. Okner, Subsidies of Stadium and Arenas, in Roger G. Noll, editor, *Government and the Sports Business,* (Washington, D.C.: Brookings Institution), 1974, pp. 325-347. (5) Mark S. Rosentraub, et al., "Sport and Downtown Development Strategy: If You Build It, Will Jobs Come?" *Journal of Urban Affairs,* 1994, Volume 16, Number 3, pp. 221-239.
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PUBLIC PROCESS COUNSELING

by Bowen H. "Buzz" McCoy, CRE

An earthquake rumbled across Los Angeles early in the morning hours of January 1994, bringing extensive damage to the entire city, including the 70 year old art deco city hall. After the dust had settled, files, furnishings and employees were relocated and seismic damage teams called in to determine what was needed to return the building to its function. Under closer scrutiny, it was discovered that the damage was more structurally pervasive than first thought and, to complicate matters, continuing aftershocks made additional tiles topple from 27 stories above. Estimated repair costs mounted, and a panoply of options was advanced. Pending resolution, a shroud of black plastic was wrapped around the top of the flaking tower.

Twenty-four months and $26 million in consultant fees later, the process is stymied. The project budget has grown to about $240 million for this 750,000 square foot structure, and there are indications that it could increase to as much as $300 million. The mayor becomes alarmed as project costs soar to more than double the original budget, and he names a pro-bono citizens' panel to undertake a fresh look at the project and seek more cost effective solutions. Your name is on the list, and if you agree to serve, you will find yourself in the midst of a public process counseling assignment. So hold on to your hat; it is going to be a wild ride. This is a highly appropriate assignment for a CRE (Counselor of Real Estate), because it calls for one of the highest forms of ethical decision-making: the preservation of the public trust.

My experience in serving on six such counseling assignments in the past few years does not render me the ultimate authority on this subject, but each assignment has given me new insight into the process. I write this article to propose a possible framework for approaching public process counseling and to stimulate discussion, within our professional area, on a process which could profoundly impact public/private land use in this nation. I write so that we might be the beneficiaries of such increased discussion and thereby better serve our clients.

Public Process Counseling Indicators

Public process counseling is most generally indicated when a public entity experiences a breakdown of its legitimate process for decision making. Most often, the focus of the political process has become diffused and uncoordinated, weighted

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down with all the normal political baggage: diverse constituencies, multiple objectives and overlapping jurisdictions, divided councils, weak mayoral positions and budget constraints. Proposed legislation can become so packed with a grab bag of issues from everyone's social agenda that the legitimate process is rendered unworkable. Sometimes wise leadership has no other choice but to seek the counsel of qualified outsiders.

Sewer Permit Allocation Ordinance–Los Angeles
In 1988, Mayor Bradley convened a Citizens Review Committee to comment on a proposed sewer permit allocation ordinance. This less than romantic task would effect the pace and location of development in the city of Los Angeles over the next several years. It was, in fact, a prism through which we could justifiably look at transportation issues, neighborhood issues, urban sprawl, edge cities and each of the inputs in the urban development process.

The political process had loaded every wish list imaginable on the sewer ordinance, including the ratio of commercial development in the city to housing and the implementation of water saving devices in commercial buildings. A draft proposal of the ordinance stated that permits would be allowed on a priority basis for the following: homeless shelters, affordable housing, projects that achieved a 35 percent net reduction in waste water, economic enterprise zones, approved redevelopment areas, projects within one-half mile of the nearest mass transit, commercial projects providing child care for 30 or more children and home owner remodeling of less than 1,500 square feet. The focus of the proposed ordinance had been lost. Instead of sorting out the issues and setting priorities, an arbitrary laundry list of social justice issues, without debate or prioritization, had brought the allocation process to a dead halt.

Often, by the time the focus is lost, the news of the dilemma has also become public. The public entity can be under siege from constituents and the press. (Counselors' opinions, conclusions and mistaken judgments may end up in the local paper or in *The Wall Street Journal*!) Those involved individuals, elected and salaried, are probably experiencing personal distress. Things have become desperate, and there are no face-saving means for closure.

Our minority report stated that the proposed ordinance was unfair, inconsistent with the city's general plan and far too stringent. We estimated it would take a developer two years just to clear the sewer permit process hurdle. We further recommended a sunset clause for the ordinance.

Convention Center Site–Denver
Ten years ago, the City of Denver and the State of Colorado were locked in a vice grip when they asked the Urban Land Institute (ULI) to provide a panel to choose the location of a proposed convention center. This project—along with the then proposed new airport—had been bogged down for years in bitter disputes between city and state (each which felt it had jurisdiction) and among the more powerful members of the Denver real estate community. A new convention center was sorely needed to bolster the declining tourism business, yet the city fathers and developers could not unite around this worthy objective. Feelings ran so high our panel of ten was sequestered the entire week of deliberation.

Sequestration is not uncommon in such endeavors. It serves as a tangible reminder that a public process counselor is subject to a high standard of behavior. In performing most of my assignments, without sequestration, I find myself opportuned fairly often to attend functions or to meet with influential and popularly attractive individuals as guests of parties with interest in the assignment. Like it or not, a public process counselor must sustain, throughout the assignment, the detachment and independence of a true senior counselor.

Los Angeles Finance Task Force
In other, less emotionally charged instances, the counsel of outside advisors is sought as the basis for planning. I had the opportunity to serve on a public pro-bono Finance Task Force for Los Angeles Mayor Tom Bradley. Our task was to review the city's economic condition and financial structure, to identify operational and capital requirements to maintain appropriate levels of service and to examine conventional and alternative revenue sources to maximize capital formation and funding. The task force worked extremely well together. It was a stellar group, including future State Treasurer Kathleen Brown and future State Controller Kathleen Connell. In fact, in each of these assignments, I personally have found the quality and dedication of the private citizens involved one of the primary benefits of the experience.

The Charge Or Assignment
Rarely is the charge of public policy counseling to arrive at a bottom line solution. (The Denver Convention Center Panel was unusual in this regard. The city and the state agreed to abide by the location decision of the ULI panel.) Herein lies the greatest contrast to private transaction counseling in a normal business environment. Indeed, there may not be a bottom line, hard-nosed solution to the dilemma. There is room for softer type decisions, as well as purely utilitarian decisions, and the impact can be just as forceful within the area of conflict:

- The focus might be on the process for decision making or administration, identifying and bringing in good practice from the outside and reinforcing good practice where it is found in the client organization.

- The focus might be to identify bad practice or condition, not by being overly critical but by pointing out why another administrative process might be more effective.

In Mayor Bradley's Finance Panel, previously discussed, we came face to face with the problem particular to Los Angeles and certain other locales: the multiplicity of jurisdictional authorities operating in the same area, including federal, state, county and city, together with a weak mayoral position, a strong but internally divided city council and the lack of any cohesive regional planning authority. In particular, this assignment demonstrated the severe price paid at all government levels for failure to have a longer term planning process and vision.

The essence of our findings was that the city utilized an extremely short time frame for planning purposes, engaged in an excessive amount of deferred maintenance (thus understating current budgetary requirements) and was lagging in its mandate to privatize operations. The lack of a planning cycle much longer than a year rendered the city ineffective in resolving key issues for Los Angeles, such as air quality, wastewater treatment, etc.

We concluded with a set of ten recommendations, including an increased local gasoline tax to fund deferred street maintenance. An increased gasoline tax appeared on the ballot and was defeated. Funding was provided for a portion of the deferred maintenance. An inter-departmental process was initiated to improve management of city facilities and, most important, the City Council committed to develop a strategic financial plan and engage in multi-year planning. (This well intentioned response did not materialize.)

Leasing Of Office Space For State Agency

A more recent assignment involved advising a state agency on purchasing or leasing significant office space in downtown Los Angeles, which currently has one of the highest vacancy rates in the country. An obvious private transactional decision would incorporate price weaknesses in untenanted modern structures. Yet the state was willing to take part of its space by rehabilitating outmoded buildings in less than desirable locations. Using state funds to rebuild the decaying urban core had considerable appeal to certain private businesses which were also trying to hang on in the older inner city. Thus, a public process counselor must be tolerant of ambiguity and open to a multitude of stakeholders.

Suggested Process For Counseling Decisions

Regardless of the nature of the charge, public process counselors must actively seek and process large amounts of pertinent and often conflicting information with great precision. Indeed, the underlying cause of political logjam is often a failure to seek and see, to hear and listen to all the critical data. It is from this data that stakeholders can be identified and assigned relative value, that existing conflicts can be dissected and potential ones perceived. It is through this information that creative solutions are found which are cost effective and yet serve the people of the targeted area.

The gathering of this information can be a formidable task and may take some unconventional forms. One must move beyond the controlled presentations which are usually proffered to a truly investigative and pro-active role. This type of interviewing is obviously more painstaking and time consuming, but the payoff is there. The Denver experience is a good example.

Denver Approach

Our panel of ten spent a week there, sequestered the entire time, as varying city leaders were convinced one of the developers would attempt to buy us off. We conducted interviews with about 100 citizens, politicians and developers. The crux of our panel's decision making entailed my interview partner for the week, Nick Trkla (who passed away far too soon just this year), and me walking from the busiest intersection in downtown Denver to each of the proposed sites. We arrived at our recommended site in eight minutes. One of the other favored sites took us 43 minutes to reach. None of the others took less than 16 minutes. This was not a particularly sophisticated nor trying process. We recommended a site in the center of downtown Denver, with compactness to nearby hotels and an easy walking distance for conventioneers during inclement weather. This rather simple-minded approach taken by Nick and me provided clarity and focus to the assignment and unpacked the decision of patronage, favoritism and ancillary issues which had rendered the decision-making process cumbersome and unmanageable.

Pension Fund And The Interview Process

A very recently completed paid assignment called for an expanded and much more rigorous form of the interview process. My charge on this assignment was to make recommendations to improve the investment process in real estate for our client, a large public pension fund with roughly $5 billion in various real estate assets. I was fortunate to have an excellent partner on this assignment, and we performed our task over seven months.

We conducted approximately 100 interviews with trustees, staff, advisors, consultants and many disinterested pension funds and pension fund advisors throughout the real estate industry. It was our goal to identify bad practices within our client and the industry and hold them up for critical comment as well as to identify good business practices within our client and the real estate pension fund industry and hold those up to our client as a new model. We knew there would be little impact if after all these interviews, we only came up with a long list of new practices for the trustees and senior staff. From the beginning we needed to have impact on the process and the actors. That is, we should utilize at least a portion of each interview to begin influencing behavior in the direction it was assumed we would be heading. Thus, the assignment itself became a process for change, and we became agents of change during a portion of each interview. Just to be assured, early in the assignment I checked out our game plan/technique with a couple of senior friends at McKinsey & Co., and they validated this approach.

The assignment terminated in a five hour off the record workshop with the pension fund trustees. Interestingly, all the good practices we recommended came from the interviews with the pension fund advisors. It now appears that we will have some impact on our client. The extent to which this is borne out in future practice will, in our opinion, be as much the result of the pro-active interview process we adapted for our counseling, as it will to the final workshop and written recommendations.

Los Angeles City Hall Seismic Project

Los Angeles City Hall is a designated historical monument and a cultural icon (which means it has been featured on "Dragnet" and in "Batman" movies). Our panel was handed a list of seven options. The instructions from the office of the mayor were to undertake a comprehensive fresh look at the project and seek more cost effective solutions. Because of the cumbersome move-ins and move-outs of tenants and the working and reworking and reworking again of the same space, some portions of the seismic rehabilitation were costed out at as much as $600 a square foot. Following initial consultant presentations, which felt more like indoctrinations, the panel opted to be sequestered for the balance of its discussions. One unfortunate result of this process was that we had no opportunity to engage in a comprehensive counseling process. Our report was issued to the mayor and city council, became public immediately, and we became adversaries to the project team as well as others within the Los Angeles City Hall.

The project suffered from a governance system led by a strong but divided City Council, an equally strong mayor with very limited mayoral power and a somewhat independent Department of Public Works. Responsibilities were blurred; focus was lost. There was no organic process to gain closure or consensus. As usual, the project became packed with Christmas tree ornaments from every participant, including deferred maintenance, the newest fire and safety regulations, the most modern office set-ups (on 7,500 floor plates in the upper tower). Lack of control of the budget and the process provided a field day to the consultants, project managers, architects and engineers who piled project upon project, ripped out leasehold improvements, evicted office occupants into other space and labored profusely over three or four layers of plans. Indeed, the project had come under the control of the consultants who obviously resented the panel and, subsequently, may have attempted to discredit its recommendations. It seems they have even held off the repair of superficial wall cracks in the offices of City Council members as a form of daily psychological reminder of the presumed inherent danger in the structure.

Our findings were comprehensive. In general we agreed it made sense to save the building as a cultural icon, but that no more than $165 million maximum (a bit over $200 a square foot) should be spent on the project. As a frame of reference, this is in a market where Class A buildings can be procured for $40-$100 a foot or for as little as one-third of current reproduction costs. We also offered detailed advice on the governance process for the project. Our ultimate impact is not yet apparent, but the process of debate and discussion among key decision makers is well underway.

Suggested Criteria For Public Policy Counseling Decisions

The following criteria are suggested as a possible model for real estate counseling in the area of public policy:

Identify relevant stakeholders. In many cases the public policy process identifies a huge list of potential stakeholders and then lacks the will and process for setting priorities and assigning values. In the public arena, this list ought to be drawn with awareness and imagination. Although the list of stakeholders may become long, being on it does not assure priority.

Identify potential conflicts. Stakeholders must be heard and respected. However, rather than decorating every decision with a conceivable social goal, the public process must begin to develop a context for decision making which focuses on a cost-effective solution to the basic problem be it locating a convention hall, repairing a structure, allocating sewer permits or leasing office space.

Seek creative solutions. Too often the political process becomes binary. You are either for me or against me. There is a need for more awareness of the ambiguities and uncertainties in decision making. Room must be left for open exploration of other options. Perhaps a project can be staged or deferred to spread out the costs. Perhaps there are other options for cleaning up downtown rather than reducing the effectiveness of government workers.

Maximize long term benefits. This utilitarian concept is self evident, but it is often lost in the political process. Short term solutions produce greater long term problems. We saw this in the Los Angeles Finance Task Force as well as the City Hall Seismic Project. This is an extraordinarily difficult process for politicians. Perhaps not quite so difficult for statesmen. We need only look to our federal government which appears fundamentally lacking in long term budgeting, capital budgeting and the multitude of short and long term policy trade-offs.

Respect the public process. Public servants deal with their own kinds of problems: conflicting objectives, multiple stakeholders and intense political pressures. Many governmental activities are inter-connected and cannot be isolated. Sometimes government requires soft judgments, rather than pure business judgment. Political pressure is not an evil. It is a reality in the public sector and in its best sense embraces public interest and public trust. Too often we denigrate the public servant who must come back every day to deal with massive problems, insufficient funds and an often hostile press. In the meantime, we journey back to the suburbs with a self-righteous glow from a week of service to the community. Extremely capable, intelligent and caring men and women represent our interests in the day-to-day workings of government. They deserve to rest confidently in our trust as well as our scrutiny.

Be a consensus builder. Consensus building is possible only when all participants in the assignment trust and respect the real estate counselor's unbiased desire for success in their individual roles. The pro-active multiple interview process can be a more potent vehicle for developing that trust and respect than the final written document or presentation. It is possible to employ the suggested criteria and still not attain consensus in your assignment; conversely it is impossible to reach consensus without employing them. Our goal as real estate counselors is to leave behind a cohesive unit of government, empowered by trust in and respect for each other.

Criteria Application

The Los Angeles City Hall Seismic assignment is evaluated here utilizing the proposed criteria.

The **stakeholder** issue was immense. When one considers the tremendous cost of rehabilitating a pop-culture icon against the immense needs of the city for public security, health, education, etc., it is easy to trash the structure. Yet, the city needs a centering structure in the downtown, but at what cost—$100, $200, $400 per square foot?

The **conflicts** were overwhelming: City Council members' safety and comfort, public access, seismic engineers, consultants, historical preservation. The list goes on and on.

Creative solutions included purchasing a modern structure with no civic identification, closing off 80 percent of the tower structure, demolition of City Hall or rebuilding a modern structure.

What would be the **long term benefits** for the city? What would be the trade-off between $200 million for health, safety and education today versus a cultural icon a half century from now?

Respect for the public process exposed us to attack from the City Council, Department of Public Works, various consultants and the local media. An ad hoc group of advisors can be made impotent in the face of such ingrained interests. Yet, how is the public voice to be heard?

Consensus building. Perhaps our sequestration was incorrect. Yet we felt we had to perform as independent agents. There was too much self interest in the programmed presentations. Perhaps we should have overridden the imposed agenda and the schedule so that we not only made our independent evaluation but, perhaps, also reached consensus.

Conclusion

I have established two personal conditions for accepting a public process counseling assignment: Can I tell the truth as I come to understand it? Can I have an impact? Although I have encountered some rough spots along the way, the first condition has been met in each of the public service assignments described in this article. The second issue is problematic. Coming from the business world, my idea of having impact is much more concrete than anything I have experienced in the public process counseling arena. I would say that my own efforts in this area are mixed to date, but they are not without some impact in each assignment.

Process counseling is far more complex than transactional counseling. As is the case with any type of business practice, the only way to master it is by doing it and learning from your successes and failures. The role of a real estate counselor in public process assignments is to help clear away the debris and focus on the primary issues. It is to develop an orderly procedure for prioritizing important issues; to evaluate, admire and defend good practice and to critically and objectively evaluate bad practice; to create an atmosphere of professionalism and calm in the midst of controversy. It is, as usual, to help guide our clients to do the right thing.

TO BUILD OR NOT TO BUILD: AN ANALYSIS OF THE BENEFITS OF NEW SPORTS FACILITIES

by Mark L. Mitchell

Is the time and money being devoted by local governments to the issue of sports stadium and arena construction worth the effort? To be certain, sports franchises are unique businesses that involve communities in ways other businesses do not. The community's sense of attachment to and involvement with the Dallas Cowboys, the Seattle Mariners or the Colorado Avalanche is distinct from responses on the expansion or relocation of a manufacturing business or the construction of a new mall. This article explores the current atmosphere of stadium and arena construction and the debate surrounding the benefits of such construction, the development of the sports industry's economic structure and its impact on the playing venue issue, and the effect of new playing venues on team values.

Stadium And Arena Construction

Los Angeles Rams Move To St. Louis

In January 1995 the Los Angeles Rams announced they were moving to St. Louis for the 1995 National Football League (NFL) season. St. Louis was selected because of the city's generosity and the large real estate development known as the Trans World Dome. The Rams were assured stadium revenue of $20 million annually, including all earnings from 120 luxury suites and 6,200 club seats (which St. Louis guaranteed would be 85 percent sold), all the revenue from concessions and 75 percent of stadium advertising sales. The deal also included funds up to $60 million from the sale of personal seat licenses—an instrument requiring fans to pay up to $4,500 just for the right to buy a season ticket—which the Rams would use to cover existing debts, relocation costs and the expense of a new training facility. The rent paid by the Rams would be only $250,000 a year, estimated as the fifth lowest in the NFL when the lease was signed, and significantly less than the $1.8 million paid by the Rams for the use of Anaheim Stadium. The cost of the Trans World Dome, an estimated $280 million, was borne entirely by state and local taxpayers.

Cleveland Browns Move To Baltimore

In November 1995 the Cleveland Browns announced they were moving to Baltimore for the 1996 NFL season because of a large real estate development in the form of an as-yet-to-be-named football stadium and the generosity of the city of Baltimore. The move provided an opportunity for Art Modell, the majority owner of the Cleveland NFL franchise,

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to increase revenues by as much as $30 million annually through a favorable lease arrangement on the new facility. Under a 30-year agreement with the Maryland Stadium Authority, the Browns will pay stadium operating expenses of approximately $3 million per year. However, they will have use of the stadium rent-free, and they will keep all revenue from concessions, parking, stadium advertising and 108 luxury boxes and 7,500 club seats. The Browns would keep as much as $75 million generated from the sale of personal seat licenses which would cover moving expenses and any relocation fee required by NFL owners. In addition, a $15 million training facility would be constructed. The stadium's estimated cost of approximately $200 million was being generated through public funding.

Houston Oilers Move To Nashville
In May 1996 voters in Nashville, Tennessee approved the sale of $80 million of general obligation bonds, clearing the way for the NFL's Houston Oilers move to Nashville for the 1998 season. The team will play in a new $292 million stadium funded in part by a city commitment of $149.5 million, part of which will be satisfied by general obligation bonds with the remainder garnered from surplus funds in the city's water department and rent collected at the stadium. The agreement with Nashville included $28 million in relocation costs for the Oilers and, according to reports in the *Houston Chronicle*, lease terms that will provide Oilers' owner Bud Adams with approximately $350 million in revenues for the first 10 years of the 30-year lease.

Other New Facilities
The NFL isn't the only professional sports league enjoying a stadium-building boon. According to reports in *Forbes*, June 1994, more than $1 billion has been spent for facilities which opened since 1992, ground has been broken for another $1.5 billion and plans are underway for an additional $5 billion in construction by the end of the decade.[1] For example, the city of Cleveland built Jacobs Field, a major league baseball park, for the Indians and Gateway Arena for the NBA Cavaliers at a total cost of $236 million. In March, voters in Detroit overwhelmingly approved public funding for the Tigers' new baseball stadium at a total cost of $235 million. In October 1995, ground was broken on a $175 million sports arena in Washington, D.C. for the Washington Bullets of the NBA and the Washington Capitals of the NHL. The District of Columbia committed $56 million in funding to be raised through a bond issue. The Seattle Mariners have approval to build a $320 million retractable roof stadium with $107 million in funds from the state of Washington and the balance from local tax hikes. In fact, the *Dallas Morning News* has reported that 49 out of 113 major league franchises in hockey, basketball, football and baseball are considering a relocation unless a new arena or stadium is built or lease concessions are granted by the landlord.[2]

The Sports Industry
To place in perspective the sports franchise relocation and stadium/arena issues, it is helpful to examine certain structural elements of the sports industry beginning with monopoly factors. The first antitrust legislation was the Sherman Act of 1890 passed by Congress in response to widespread trust formation. Companies in a variety of industries combined collusively to limit supplies and raise prices, thus placing a firm's voting stock into a so-called trust agreement which provided for collective action and profit sharing. The Sherman Act made it illegal to monopolize trade and outlawed all combination or conspiracy in restraint of trade.

While the vigor with which antitrust policies have been enforced over the years has varied with the political climate, the dilemma posed for the sports business was obvious. The basic form of the sports business, the league, was a monopoly to restrain and control the commerce of staging games. The Supreme Court granted professional baseball an antitrust exemption in 1922 in *Federal Baseball Club v. The National League*. In this case, the court ruled that baseball was not engaged in interstate commerce and was, instead, the country's national pastime and not subject to federal regulation.

The NFL later argued that the Federal Baseball Club exemption ought to cover football as well. The court did not agree and ruled it was Congress' responsibility to remedy the situation. While the NFL has never received a blanket exemption from antitrust law, in 1961 a limited exemption was granted to allow the league's member clubs to collectively bargain for and share equally in network television revenues. A limited exemption also was granted in 1966 to allow for the merger of the National and American Leagues.

The NFL's battle for special status under antitrust law highlights one of the most fundamental aspects of professional team sports; each professional sports league operates under a monopolistic structure. "In simplest terms, professional sports is a closed club with a limited number of memberships. Within that club, the value of each membership continually rises, regardless of individual appeal, because the number of memberships is fixed."[3] Such practices as player drafts, exclusive broadcast rights and the control of markets and expansion are anti-competitive in nature. Over the years, some of these issues, principally player movement, have been successfully challenged in court, but each league controls the actual staging of games and the awarding of franchises.

Oakland Raiders
Franchise relocation in the NFL was irretrievably altered by the Oakland Raiders in 1980. When the Los Angeles Rams decided to leave the Los Angeles Coliseum in 1978 to play their games in Anaheim Stadium, the Los Angeles Memorial Coliseum Commission (LAMCC), facing substantial operating losses with the departure, decided to lure another NFL team into the Coliseum. On March 1, 1980, Al Davis reached agreement with the LAMCC and announced that the Oakland Raiders were moving to Los Angeles. Subsequent to this announcement, the NFL filed suit against Davis, and he filed suit against the league claiming antitrust violations. On May 7, 1982, the jury decided in favor of Davis, ruling that Section 4.3 of the NFL constitution violated the Sherman Act and that the league had breached its contractual duty of good faith and fair dealing. Section 4.3 required that a franchise receive prior approval from the other NFL teams before transferring to a different city outside its home territory. If the proposed transfer was to a location within the home territory of any other club, approval would require a unanimous vote; any other transfer required an affirmative vote of at least three-fourths of the league's members.[4]

Baltimore Colts
One of the most significant aspects of Davis' successful move to Los Angeles was the leverage it gave owners in negotiating improved stadium leases or in obtaining a new stadium. In 1984, Robert Irsay took advantage of this circumstance and moved the Baltimore Colts to Indianapolis. This city was so eager for an NFL franchise that it guaranteed Irsay annual revenues of $7 million, a $4 million office and training-center complex and more than $12 million in loans. Also, Bill Bidwill, owner of the St. Louis Cardinals, moved his team to Phoenix prior to the 1989 season.[5]

Thus, the stadium game being played by sports franchise owners is a simple matter of supply and demand. With supply restricted, the demand for teams exceeds the supply of teams. As long as this persists, municipalities without teams will serve as leverage for team owners looking to upgrade the status of their team's stadium or arena. For the owners, the impetus to seek a new playing venue is a simple matter of economics. New venues translate into increased profits. The key component of most new stadiums and arenas is the addition of luxury suites whose revenues are typically retained by franchise owners. This is particularly important in the NFL where revenue sharing among the teams is so pronounced. Television contracts with the networks and cable channels generate approximately two-thirds of the NFL's total revenues from admission and broadcast receipts. The rights fees paid by broadcasters are shared equally among NFL teams. In addition gate receipts are split with the home team retaining 60 percent of revenues and the visiting team taking 40 percent, after expenses are paid. Stadium-generated revenues are not subject to profit sharing, and the absence of such revenues is cited by owners, such as Art Modell of the Browns, as a competitive factor in placing a winning team on the field.

Cleveland Indians And The Texas Rangers
Luxury suites are not the only story for franchise owners. The Cleveland Indians and Texas Rangers have seen attendance increases of more than 50 percent in their new stadiums despite ticket prices that are 30 percent higher than ticket prices were at their old venues. In fact, according to economists James Quirk and Rodney Fort, baseball teams draw 62 percent more fans during their first five years in a new stadium than they did during the previous five years in an old stadium.[6] This is particularly important in baseball where admission revenues are typically the single largest source of potential income.[7]

Franchise Values
Revenue multiples for franchises in the four major sports generally have been in the range of 2.0 to 3.0 with football and basketball franchise values falling at the high end of the range on average. Hockey and baseball franchise values generally fall from the middle to the low end of the range on average.[8] With new playing venues generating between $10 million and $40 million worth of additional revenues for franchise owners, it is clear that much of the benefit accrues to team owners in the form of increased franchise values. For example, reported estimates on the increase in value of the Cleveland Browns (now the Ravens), as a result of their move to Baltimore, were approximately $40 million (from $160 million to $200 million). Likewise, the valuation of the St. Louis Rams increased by a similar amount as a result of the guaranteed revenue-generating capacity of the Trans World Dome.[9] When stadiums are funded primarily through public means, taxpayers are subsidizing franchise operations.

The increasing importance of stadium arrangements has altered the factors influencing franchise values. Prior to 1983, a magazine article noted that "close consideration should be paid to the location of a franchise when determining a value for the franchise right itself" because "the right to operate as a monopoly in Chicago, New York or Los Angeles is worth more than a similar right to operate in Portland, Kansas City or San Antonio."[10] As noted in a 1978 article in *Sports Illustrated* on money in sports, "one franchise in a market that can support two teams equals double the demand, which equals higher ticket prices, which equals greater profits."[11] With the current absence of an NFL team from the Los Angeles market, it is interesting to contrast this development with the LAMCC's efforts in 1978 to lure a team to the Coliseum. In addition to discussions with Al Davis, the LAMCC attempted to convince Ralph Wilson, owner of the Buffalo Bills, to move his team to Los Angeles. Wilson spoke with the LAMCC several times during the last half of 1978. According to Bill Robertson, then LAMCC president, "Wilson said that he would love to be playing in Los Angeles . . . because of what he saw as the tremendous potential here because of our population."[12]

Market size is not the influence it once was in the NFL as evidenced by both the Rams and Raiders deciding to exit the Number 2 television market in the nation for St. Louis (Number 20) and Oakland, respectively (splitting the Number 5 Bay Area market with the San Francisco 49ers), the Browns leaving Number 13 Cleveland for Number 23 Baltimore, and the Oilers leaving Houston, the Number 11 television market for Number 33 Nashville. Freedom of movement combined with monopolistic restriction of supply and a willingness on the part of cities to transfer wealth to team owners through the construction of new stadiums have led to the increased importance of stadium arrangements in the creation of value in all sports.

Economic Benefits Of Professional Sports Investments For Communities

Rosentraub And Nunn

As far back as 1978, authors Rosentraub and Nunn explored the economic benefits of professional sports investments by suburban cities, focusing on Arlington, Texas (home of the Texas Rangers major league baseball team) and Irving, Texas (home of the Dallas Cowboys professional football team). The city of Arlington enticed the Washington Senators move to Texas from the nation's capital in 1972, and in 1971 the city of Irving brought the Cowboys from Dallas to the suburbs to play in Texas Stadium. The authors concluded that, within the limits of their study, both cities had difficulty capturing the benefits of their investment. Neither did as well economically as comparison communities when measured by sales and property tax collections and municipal expenditures and debt levels. Further, economic benefits were regional rather than local, although the risks in terms of costs were born locally rather than regionally.[13]

Colclough, Daellenbach And Sherony

Colclough, Daellenbach and Sherony adapted the Regional Input-Output Modeling System (RIMS II), compiled by the U.S. Department of Commerce, Bureau of Economic Analysis, to examine the economic impact of a minor league baseball stadium in La Crosse, Wisconsin. The general theory underlying RIMS II is that autonomous spending injections, usually from outside the community, produce increased sales and income for local residents. A multiplier effect occurs when these residents, in turn, spend part of the additional income locally, thus creating more sales, income and jobs in the community. RIMS II includes multipliers for 531 business and industrial sectors and 38 aggregate sectors for individual counties or multi-county areas in the United States. While the paper's focus was the construction of a measurement model, the estimate developed by the authors for the annual economic impact of the baseball stadium was less than one-third the impact cited by stadium proponents when soliciting support for the project. The authors suggested that communities consider benefits other than economic factors, including entertainment value, community identity and quality of life.[14]

Image

In fact, the stadium/arena debate often boils down to proponents citing intangible or indirect benefits while opponents quote from numerous academic studies. Thus, it appears that direct economic benefits are limited. Image, a key concern for political leaders who aspire to create a national presence for their community, is one such intangible benefit. Mayor Philip Bredesen of Nashville cites the desire for his city to be like Charlotte, North Carolina, Orlando, Florida and Jacksonville, Florida, all growing southern cities with one or more professional sports franchises. What benefits result from creating the image of a big league town? Mayor Bredesen suggests that image attracts business, spurs development and keeps younger Nashville residents from leaving for New York, Chicago or San Francisco.[15] Likewise, Dick Kravitz, city council president of Jacksonville (the Jaguars began play in 1995 as an NFL expansion team) said the city hopes the team's presence will sharpen Jacksonville's image as a place to live and do business. Primarily for that purpose, Jacksonville underwrote the $135 million refurbishment of its Gator Bowl.[16] John Fondersmith, chief of Washington, D.C.'s Office of Planning, says that city officials hope the new arena for the Bullets and Capitals will revitalize a long blighted area in the Gallery Place district and spawn a new entertainment district serving downtown and government offices.[17]

Robert Baade

Studies suggest that the reality of achieving collateral benefits from a move into the big leagues is far from clear. In such a study, Robert Baade, an economics professor at Lake Forest College in Illinois, looked at 48 United States cities between 1958 and 1987, including 36 cities with professional teams in one of the four major team sports: baseball, football, basketball and hockey. In conclusion Baade explains, "For professional sports to contribute significantly to the local economy, it must induce large net increases in spending. In the short run, local spending by sports fans does not represent an increase in spending on leisure activity but is merely a diversion of leisure dollars from other activities. People have only so much to spend on fun and games, so what goes for the home team comes out of what would have gone for movie or theater tickets, concerts, museums, tractor pulls, whatever."[18] In addition, Baade's study found no evidence to suggest a professional sports franchise is an important factor in business location. Further, the multiplier effects were not of a magnitude to suggest that sports facilities expenditures were worthwhile. Baade noted that in studies supporting public subsidies, projects were worthwhile if they induced indirect expenditures of $3 for every $1 of public money spent. However, he found the recent norm for stadium multipliers was two or less.

Roger G. Noll

Roger G. Noll, a professor of economics and public policy at Stanford University, acknowledges that direct economic benefits are limited; however, he does agree that municipal spending to attract and keep professional sports teams has certain intangible effects. "Our psychic investment in sports is disproportionate to its economic importance to a city. Why make the phony economic development arguments when the value of sports teams is clearly from the pleasure they provide."[19] The absence of direct economic benefits may also be offset to some degree by other development. Baltimore and Cleveland have made their new baseball stadiums a part of a larger downtown renewal. If such stadiums actually succeed in spurring renewal and creating the political will for such redevelopment, their direct economic effects may be irrelevant.

Empty Stadiums

As some cities have discovered, building a stadium or arena doesn't necessarily guarantee a big league tenant. St. Petersburg, Florida built its Suncoast Dome in 1991 before the city landed a professional team. In 1998, an expansion major league baseball team, the Devil Rays, will begin play there. In the interim, the stadium has cost the city up to $8 million a year in interest on construction loans. Plus the stadium's meager schedule for concerts and tractor-pull events is also producing a deficit. According to Connie Kone, a member of the St. Petersburg City Council, the tax increases needed to support construction of the stadium actually drove some residents and businesses out of the city.[20]

Nashville's first building effort has come up empty so far. Mayor Bredesen pushed through approval for a 20,000-seat downtown arena to be financed by property taxes with the intention of seeking NBA and NHL franchises. Although the New Jersey Devils seriously considered a move, they ultimately decided to stay put.

Conclusion

The construction of stadiums and arenas is the sports industry's latest development to enhance revenue production for team owners. The industry's monopolistic structure allows team owners to use franchise locations as leverage in securing improved arrangements for playing venue. The result, particularly in the NFL, has been increased franchise relocation. Based on the results of numerous studies, the question of committing public funds to the construction of stadiums and arenas to keep or attract a franchise should not be based on direct economic benefits. The consideration should be on the community's self-image and the place sports will play in the growth and development of community life.

Public funding of new stadiums and arenas should be recognized as a direct subsidy to franchise owners who reap the benefits of higher operating profits and increased franchise values. This fact, however, does not suggest that it is inappropriate to build sports facilities, in whole or in part, through public funding. Rather, if such plans have citizen support, they should be viewed in the context of the overall goals established for the community's growth and development. After all, to the citizens of any community, sports is about being a fan and uniting in support of the home team. This sentiment is best described in a quote from a recent *Sports Illustrated* article, by Carmen Cangelosi, on the 1929 World Series between the Philadelphia A's and Chicago Cubs. Cangelosi, a 78-year-old retired graphic artist, still remembers sitting in Mason's Dance Hall and listening to the 7th inning of Game 4 on the radio:

> "That inning made me a baseball fan for life.
>
> I was an Athletics fan for life. I still know all the players.
>
> I know where they played. I know
>
> their nicknames: Bucketfoot Al. Double X. Old Reliable. Lefty. Mule.
>
> I know that 10-run inning and who scored and how they scored. Just like it was yesterday at Mason's. I remember when they won the World Series. There was a buzz in the air. An energy. You felt good about yourself, about your city, about everybody around you. It broke my heart when they moved. They're long gone, but I remember everything. I sometimes go to sleep thinking about them. What a team!"[21]

NOTES

1. Lane, Randall: "Bread and Circuses", *Forbes*, June 6, 1994, p. 62.
2. "A New Arena: Fair Play?", *The Dallas Morning News*, July 23, 1995, p. J1.
3. "Monopoly Pays Off in the Business of Sports", *Business Week*, October 13, 1980, p. 152. A study completed by Gerald Scully, a sports economist and professor at the University of Texas at Dallas, concluded that the price of sports franchises increased 15% annually, on average, for a time period spanning 85 years. Further, prices for teams almost never fall, with few, if any, instances of a franchise being sold at a loss. See Ozanian, Michael and Brooke Graberek: "The Untouchables", *Financial World*, May 10, 1994, p. 81.
4. Relocation in baseball has been limited with the last move in 1972 involving the relocation of the Washington Senators to Texas; however, the threat of moving has been present. The Chicago White Sox, San Francisco Giants and Houston Astros, for example, have threatened moves to prompt improved stadium arrangements. Recent relocations in hockey have involved the construction of new arenas.
5. In June 1995, the Raiders announced they would move back to Oakland for the 1995 season to play in the Oakland-Alameda County Coliseum, with public funding for an $85 million stadium modernization and the retention of luxury suite revenues by the Raiders the primary attractions.
6. As noted in the Lane article cited in end note 1. See also Quirk, James and Rodney D. Fort. *Pay Dirt: The Business of Professional Team Sports*, Princeton University Press, 1992.
7. Local media revenues for certain teams in large markets, such as New York, Los Angeles and Boston, may exceed gate receipts. The variability in attendance in major league baseball, relative to capacity, is substantially greater than in the NFL.
8. See the May 20, 1996, issue of *Financial World*, "The High-Stakes Game of Team Ownership", pp. 53-70, for a discussion of sports franchise values and revenue multiples. With respect to the NFL, these multiples are consistent with recent transactions involving the New England Patriots, Miami Dolphins and Philadelphia Eagles. The reported prices for these transactions ranged from approximately $140 million to approximately $180 million, with reported revenues for each team, in the form of gate receipts, media revenues and venue in the range of approximately $60 million to $80 million.
9. Ibid.
10. Ambrose, James: "Recent Tax Developments Regarding Purchases of Sports Franchises", *Taxes*, November 1981, p. 741.
11. Kennedy, Ray and Nancy Williamson: "Money, The Monster Threatening Sports", *Sports Illustrated*, July 17, 1978, pp. 40-42.
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SPORT FRANCHISES, SECOND-TIER GROWTH MARKETS AND OPPORTUNITIES FOR THE REAL ESTATE COUNSELOR

by R. Thomas Powers, CRE

The hop-scotching of major league sport franchises has become big business for many large metropolitan areas, creating the potential of new business opportunities for real estate counselors. When a city receives a franchise, a new arena frequently must be built, real estate uses around the new facility often need to be rethought and new retail, hotel and office development and investment opportunities in the area may need to be created. Now, consider those cities which lose a team. Generally, an adaptive reuse of the older arena area is possible assuming another similar professional team cannot be enticed to move in! So with track shoes on, the real estate counselor can enter the race for this new business, or should he?

Examining The Counselor's Relative Opportunity
Just how much business opportunity does franchise hop-scotching at the major league level create for the real estate counselor? As an example, let's look at major league baseball. Consider that there are 28 major league teams, in all. During the current decade, five of these teams remained in the same city and moved into new arenas. Four new teams have been (or soon will be) added to the roster: Florida and Colorado in 1993 and the Arizona Diamondbacks and Tampa Bay Rays in 1997. These nine business opportunities represent 32 percent of all major league baseball teams.

Now, consider the growth of professional baseball franchises in second-tier markets. Data here is admittedly sketchy, but the relative opportunity is clear. There are 115 minor league affiliates and 28 Major League Baseball clubs, a 4:1 ratio working in favor of smaller cities. And, by the best count available for this decade-to-date, 47 of the minor league affiliates have been startups in new towns (meaning they also left a city) or they have moved into new arenas within the same city. By this measure, the opportunity for the real estate counselor clearly favors the smaller growth market.

Other, non-baseball examples of rapidly growing sports-related new business opportunities abound in second-tier growth cities. Consider that soccer and NASCAR (National Association of Stock Car Auto Racing) are the two fastest growing sports in the U.S today, and both are significantly

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more prevalent in second-tier growth markets. In golf, the PGA Tour dominates the large markets but is frozen in size; while the Nike Tour and Hooters Tour (minor league golf tour for aspiring professionals) are expanding rapidly into smaller cities across America. The list goes on, each event creating potential new business benefits for the Counselor.

Benefiting From This Explosive Growth of Sport

Counselors of Real Estate (CRE, the designation awarded to all members of The Counselors of Real Estate) excel in providing real estate specialization services including litigation support, asset management, workouts, valuation, feasibility studies, acquisition/dispositions and general analysis. These are exactly the same experience areas needed for new business opportunities by the sports industry particularly in smaller growth markets. Consider the following important parameters which define the field of play.

Compared to Major League Baseball franchises in large cities, smaller cities have smaller budgets; the stadiums are not nearly as large and the ancillary real estate investment/development dollars are not as great. For example, look at Minneapolis. The new Mall of America sits on the site of the old Metropolitan Stadium which was replaced with the cozy Metro Dome. Aggregate new construction for the Metro Dome approached $300 million, or 19 times the cost of developing a new baseball facility in Charleston.

Secondly, smaller cities do not hire waves of consultant assistance. The Counselor must make his/her presence known early in the planning process and should not hesitate to aggressively market his/her skills. Next, one must be willing to assist in selling the new arena concept. For some reason, it seems to take more effort to gain public acceptance of these facilities in second-tier markets. The Counselor needs to quantify the relative economic and fiscal impact of the proposed facility/franchise.

Finally, the Counselor must be able to deal directly with other consulting disciplines, one-on-one in the trenches; at least this has been my experience. The Counselor typically brings a wealth of diverse experience, and this expertise often can be the difference in getting the job. Don't sell yourself short especially if you have a specialty niche. Opportunities in smaller growth markets can broaden your practice. I can assure you that opportunities for Counselors in smaller markets are challenging and economically rewarding.

A Case Study–Charleston, South Carolina

In mid-1993, the City of Charleston, South Carolina announced a proposal to construct a new baseball stadium for the area's minor league baseball team, an affiliate of the Texas Rangers. The idea was initially put forth by both the owner of the minor league franchise and Joe Riley, Charleston's creative and quite entrepreneurial mayor. Within weeks this $16.0 million dollar new stadium proposal was made public.

The deal was structured as a joint venture between the city, The Citadel (the military college of South Carolina) and the ownership of Charleston's minor league team, the Class A Riverdogs. Cash was not the most significant component of the venture, since right-to-use options and sweat equity went far in making the project a reality. Land valuation, feasibility analyses, financial structuring and asset management were the four primary areas in which a Counselor's experience and judgment were needed.

The Site

A five-acre site was chosen for the 6,000 seat stadium on the banks of the Ashley River. As needed, the stadium is expandable to 10,000 seats. While there weren't any alternative sports use considered for the land, the site selection process was an interesting lesson in complex negotiations. It seems The Citadel had some extra acreage it was willing to give the city for stadium construction. In return, the college wanted the right to use the new stadium for its own collegiate baseball games. The college also wanted some excess city land adjacent to the college; the right to use the old baseball stadium, College Park, for practices; **and** locker room facilities separate from the professional team. Working out the nuances of these requests were challenging indeed.

Surrounding the site are several compatible existing land uses. Brittlebanc Park, to the south, is a city-owned park used mostly for warm weather events like concerts, 4th of July activities or simply strolling along the river. Also adjacent to the site is a municipal building which houses the city's law enforcement functions. Two nationally affiliated chain business hotels and attendant eating and drinking establishments are a few blocks away. The Citadel's football stadium and a number of its intramural ball fields account for the remaining adjacent acreage. Plus, and this was key, there was ample room for parking, a major revenue generator, to be brought on line. Access to the site was at best mediocre, however the city, with funding from several sources, would significantly upgrade vehicular access to the stadium with improvements made to nearby U.S. Highway 17 and Lockwood Boulevard and with construction completed on the James Island Connector.

Land Valuation

The land valuation in this deal assumed a whole new meaning and dimension! The Citadel had owned the site for a number of years. With the possibility of a new stadium in the offing, the Citadel saw the opportunity to have a new stadium without any cash outlay.

Mayor Riley recognized the importance of a new stadium in order to keep the baseball team in Charleston, but he knew that the cost of a new stadium (including land) would be prohibitive for the city. Further clouding the land valuation question, the bond issue to build the stadium was part of a larger municipal issue which was cross-collateralized with other city assets. The value of land was very different, depending on the context of the question and who answered it. Of course, an appraisal was completed, for due diligence purposes, and the land was assigned a value for purposes of a bond issue.

Often it is important to have a bailout strategy in these circumstances. There was no such formal strategy here. The City of Charleston, The Citadel and the Charleston Riverdogs baseball team needed this new facility, and that was that!

Project Feasibility

The feasibility was conducted in several stages. Initially, Mr. Ed Little (then owner of the Charleston Riverdogs) and Mayor Riley envisioned the need for the facility. The mayor then contacted The Citadel and got its okay to proceed with further explorations. Next, HOK Sports, the noted arena/stadium architectural firm, was invited to look at the possibilities of either renovating the old stadium, flattening the old stadium and using that site for new construction or moving to the site described above. The Ashley River site clearly was the winning choice.

In the end, the feasibility was more financially-oriented than market-oriented, as feasibility was approached mostly from the perspective of the bond holder. Clouding the feasibility, as previously stated, was the bond issue with more elements than just the new stadium.

The bond financing structure included, the feasibility of the site, projected attendance by event types, revenue splits among the three partners, parking rates, projected food and beverage consumption and ancillary purchases. Those revenues were compared with all operational, marketing and incidental expenses, including the return to the bondholder. Bottomline? The numbers worked and the stadium was financeable.

What about the old facility of College Park which was built in 1918? It sits in the middle of two tired, but nice, neighborhoods of Wagner Terrace and Hampton Park. Given the older stadium's location and access/parking constraints, there was not an economically feasible reuse projected for it on the immediate horizon. The Citadel will use it as a practice field; Charleston can use it for recreational play; and hopefully, other collegiate uses will arise over time.

Financial Structuring

The financial structuring took place on several different levels. First, and foremost, the bondholder's needs and requirements were considered and met. Secondly, it addressed how revenues would be split amongst the three partners. The final formula, represents an excellent entry for the real estate counselor to get involved. Many considerations were brought into play; many safeguards were set up; many revenue streams were stated and protected; and many risks had to be identified and proportioned out as best possible.

The bond issue itself was a fairly typical revenue bond. The main component supporting the cash flow projections were stadium usage and parking. In smaller cities there is not the plethora of alternative uses for the land surrounding the stadium as might be the case in larger markets. So, putting the facility in a location which can, and will, play off needs of daytime parking, after hours parking and special events parking replaces, to an acceptable degree, those office, retail and hotel uses surrounding larger stadiums.

Asset Management

The key to success of almost all sports-related projects, but perhaps especially true in smaller growth markets, is asset management. For example, it is difficult to imagine problems with enticing events into the new Olympic Stadium in Atlanta after the Olympics. But in Charleston, the management of the asset will be critical to maintaining bondholder returns and enhancing the coffers of the city, The Citadel and the Riverdogs and paving the way for other similar investments in the future.

Asset management at the new Charleston Stadium has not been totally worked out, but it is a point of much negotiation. For now, the baseball franchise will oversee promotional events and scheduling. The son of once prominent promoter Bill Veeck has been retained to handle the scheduling. The City of Charleston wanted, and deserved, an oversight role, probably as watchdog for the revenue/expense side. Due to the strong catalytic role of Mayor Riley in making the stadium a reality, the city also will have a significant role in marketing the nine sky boxes, ancillary holiday uses, etc. The final important player, The Citadel, appropriately will have more of a specialty role, given its facility use and economic risk in this deal. Most important, for purposes of this article, the real estate counselor can oversee and provide the asset management responsibilities for the city and The Citadel.

Conclusion

Opportunities for the real estate counselor to work with sports franchises and deal with ancillary real estate opportunities can be significantly more evident in smaller growth markets. However, the economic magnitude of the development opportunity will be smaller and real estate uses around the facility will be different. Further, the skills a Counselor brings to the table in the smaller market must, by necessity, be broad. He will be asked to perform more tasks and provide more input than typically is required. But perhaps most important, these new business opportunities can be challenging, rewarding and significant to the overall economic growth of the second-tier markets.

URBAN BALLPARKS AND THE FUTURE OF CITIES

by Philip Bess

America in the 1990s is in the midst of a sports architecture boom. Financed with state and local public monies, and touted as an engine of economic growth, it is a boom that shows little sign of slowing. Since the opening in 1991 of the new Comiskey Park in Chicago, new baseball stadiums ("ballparks" in the official promotional literature of teams and architects) have opened in Baltimore, Cleveland, Texas and Denver; ballparks are under way in Atlanta, Phoenix, Seattle, Milwaukee and San Francisco, and will likely be coming soon to Boston, Cincinnati, Detroit, New York, Philadelphia and Pittsburgh. Moreover, scores of minor league ballparks have opened or are under construction in smaller cities around the United States and Canada.

At the topmost levels of professional sport, there are almost as many football stadiums and basketball arenas being created. These facilities are having a major impact upon both the economics and the physical character of cities. Nevertheless, it is the baseball stadium, more than the football stadium or basketball arena, that is riding a wave of enthusiasm for "traditional urban" sports facilities because of the peculiar history of baseball parks and their relationship to cities and to how baseball itself is actually played.[1]

The Traditional Urban Ballpark

Given the depressing popular image of the contemporary American city and the 50 year and counting metastatization of suburban sprawl, it is noteworthy that today there is a degree of enthusiasm for urban ballparks. Just ten years ago this was not the case. As recently as the summer of 1987, a leading executive of HOK Sport, when speaking about the design of Chicago's new Comiskey Park, contended that it did not make sense to design stadiums in proximity to urban housing and commercial activities.[2]

Comiskey Park

Within 18 months, when speaking about the design for Baltimore's Camden Yards, the same executive said that HOK's desire was to create a throwback to an older era when ballparks "were built into the fabric of the city."[3] And today, substantially due to the widespread popularity of and enthusiasm for Camden Yards and its progengy, HOK Senior Vice President Joe Spears says that "[w]hen you design something that could be as emotionally significant as [a major league baseball park], you don't start out with a blank sheet of paper, you start out with

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the city."[4] Meanwhile, the new Comiskey Park is now clearly seen as the last of the 1960s era urban renewal type stadiums. Its builders cleared out an existing urban neighborhood in part to accommodate some 6,000 adjacent surface parking spaces, and the stadium itself has become an albatross for the White Sox. In spite of good teams, Sox attendance has plummeted, dropping every year since Comiskey Park opened in 1991 to record-breaking crowds.

Among the primary reasons invariably cited by Sox fans for Comiskey Park's low attendance are the uncomfortable slope and the excessive distance from the field of the stadium's 19,000 upper deck seats. These are indeed problematic, but the reality is that Comiskey Park's upper deck is not much different from its more popular successors in Baltimore, Cleveland, Arlington (Texas) and Denver.[5] The 35-degree slope of Comiskey's upper deck *is* uncomfortable and has not been emulated in subsequent stadiums, which have tended to keep their upper deck seating angle between 31-32 degrees. But compared to Comiskey Park, the distance from the upper deck to the playing field is actually greater in Arlington and Denver, comparable in Cleveland and only slightly better in Baltimore. However, these stadiums have not received the hometown opprobrium to which Comiskey Park has been subject.

In part this may be because, unlike its recent contemporaries, the upper deck of the new Comiskey Park has to compete with both the memory of old Comiskey Park across the street and the reality of Wrigley Field across town. But it is also due to Comiskey Park's manifest inability—by virtue of its scale, its architectural detailing and its immediate lunar-landscape-like parking lot—to plausibly qualify as (and therefore cash in on the contemporary general enthusiasm for) a traditional urban ballpark.

All this traditional urban ballpark language has something to do with reality, but much more to do with marketing strategies. Chicago's Wrigley Field, Boston's Fenway Park and Detroit's Tiger Stadium (like their old and now departed Comiskey Park, Ebbets Field, Shibe Park, Forbes Field and Polo Grounds kin) are traditional urban ballparks. This means they are ballparks in traditional urban physical and cultural settings, located within mixed-use, pedestrian-friendly urban settings (typically neighborhoods) that included residential, commercial and civic buildings. They were built up to the street, to the edges of their property lines, subject to and shaped in part by the physical constraints of the urban block on which they sat.

Today's New Stadiums

In contrast, even though today's best new stadiums are located in cities, they tend to be located downtown and not in neighborhood settings. Such is the case with Baltimore's Camden Yards, Cleveland's Jacobs Field and Denver's Coors Field; and it is no coincidence that of the five new stadiums which opened in the 1990s, these three consistently maintain higher attendance figures than the two which are located suburb-style in the middle of large parking lots. Nevertheless, although these former three stadiums are all urban and have contributed a certain cultural electricity to their respective cities, they are not urban in the same way as Wrigley Field and Fenway Park.

How do they differ? The new stadiums are bigger buildings, with 40-70 percent larger footprints, as much as 500 percent greater interior area and 30-40 feet taller than their older counterparts, even though the seating capacities are only 10-20 percent greater. They are two to three times more expensive to build in today's dollars. Because they are program driven (the program being first and foremost the provision of luxury seating, team facilities and broad concourses), they are *not* constrained by city blocks, but tend to be located on large tracts of underused land such as old railroad yards where the pre-programmed buildings can comfortably fit. Located near downtown, they promote some ancillary economic activity; but they tend to promote fewer and less diverse forms of adjacent social and economic activity than their traditional counterparts. Finally, and most significantly, the new urban stadiums imply *a different kind of city*, a different reason for the city, than their traditional urban predecessors.

Luxury Amenities And Building Costs

Baseball stadiums provide a venue for the game of baseball; but more than that, baseball stadiums are vehicles for capturing revenue generated by the game of baseball. From inception in the 19th century, the revenue generated by Major League Baseball has included income from ticket sales, concessions, souvenirs and in-stadium advertising. It has been supplemented in the 20th century first by radio and television broadcasting rights, then by parking fees and most recently by the creation of luxury seating. In particular this means the club seat, the private suite and the stadium club restaurant.

Without exception, the current stadium boom is being driven by teams'desires for luxury seating revenue, which can amount to more than $10 million annually. The need for this kind of revenue grew originally from the inability of team owners to restrain themselves from giving free agent players multi-year/multi-million dollar contracts. It has been perpetuated by the inability of players and owners to implement such industry stabilizing features as revenue sharing and salary caps.

What Makes For A Revenue Producing Park

For most of the 20th century until the early 1960s, ballparks were built and owned by the teams. But post-war demographic shifts opened up new markets for professional baseball. Today there are more cities that want teams than there are teams to go around and, as a result, owners are able to play cities off against each other. Cities in the late 1980s and 1990s have had to ante up anywhere from $150 million (in Chicago) to $1 billion (proposed in New York) in public monies for a new stadium. Just because cities pay for new stadiums, however, does not mean that they necessarily negotiate team/tenant lease agreements that allocate any significant portion of stadium generated revenues to stadium amortization. And this requires an explanation from politicians. Why, after all, in this era of voter enthusiasm for free markets and smaller government, should taxpayer dollars be spent on millionaire team owners and athletes? Why not schools, or hospitals, or public parks, or libraries, or neighborhood housing, or expanded police and fire protection or small incubator industries?

The answer politicians have been giving is that the very presence of a Major League Baseball team pumps millions of outside dollars into the local and regional economy, creates jobs and is a catalyst for ancillary economic development. In other words, tax dollars spent for new stadiums are not a subsidy but rather an investment. I know of no reputable independent economist who thinks these reasons *economically* justify the public funding of new stadiums.[6] Nevertheless, sports teams clearly contribute to the cultural life of a city; and there may be *psychological* reasons for cities to pay some or all the costs of new stadium construction, but only if the stadium is conceived and designed to work within and give something back to the city.

How To Achieve A Payback

Although the achievement of such goals is distressingly rare, how to achieve them is not a mystery. It requires first that the stadium be located in a network of streets and blocks in pedestrian proximity to commercial, retail and even residential uses; and secondly, the decentralization of new (and the use of existing) parking facilities. The first provides a year round population to sustain ancillary development in addition to the stadium population; the second ensures a volume of stadium generated pedestrian traffic more likely to spend money at the retail establishments near the stadium. A public body paying for a new stadium should not allow teams to control commercial and retail activities beyond the walls of the stadium, nor should it allow parking to be concentrated in surface lots adjacent to the stadium. The result of these errors is almost always a kind of spiritual death and a subsequent economic decline for both the stadium and its immediate environs.

No recently built baseball stadiums pass all these tests but the highest marks go to Cleveland, Baltimore and Denver. It is not coincidental that they are also the most successful at drawing fans and energizing their cities. Comiskey Park fails these tests miserably; and unless the White Sox are a pennant winner, they will probably never again outdraw the cross town rival Cubs and their smaller and traditionally urban Wrigley Field. The Ballpark in Arlington was the recipient of more architectural attention than Comiskey, but it too is a big stadium in a suburban parking lot, and its long term fortunes will rise and fall with its team's performance on the field. It is unlikely to contribute anything culturally or economically new and substantive to Arlington, Texas.

Of new stadiums currently in the works, San Francisco's downtown site, adjacent to the Bay, seems the most promising for economic development and urban aesthetics. Seattle may have shot itself in the foot by choosing (at the insistence of the Mariners) a site too far removed from either downtown or a neighborhood. And Milwaukee Brewers owner Bud Selig's refusal to consider a downtown site for his enormous retractable roof stadium, in my opinion, *guarantees* (you read it here first) that the City of Milwaukee will not realize any new cultural energy or economic development from the new stadium, and that within six years the Brewers will be attracting no more fans to their $400 million stadium than they currently do at County Stadium.

Ballparks And A City's Economic Vitality

To speak logically about the effects of sports facilities on community development should be to speak as much about community as about development. And with respect to community even the best of the new urban stadiums are part of a troubling trend. Cities were once a locus of the good life, places to live, work and raise children, characterized by a density of activity that produced a kind of energy and culture distinctively urban. Baseball parks like Wrigley Field and Fenway Park—quirky, intimate, located on city blocks and integral with city neighborhoods—are a cherished part of that urban culture; but in spite of all the recent advertising hype, they are not the models for contemporary baseball stadiums, largely because our view of cities has changed.

Entertainment Zones

New urban stadiums today are less about making cities good places to live than about the desperate measures cities make to keep themselves economically and psychologically afloat. In the attempt to stanch the flow of businesses and residents departing for outer suburbia, cities are attempting to turn themselves into entertainment zones, much to the delight and financial advantage of sports architects and team owners, the casino industry and Disney

Corporation. Baseball, football, basketball, hockey and other sports get lumped under the larger category of entertainment. Each becomes a little less distinctive, a little more diminished. None are diminished so much, however, as our shared notions of the nature and purpose of, and the best possibilities for, the city. Though it always has provided entertainments, never before has the city been reduced to an entertainment zone.

It is ironic that the stadium boom is occurring at a time when (except for government subsidies to sports team owners) both socialism and public welfare are in retreat before popular enthusiasm for the free marketplace and personal accountability. While I think this is generally a good thing, there are at least two views on the value of the free marketplace. One, an individualist view, sees the marketplace as an end in itself, governed by its own laws, a Darwinian context of fierce and often exhilarating economic competition producing clear winners and clear losers. Another, a more communitarian view, sees the free market as the economic system proper to free human beings. In this view, however, the free market is not an end in itself but rather a means to the best human life possible, the life of culture that respects the goodness and necessity not only of freedom but also belonging, not only of competition but also cooperation.

Traditional cities, though hardly perfect, historically have been understood as common (if not communitarian) enterprises. This in no way has implied animosity toward economic development and the creation of wealth. It has been assumed, however, that activities toward these ends are subject to constraints imposed for the common good. Unfortunately, in the contemporary urban stadium design process such constraints upon team owners are virtually non-existent. Nevertheless, to even speak seriously about sports facilities and their possible influence on economic development presupposes a traditional urban habit of thought: that good planning and design can create economic value on land in the immediate vicinity. And surely the only possible justification for publicly subsidized stadiums is to ensure that they contribute, economically and otherwise, to the common good of the city.

Public Funding

In this regard, the track record of baseball stadium design in the 1990s is mixed. Without exception, every new stadium has been publicly funded. Because of the lease terms cities have agreed to under the implicit or explicit threat of losing their teams, these stadiums have been more profitable for their tenants (i.e., team owners) than prior generations of traditional urban ballparks. These new stadiums are also bigger, less intimate and more costly to build and operate. The most successful in promoting adjacent ancillary economic development—Baltimore, Cleveland, Denver—are not only the most urban in their proximity to downtown, but also the most popular and heavily attended. The lesson to be learned here is aptly summarized by a Cleveland Planning Department official: If you put a stadium in the right place the benefits are phenomenal; if you put it in the wrong place it's a colossal waste of money.

Nevertheless, even these recent success stories presume the model of the city as an entertainment zone. Their very success makes the older model of the traditional urban ballpark (traditional in terms of both the ballpark and the city) both harder to promote and harder to achieve. The bottom line is that the creation of sports facilities that in turn generate adjacent ancillary development requires at the very least the selection of a proper site. Beyond that, for those with larger ambitions for both sports architecture and cities, it requires certain elements of physical planning (i.e., networks of streets and blocks, distributed parking, a mix of adjacent activities); plus political will; plus careful attention to the characteristics of those few remaining examples of urban ballparks that work. This is a tall order in these anti-urban days, but one that can only improve the economics, the aesthetics and the spirit of our cities and baseball parks.

NOTES

1. There has been an explosion of research and publications in the past 15 years on the history of baseball park design, of varying quality and sophistication. I provide a brief historical overview of the subject in my *City Baseball Magic*, Wm. C. Brown / *The Minneapolis Review of Baseball, 1989*. For an extensive bibliography of recent ballpark research see *Ballparks: A Research and Reading Guide*, compiled by Kevin Grace, Archives and Rare Books Department, University of Cincinnati, 1994.
2. Rick deFlon, cited in John McCarron, "Expert offers his dream Sox Stadium," Chicago *Tribune*, July 26, 1987.
3. Cited in Irv Moss, "Baltimore planning old-fashioned ballpark," *Denver Post*, January 1, 1989.
4. Cited in Charles Linn, "Opportunities on the Sidelines," *Architectural Record*, August 1996, p. 109.
5. Nor is it so different from the generation of circular multi-purpose stadiums such as Busch Stadium, Riverfront Stadium and Three Rivers Stadium that all these new, allegedly more intimate, traditional urban ballparks are supposed to be improving upon.
6. More typical of economist evaluations of such claims would be Lake Forest College economist Robert Baade's, who in "Sports Stadiums and Area Development: A Critical Review" (*Economic Development Quarterly*, Vol. 2, No. 3, August 1988, pp. 265-275) points out 1) that except for post-season playoff events, which receive national media interest and dollars, most of the money spent at a ballgame comes from a city's or region's finite pool of leisure dollars; 2) that most of the jobs created are low wage and seasonal; and 3) that ancillary economic development does not occur spontaneously but depends upon both intelligent siting and careful planning of the stadium and its environs.

MAJOR LEAGUE CITIES

by Earl E. Santee

Since 1990, more than 20 professional sports facilities have been built, and half as many are currently under construction or renovation. By the end of the decade, an estimated $15 billion could be spent on new or improved sporting venues throughout North America. With dozens of team owners shopping for new stadiums or arenas, the construction boom is expected to continue unabated for years to come. And while some of these facilities are antiquated and in need of replacement, the driving factor behind stadium development is economic obsolescence. To accommodate players' rising salaries and to remain competitive, owners increasingly are seeking new venues such as private suites and club seating.[1]

The number of cities clamoring for professional sports franchises far exceeds the number available, and cities around the country are subsidizing the building or renovation of facilities to keep their teams at home. Financing of sports facilities has evolved from almost 100-percent government funding prior to the mid-1960s, to today's mix of private-public funding . And while the current number of facilities being financed primarily by the private sector has increased to more than 20 percent, it is estimated that taxpayers still subsidize well over half the cost necessary to build a professional sports facility. Revenue sources and financing options have broadened considerably with costs ranging from $125 million for a new arena to over $200 million for a Major League ballpark. Long gone are the days when ticket sales comprised the bulk of the revenue stream. Public financing of sports facilities includes sales and hotel tax increases, alcohol and cigarette taxes, bond issues, lottery proceeds and surcharges on car rentals, to name a few.[2] Other sources of public sponsorship range from infrastructure improvements to providing land for the sports facility.

Sources of private funds are myriad, including owners' contributions, naming rights, advertising and corporate interests, as well as revenue from luxury suites and club seats. The sale of permanent seat licenses (PSLs) which allows individuals the right to buy season tickets, can potentially contribute millions toward the construction of a new stadium.

Three recently-built ballparks, Coors Field in Denver, Jacobs Field in Cleveland, and Baltimore's Oriole Park, were financed by public funds comprising nearly 80 percent or more of their total cost.[3] Each ballpark reflects a trend back to baseball's urban origins, and each city has developed a mutually successful relationship with Major League Baseball that has exceeded all expectations.

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Coors Field — Photography courtesy of Thorney Lieberman

Coors Field

Coors Field opened in 1995 as the new home for the Colorado Rockies. The 50,200-seat stadium packed in almost 3.4 million fans in 81 games, averaging 93 percent of capacity. In its second year at Coors (its fourth as a franchise), the team leads the Major Leagues in attendance.[4]

The ballpark belies criticism that a new stadium drives up ticket prices beyond the reach of your "average Joe." Baseball is made available to a wide cross-section of Denver baseball fans with ticket prices ranging from $4 to $20 for general admission ($1 for children and senior sitting in "The Rockpile"). The Rockies' and Coors Field's appeal stretches far beyond city limits. Denver's famed Brown Palace Hotel reports guests coming from as far away as Utah, Wyoming, New Mexico and Arizona, as well as all of Colorado. Hotels within shuttle distance of the ballpark report sellout weekends when the Rockies are in town.[5]

The business of baseball has been very good to the Rockies. But how has it affected the quality of life in Denver? While the stadium was under construction, a December, 1993 article in the *Denver Business Journal* warned in its title, "Businesses may strike out in Coors Field projects." In it, the author suggested that restaurant and bar patronage near the ballpark might be strong on game days, but cast doubts about the rest of the year.[6]

Any fears about Coors Field have turned out to be unfounded. Restaurants and bars in the Lower Downtown (LoDo) district adjacent to Coors Field are indeed packed with customers on game days. Business continues to boom on non-game days, and continues into the off-season, with advance reservations required for many eateries. LoDo, an historic district revitalized prior to the opening of Coors Field, has seen an upsurge in the number of restaurants of more than 70 percent since 1993, from 25 to 60, and the number of brewpubs has grown from four to nine. Since 1995, none has gone out of business.[7]

Future plans for the area include a $30 million retail complex which will feature a multi-screen theater complex and a supermarket. The district's residential market has also grown dramatically since baseball, from 270 units to an estimated 700 within the next two years. As many as 125 lofts are planned, ranging in price from $500,000 to upwards of $1 million. Lofts at the Ice House, a mere two blocks from the stadium, sold out in one weekend.[8]

City planners concerned about the negative effects of a major league venue near a residential area have been pleasantly surprised. Congestion and lack of parking have not been a problem. With only 5,200 dedicated parking spaces at Coors Field, fans park in central downtown and either walk or ride one of several shuttle buses available. By not surrounding the ballpark with a sea of parking spaces, Coors Field's designers were able to integrate it into the existing neighborhood and not disrupt the city streetscape. Fans walking to and from the stadium add to the vitality of the district, something not so easily achieved if the majority drive to the ballpark. Post-game egress from the stadium is over within 30 minutes, with no snarling traffic jams to disturb local residents.[9]

Coors Field and neighboring businesses have enjoyed an unmitigated success during the past two years. What was once a blighted area of town now bustles with activity. The stadium sits on the former site of the Union Pacific rail yards, which in recent years could only have been described as Skid Row. But, as with many urban comeback stories, Coors Field's contribution to LoDo's revitalization is the result of careful planning and part of a larger redevelopment scheme in Denver. The design of the ballpark was a critical factor in forging a successful integration of the ballpark into the community. Denver's ballpark is pedestrian in scale and traditional in appearance; the use of sandstone and brick complement the nearby neighborhood. Additionally, building the ballpark at the abandoned rail yards (at 20th and Blake) made perfect sense, not only because of its prime location, but its accessibility to transit.[10] While a synergistic relationship does exist between the ballpark and its neighboring historic district, it must be noted that the district was restored well before the arrival of Coors Field.

Coors Field and LoDo are just the beginning of greater plans for Denver. The city's amusement park, Elitch Gardens, has been expanded and relocated to the nearby Central Platte Valley, where plans are also underway for the new Pepsi Center which replaces McNichols Arena as a home for the NBA Nuggets and the Colorado Avalanche.

Jacobs Field Photography courtesy of Timothy Hursley

Jacobs Field

Jacobs Field opened in 1994 replacing the dual-purpose Municipal Stadium as the home for the Cleveland Indians. The team's fortunes started to change before opening day, when almost 2 million tickets for the season were sold, a number exceeded only three times in the club's history. The baseball strike pre-empted the Indians' American League Central title run in Jacobs Field's inaugural year, but the following year the team played in the World Series. Even though they lost to the Atlanta Braves, the excitement was not lost on Cleveland's fans. By December, 1995, every single ticket for the 1996 season had been sold, a first for professional baseball.[11]

While a new stadium cannot miraculously transform a team into All Star material, a state-of-the-art facility does give owners a definite edge in recruiting high caliber players. Likewise, the momentum a team gains from playing to capacity home crowds is hard to quantify.

Jacobs Field and neighboring Gund Arena were built by the non-profit Gateway Economic Redevelopment Corporation near Lake Erie in downtown Cleveland. The sports facilities sit on a 28-acre site, which previously had been occupied by warehouses, a market area, and more recently, vast parking lots. Today, there is hardly a square block near the complex that has not benefited from Gateway's presence. It is estimated that $370,000 are added to Cleveland's economy for every home game, nearly $30,000,000 for the six-month season. Since Jacobs Field arrived, more than 20 restaurants, sports bars and retail shops have opened in the surrounding area employing nearly 1,000 people. Thousands more parade around in Indians gear, especially in the ballpark. New plans for at least six residential renovations are also underway in the adjacent area—primarily a conversion of upper floors of warehouses and retail establishments into upper-bracket condominiums and lofts.[12]

Jacobs Field is a very visible player in a major, long-term redevelopment push in Cleveland, one that began in earnest in 1980 when the mayor recruited a task force to examine and provide solutions for the city's economic problems. The early 1990s witnessed the beginning of a retail/cultural district revival throughout Cleveland that continues to this day. A $400 million conversion of the city's central train station into a shopping center accessible by commuter rail was completed in 1990, accompanied by several new hotels and a restored theater district in Playhouse Square Center. Recent openings in the North Coast Harbor district include the Rock and Roll Hall of Fame and a science center, soon to be followed by the Great Waters Aquarium. In addition, a new NFL football stadium is in the design phase, scheduled for completion in 1999.[13]

As in Denver, the building of these major destination spots was preceded by urban revitalization; in this case, the riverfront area known as The Flats. Comprised of dozens of nightspots on either side of the Cuyahoga River, the area's $100 million conversion of the area has resulted in an enormously popular entertainment district, with water taxis annually ferrying more than 5 million visitors back and forth across the river.[14]

In response to the building frenzy in Cleveland, the City's convention business has increased 30 percent over 1995. The Chamber of Commerce's tour for business executives in November of this year sold out. Interest in the tour increased as a result of the 1995 World Series coverage showcasing Jacobs Field, according to the Chamber's vice president. Jacobs Field has proven to be a stadium fans want to visit again and again. As in Denver, Jacobs Field is «perfectly adapted to its urban core, resonating with the sights and sounds of Cleveland. Taking its cues from its surroundings—a steel town renowned for its sculptural bridges—Jacobs Field incorporates into its structure elements symbolic of the city. The facade features exposed steel and stones indigenous to the region—granite, limestone and sandstone. These features, combined with the ballpark's openness and strong vertical thrust, reflect and respect the city's architecture. The result is a ballpark that was immediately embraced by Clevelanders, baseball fans or not. Almost as important as what's included in the stadium is what was left out—a sea of parking. As at Coors, the stadium's planners retained the urban quality of Jacobs Field by limiting the number of dedicated parking spaces.

Today Cleveland is becoming a major destination city, and its tourist bureau is targeting not only

Oriole Park Photography courtesy of Jeff Goldberg

regional visitors but tourists from around the world. (Twenty years ago, Cleveland had nearly bottomed out, placing near the top of the Brookings Institution's list of large cities with the bleakest economies.)[15] Though it is too early to predict the city's long-term future, it is clearly buoyed by the resurgence of the downtown. The astounding reception given the Indians and Jacobs Field has given Cleveland the confidence to proceed with plans for a new NFL stadium.

Oriole Park

At the time Baltimore's Oriole Park at Camden Yards was completed in 1992, the cityscape differed from that in either Denver or Cleveland. The city's tremendous renaissance had started years before, with the completion of a gleaming harborfront restaurant and retail complex, a science museum and a magnificent aquarium, among other attractions, by 1982. The Orioles had played at suburban Memorial Stadium since the 1950s. Rather than renovate the aging stadium, the Maryland Stadium Authority decided to build a new ballpark and site it near the dynamic Inner Harbor and Camden Station. Ushering in the era of the new old-fashioned major league ballpark, Oriole Park was well received by Baltimore baseball fans. Attendance jumped by 40 percent, from approximately 2.5 million to well over 3.5 million between 1991 and 1992, and continued to increase until the 1994 strike.[16] With the resumption of baseball the following year, fans once again returned in droves, although 15 percent fewer in number. (Losses attributed to the strike are estimated at $75.1 million, half from the hotel/restaurant industry, and about $12 million from wholesale and retail businesses.) At the start of the 1995 season, the waiting list for season tickets had 12,000 names on it. Baseball fever continues in Baltimore, due in no small part to Cal Ripken's record-breaking performance in 1995. In 1996, the team sold 28,000 season tickets, more than any other in the American League.[17]

Restaurants and retail shops at the Inner Harbor, four blocks from Camden Yards, report improved business on game nights, but this has not hurt concession sales at the ballpark. (If the amount of food consumed at Cal Ripken's record-breaking game on September 6, 1995 is any indicator, then it is no small wonder. The stadium reported an amazing $40 worth of concession sales per fan that night—with a sold-out crowd, that amounts to more than $1.9 million in hot dogs and beer.)[18]

Five-year-old Oriole Park (and the other ballparks discussed) continues to attract large crowds, in spite of a baseball strike that kept countless baseball fans away elsewhere. The ballpark, built in a warehouse district adjacent to Camden Station, offers fans the latest in amenities while retaining the history and charm of the city. The historic B&O warehouse serves as a backdrop to Oriole Park and is part of the ballpark's instant-recognizability factor. As befits a ballpark adjacent to an historic train station, fans can reach Oriole Park by light rail.[19]

Conclusion

Some economists argue that the primary effects of sports venues are intangible and hard to quantify, while others believe that sports events do not bring any new money to a city. Without sports, they contend, consumers would simply shift their spending to other leisure pursuits, such as movies, dining out and special events.[20] This argument may be true, but only partly so. In terms of bringing new money into an *urban* environment, few attractions could be as successful at bringing tens of thousands of people downtown as a sporting event. In the absence of sports teams, it is hard to imagine an exodus of thousands of suburbanites to downtown theaters on a recurring basis. Sporting events also provide entertainment to families with children of all ages (and in the case of baseball, it is still affordable.) The newer ballparks with their improved amenities make such family outings more enjoyable than ever before. Play areas provide interactive opportunities for the very young, and family rest rooms complete with baby changing stations, make it possible to enjoy the game with as few interruptions as possible.

Sports facilities contribute tax revenue, and various stadium operations contribute additional revenues to cities, depending on the facility's ownership. Taxes from associated spin-off businesses also benefit the city. But perhaps the most widely-felt effect of a well-planned sports facility is two-fold. In the right location, a sports venue enhances the quality of life for local residents, but also contributes to the *perception* of success for a city. The cities of Baltimore, Denver and Cleveland each paved the way for the enthusiastic reception of their sports facilities by first reinvigorating their urban core and making their cities major attractions, not just places to work. The verdict is in, and cities all over the country are looking at Baltimore, Cleveland and Denver as case studies of successful developments.

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THE IMPACT OF STADIUMS AND ARENAS

by John C. Melaniphy, CRE

The reality of either positive or negative impacts of stadiums has been the subject lately of a great deal of controversy with experts lining up on both sides of the issue. Stadium opponents declare that the facilities and the teams have no immediate nor permanent economic impact. Further, they claim that all the jobs created are minimum wage positions, and therefore the process is worthless and bogus. Meanwhile, the Chambers of Commerce, professional teams, leagues and politicians claim there is a positive impact on a city's economy and image. If the voters did not want a new stadium, the politicians would usually be hard to find. Much of the rhetoric has been based upon opinion and not hard data. However, some studies do indicate that the final impacts of new stadiums were far less than what was promised. This is especially true for an NFL stadium which has only one sports team in resident for less than 10 games annually.

In my opinion, the issue can only be properly addressed by considering the stadium, its location, the major team or teams that will play there and overall utilization. The stadiums and arenas reflect marked differences between baseball, football and basketball attendance and their respective economic impacts. It goes without saying that the team or teams must be at least marginally successful in playing their respective sports and in winning the hearts and minds of the local public. I am not a great believer that public dollars should support new stadiums. However, I think that the issue is far more complicated than how it is often viewed. It is not simply dollars and cents, as many would like us to believe. There really is an issue of city image and personal pride. We are a sports crazy country, and it's our tax dollars. In Denver, the community voted new sales taxes to finance the $215,000,000 Coors Field, while they voted down a $32,000,000 bond issue for schools.[1] It does not make sense; however, the people had the opportunity to speak. It was their choice, regardless of what the critics think. In other communities, while the critics complain, the public votes with its wallet. According to a study, *The Stadium Binge,* published in a special sports section of *USA Today* (Friday, September 9, 1996), "45 new stadiums will be built in this decade at a cost of over $9 billion." The residents of roughly 45 cities have and or will have their say on this issue, while the critics will continue to grumble. On a

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personal note, while a city's image can be difficult to define, I live in Chicago and no matter whether I am in Europe, South America, the Middle East or the Far East, everyone wants to know about Michael Jordan. Al Capone may have put Chicago on the map, but Michael Jordan has remade the city's image.

Over the years, I have had numerous occasions to address the stadium issue while evaluating the impacts of stadiums throughout the United States and Canada. The focus has been on the impacts of stadiums in or near downtown areas; the value and impacts of Wrigley Field and the Chicago Cubs on their Wrigleyville neighborhood, the City of Chicago, Cook County and State of Illinois; forecasting attendance for numerous public facilities; continuing to evaluate the impact of the proposed new Milwaukee stadium on the surrounding and adjacent properties; and studying the opportunities for restaurants, stores and concessionaires in numerous arenas, amusement parks, airports, schools, universities, etc. I have evaluated the impacts of night versus day baseball and the benefits of single-user versus multi-user stadiums. I have seen both sides of the issues, the debates, the emotion and the hype. Neither side is ever truly correct; however, both the pros and the cons make salient points regarding the benefits (or lack of) and the costs.

The Issues And Their Impact

The location of the stadium is truly significant when it comes to economic impact. Location, location, location is as true for stadiums and arenas as it is for retailers. We have found that the difference of a few blocks can make the difference between some impact and no impact.[2] How the stadium or arena fits into its environment is also very important. Safety and security at night is a significant factor impacting almost any type of facility. A National Football League (NFL) facility in a remote location surrounded by a sea of parking with only ten games a year will have very little impact on the community other than image and pride.[3] Conversely, a well-placed baseball or basketball stadium in or immediately adjacent to a downtown area or a large residential area can have a major impact on its surroundings. The most dramatic example is Wrigley Field in Chicago which sits in the middle of a residential neighborhood.

Most stadiums are located in economically deprived, former urban renewal areas, enterprise zones or industrial areas away from residential neighborhoods.[4] Building a stadium in these types of locations was and is often cheaper (land cost) and more expedient. They are placed in what were urban renewal areas because the land was available, and the stadium would not hurt the surrounding neighborhood. Stadiums can create the initial elements of positive change, and that is true. However, it usually takes over 20 years for positive actions to gentrify a neighborhood. To some extent, the critics often are short-sighted by expecting immediate economic results. The important element to consider is if the stadium is located where it will have a positive impact.

Football stadiums have the least overall impact.[5] The teams play only eight to ten games annually at home. At a maximum rent of $10,000,000, they cannot support financing of more than $90,000,000 to $100,000,000. Most stadiums today cost between $180,000,000 to $400,000,000 to build, not considering the infrastructure cost born by the city, county and state where the stadium is located.[6]

"Don't put it in my neighborhood; I don't want the traffic or the drunks." The locational decision for stadiums is often made by politicians who are very sensitive to their constituency and re-election and not for what is best for the city. Therefore, when selecting locations, they tend to target areas which will have the least opposition or at least opposition that is acceptable. Also, because there is less opposition, many new stadiums are placed next to the old stadium that will be torn down. Stadiums could have more of an economic impact if they were placed where such a positive impact could occur. However, this usually takes longer and costs more. Unfortunately, that will probably not happen because the average citizen, who elects the politicians, does not want the facility in his/her neighborhood. Nevertheless, stadiums in urban residential neighborhoods can have the greatest economic impact.

Take Wrigley Field in Chicago. The stadium is located in what has become known as Chicago's Wrigleyville neighborhood. Of all the stadiums studied, in my opinion, it has had the most positive impact on its surroundings.[7] True, it did not happen over night, and a great deal of other factors came into play. Nevertheless, it has a position that is quite unique to stadiums. It is located right in the middle of an urban neighborhood, and it is a vital part of the neighborhood. Moreover, when the neighborhood declined in the 1950s, it was Wrigley Field, the neighborhood institution that brought the fans, who helped support the restaurants, retail and service facilities. There is housing across the street along with restaurants and bars. The stadium does not have seas of parking; and in fact, parking has always been an issue in the neighborhood. Interestingly, many of the neighbors supplement their income by renting out their garages to fans either daily or on a seasonal basis.

In analyzing stadium and arena impacts, we found the most measurable positive economic impacts in stadiums which were located in downtown

areas such as Busch Stadium in St. Louis, Riverfront Stadium in Cincinnati, Jacob's Field in Cleveland, Market Square Arena in Indianapolis, Bradley Center in Milwaukee and Madison Square Garden in New York, to name a few. Baseball stadiums have the greatest economic impact because they play so many games. However, most events are night games where the restaurant impact occurs in the early dinner hours, since the games end much later than the typical dinner hour. Interestingly, this impact has been declining because stadiums are improving their food facilities to capture the dinner crowd. NFL stadiums actually have a better impact on game days (although fewer of them) because the games are usually in the afternoon. After the game, it is common to stop for dinner and/or drinks.

In order to have any measurable economic impact, fan attendance for

- Baseball stadiums should draw over 1,500,000 or closer to 2,000,000 fans annually.[8]
- NFL stadiums should draw over 750,000 fans annually.[9] It is very difficult for an NFL stadium to have an economic impact on the community because generally only eight to ten home games are played annually. Thus, the stadium must be used for other purposes. Unfortunately, the other uses generally do not pay very much rent.
- Basketball arenas should attract at least 1,200,000 fans annually.[10]

What does a major baseball franchise contribute to a community? Baseball games have been selected because they are played during the day and night. Since so many games are played the stadiums are well utilized. The data presented here has been provided by numerous baseball organizations.[11]

Payroll of the teams and the stadiums. Payroll of the players, management, staff and ground crews is a significant cost. The costs generally appear to range between $40 and $60 million. Admittedly, not all of the players live in the community. Even if the players do not reside in the city, they have a place to live in the city where they pay rent, utilities and taxes.

One criticism has been that stadiums only generate jobs for millionaires and minimum wage workers. That is generally true. However, numerous other jobs are created by vendors, restaurants, bars, stores and others. While most of the jobs involve overtime hours or are low paying, nonetheless these jobs feed, cloth and house people. The teams are criticized because most are seasonal or part-time. That is the nature of sports. It is seasonal! However, I wonder if the critics have ever talked to the seasonal or part-time employees to find out how they feel about their jobs. Many want their jobs because they love baseball, can watch the game free and they can have another job for the rest of the year. The turnover of help is much lower than in the restaurant industry. Some travel south in the winter, others go skiing.

Teachers who love baseball and want this job for the summer. Many take the job to watch free baseball. Daily payroll for baseball runs between $100,000 and $350,000 a day (and rising rapidly) depending on who plays and the appeal of the teams. Team and stadium payroll has the largest economic impact because of the multiplier effect on spending and the impact it has on the local economy. Critics challenge the multiplier effect saying that it doesn't exist. Well, it does. Admittedly, it may not be creating jobs for rocket scientists, but it is providing jobs that feed and cloth people. As long as there is unemployment, these jobs are beneficial to our society.

One need only consider the economic impact of the 1994 baseball strike. Whether or not you are a baseball fan, one cannot ignore that the strike cost over $800,000,000.[12] In Chicago, businesses near Wrigley Field and White Sox Park were badly hurt during the strike. Hundreds of people were laid off; restaurant sales declined drastically; taxicab receipts were way off; city, county and state taxes were negatively affected; parking revenues disappeared and the resident's supplemental income from parking was lost.

Chicago Cub concessionaires were hurt by over $5,000,000, and people were laid off. Even the gasoline service stations felt the impact. When critics say there is not an economic impact, they're not doing their homework. If one interviews the players, management, ground crews, and more importantly, the nearby businesses, one would find that the multiplier impact is significant. Waiters and waitresses say they make substantially more income on game-days, and this is applied to day care services for their children and funds for a trip or education. They count on those additional funds during the season. They are real people—not statistics. Talk to the towing companies in Chicago about the strike and you will see real tears. Illegal parker's during the baseball season are the towing company's bread and butter.

Stadiums and teams generate considerable taxes. If the team owns the stadium, total taxes paid including payroll, real estate, sales, amusement, parking, parking license, gasoline, vehicle, franchise, liquor, utilities, parking tickets and others will run over $2,000,000 to $3,000,000 annually. However, most new stadiums today are publicly owned or controlled by a public/private corporation, so generally less taxes are paid.

Concession sales have increased dramatically over the past ten years as more stadiums have focused upon food service. Many stadiums have tripled food concessions and added full-service restaurants. Concessions sales for a strong team can exceed $20,000,000 annually and generate over 500 to 700 part-time jobs.

Parking revenues can be substantial. Much depends upon who gets them. In most new stadium deals today, a large part of the stadium revenue is going to the teams rather than the community. Regardless of who gets the revenue, the dollars are substantial. Parking revenues for baseball can exceed $200,000 for a single event.

Charter bus companies usually enjoy a strong business from fans traveling to game outings. The business is stronger for baseball than football, and the degree of the success depends on the team. Revenues range between $1,000,000 and $3,000,000 annually for a good team.

Public transportation gets a shot in the arm on game days. In a major urban setting, the impacts are naturally greater. In Chicago, over 35 percent of the fans travel to Wrigley Field by public transportation. The primary reasons for using public transportation include the lack of parking, the expense of parking and the convenience of the rapid transit. Annual revenue to the Chicago Transit Authority from game-days exceeds $1,500,000.

The stadiums and arenas have their greatest impact upon restaurants, hotels, taxis, bus companies, hotels, tourism, convention business, and others. The Chicago Cubs, according to our estimates, generate over $15,000,000 annually to restaurant and bar sales in Chicago. The Chicago White Sox generate substantially less because of lower attendance figures and the location of the stadium. The new Jacobs Field baseball stadium in Cleveland is having a strong impact upon restaurant and bar facilities, and it is helping to rejuvenate downtown Cleveland. If you have not visited Cleveland lately, you will be happy to know that its downtown is thriving.

There is a positive impact upon property values where the stadium is placed close to residents and businesses. Apartment buildings across from Wrigley Field sell for a premium because fans can sit on the roof and watch the game. The same has been true in other cities where sports fans appreciate the benefits of the game and want to be near it. Are there some adverse impacts? Of course. They include noise, traffic congestion, parking conflicts, unruly people, trash and other irritating things. And yet people choose to live in those neighborhoods; even people who do not like baseball.[13] In a 1985 study I conducted of property value changes in the Wrigleyville neighborhood, it was found that property values had increased over 40 percent during a three year period even with the traffic congestion and parking problem.

Entertainment is the issue and going to the stadium is enjoyable. Many public works projects are just that—public works projects. Whereas a new stadium is a visible public emporium that people are proud of and enjoy.

In total today, a major baseball team and its stadium usually have an impact of between $175,000,000 and $225,000,000 on the local economy.[14] Do stadiums pay for themselves? Usually they do not. Is the public willing to subsidize them? Usually they are. While professional sports is big business, the fans still see it as entertainment, their team, a point of continuous discussion (and argument) for which they are willing to pay. Is it an escape from the problems of our individual worlds? Yes it is and admittedly an expensive one.

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New Technology

Legal Issues–Real Estate And The Internet

by James R. MacCrate, CRE and Audrey M. Roth

Authors' Disclaimers
This article discusses hypothetical situations. In the real world the facts of a given case will always significantly influence the advice given and the business strategy chosen. Real estate counselors should be aware of the specific laws, regulations and contract language that govern a specific activity or transaction and seek appropriate legal or business counsel and advice for each situation.

With the Internet, a revolution in the method of conducting commerce is emerging in the United States and globally. It is now possible to conduct real estate business activities electronically often at lower cost and with potential worldwide access and exposure. Only in its infancy, the Internet and its applications in the business world are an unknown virtual frontier whose limits are seemingly the limits of our imagination and creativity.

Because the Internet provides industry with new and uncharted methods of conducting business, it is critical to explore and understand the evolving legal risks and issues associated with it. In some instances, familiar rules of law apply. Often, however, existing laws simply do not work in the context of a digital, cyberspace world. Thus, the law is seemingly lagging far behind the rapid-fire growth of how business is being conducted on the Net. All areas of the law are being re-examined and slowly revised to address a new world of commerce.The law on the Net is evolving from day to day; indeed law is being made and remade every day.

In this evolutionary and revolutionary environment, it is extremely important to seek competent legal advice and to understand that there are many pitfalls and areas of uncertainty. As in other areas of real estate practice, legal advice should be sensitive to business as well as legal concerns. Lawyer and client must, together, decide how much risk to take in exploring the seemingly endless business possibilities and in weighing the potential legal consequences.

This article presents some of the common legal issues that might be confronted by real estate professionals who conduct business on the Internet. It describes a wide range of Internet activity—from e-mail messages, to newsgroup postings, to multimedia presentations and linked material on World Wide Web (WWW) pages. It also provides a sampling of issues such as securities offerings, libel and slander, freedom of speech, copyright, electronic data interchange and service provider responsibility. At this early stage, however, there are few clear answers to any of these issues, and sometimes the answer depends on the circumstances of individual cases. Often the wording of agreements between user and service provider, or employer and employee, will create a form of private law that governs the situation. As the reader, consider the listing and discussion below as a series of caution lights to be observed with a combination of common sense and legal advice. By the time you read this overview, it is probable that the law and/or new methods of conducting business on the Internet will have evolved even further.

Freedom Of Speech And Privacy

The Internet freedom of speech issue appears in a number of different contexts, including the relative rights of employers and employees vis-à-vis e-mail access and the presentation of information on WWW sites and through other means on the Net.

E-mail
The focus on e-mail differs somewhat depending on your status as an employer or employee. For employers, it is important to create a workplace environment without an expectation of privacy for the employee. A business is a business, and the employee should not be using e-mail for private purposes that may, in fact, be detrimental to business. Employers should develop policies which state that the employee will have no expectation of privacy. For the employee, your rights to "speak" on the Internet as an individual, versus your status as an employee of an organization, may well depend on what you signed when you joined the firm. In some cases people are able to use disclaimers, as in a signature file appended to the bottom of their e-mail messages, to note that their statements are "mine alone, and not those of my employer." That may satisfy some employers, but not others. Similarly, a personal WWW page may include information which would concern the employer or that the employer may find inappropriate.

Presentation Of Information On The WWW
What happens when you present information on the Internet and it crosses state lines and is read or used by people in different states? The American Civil Liberties Union is now arguing for freedom

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of speech in cases dealing with state regulations that would limit online utterances that might violate one or another state or local laws, but not others. It is unclear what law governs in a global environment such as the WWW or whether, and in what cases, an individual or local government has jurisdiction over you. And finally, your rights may differ from nation to nation. Acceptable discourse in the U.S. may be totally unacceptable in Singapore. It is important to remember always that use of the Net provides worldwide exposure and therefore, potential exposure to the laws of all nations.

More background on this subject can be found on the ANet@ at **The Center For Democracy and Technology,** <http://www.cdt.org/privacy/contents.html>, which includes information on current issues including electronic health information and legislation, and **The Electronic Frontier**, <http://www.eff.org/>, a non-profit civil liberties organization working in the public interest to protect privacy, free expression and access to public resources and information online and promotes responsibility in new media.

Copyright

Copyright issues need to be addressed in three contexts: your own articles, your own WWW page and the materials of others that you propose to link to, or incorporate in, your WWW page.

- *Your own individual articles.* If you put your own material on the WWW, even with a copyright warning and request that people get your permission before re-using, assume it won't happen and that it may not be cost-effective to enforce your rights. Unauthorized reuse may take place all over the world with your material translated into many languages. But you probably should include a warning on your site if only to state your intent so the potential infringer knows the work was protected.
- *Your own WWW page.* With a WWW page there's a better chance that you can require someone to cease and desist from copying the look, feel and layout of your page and the unique arrangement of material. There will likely be only one violator, and the copying would be more blatant, e.g., use of code, etc. Software now available allows you, in effect, to stamp your site as the original and distinguish it from those who would closely imitate it. See, for example, the parody sites which spoof and copy such sites as the White House, various political candidate sites and the site of the New York New Media Association (the parody site is <http://www.nynma.com>).
- *Material written by others, for example, articles linked to your WWW page.* Theoretically, and often as a courtesy, you should ask permission before linking another person's WWW page to your own. In practice, however, this courtesy is often not observed. Realistically, anything on the WWW is generally regarded as fair game for links. A link can be easily deleted, of course, if the linked party protests, so damage done by linking is small and, in most cases, easily repairable. On a strategic level however, you should consider entering into linking arrangements with other sites. Often, these arrangements are beneficial to both parties and provide increased traffic.

Securities Offerings

When you provide information on the Internet about a real estate investment trust, a private placement or an initial public offering of a real estate company, when do you cross the line into inappropriate offering material? The Securities and Exchange Commission (SEC) is now developing regulations in this area. Meanwhile, a number of offerers have developed sample warning statements which attempt to make it clear that their on-line presentation or trading activity is for certain limited audiences, and interested parties are referred to state law and regulations that apply. Clearly, this type of statement is only one step in securities law compliance and must be done in conjunction with a careful securities law analysis by your legal counsel.

The SEC is already mandating, through the use of its EDGAR system, electronic filings of all registration statements and periodic reports by public companies, such as Forms 10-K and 10-Q. Access via the WWW to public companies has never been easier. The SEC maintains a WWW site that includes an EDGAR search engine which enables any user to locate and access all such public company filings <http://www.sec.gov/edaux/searches.htm>.

For more details and examples of disclaimers, you can visit the following WWW sites: **Chicago Partnership Board** WWW site, which deals with transactions in limited partnership interests <http://www.cpboard.com> and the **Institutional Real Estate Clearinghouse** <http://www.irec.org>, which deals with exchange of interests in institutionally-owned real estate. Generally, for guidance in this area, visit the site of the venture capital publication **Red Herring** <http://www.herring.com> and the SEC <http://www.sec.gov/>.

Compliance With State And Federal Tax And Other Laws

Internet information is accessible in all 50 states and worldwide. People who advertise properties and provide services of different kinds may run afoul of various state laws. For example, are you doing business when you advertise property on a WWW page that is read in a given state? Must you comply with state real estate industry licensing laws? Might you be engaged in unauthorized practice of real estate brokerage or law? Furthermore, when are you subject to taxation related to online transactions involving some kind of nexus with the state in question? For example, sales or transfer tax liability on goods sold in the state? Finally, regarding international transactions, when do U.S. federal taxation apply and at what point do foreign laws become relevant?

These issues regarding the rights of states and cities to regulate, limit and restrict Internet business activity are still evolving and are likely to continue as new issues and methods of doing business are created. There are no clear answers, and therefore real estate professionals should proceed with caution. Tax considerations should be discussed with sophisticated tax counsel. At this point, the Internal Revenue Service is working on regulations regarding the taxability of commerce on the WWW.

Electronic Data Interchange (EDI) And Electronic Commerce

Contract and commercial law, both within the U.S. and internationally, are being modified to recognize the increasing importance of electronic data interchange (EDI) and electronic commerce. What constitutes a valid electronic offer, acceptance, documentation or signature? Authentication: How do I know you are who you say you are? How do I know that the interior of the property shown (as, for example, on RentNet <http://www.rent.net>) is really the subject property? All these issues are the subject of emerging law and developing standards.

Exploring the issue of authentication in more detail is really a question of who can you trust in cyberspace? This involves at least two separate issues. The first has to do with the authenticity of information found on a WWW page. Who created the page, and how can you be assured that it represents reality? As with investigation of real estate information in more traditional settings, you need to confirm independently and verify the sources. This will often involve use of offline contacts in person or by phone with trustworthy sources.

A related and more difficult issue is the citation issue: How do you accurately cite a WWW page when you're using it in a report? A site can be changed minute by minute, so you really need to note the date and time it occurred. By the same token, it's risky to create a link in a report to a property WWW page, since the content of the linked page can be altered at any time, perhaps making it differ significantly from the one you looked at earlier. It may be more prudent to back up WWW page references with print snapshots of the linked page which include date references.

Finally, EDI and electronic commerce are only as safe and reliable as the protections surrounding them. You should be aware of hackers who can often break through protective barriers in record time. Encryption and other devices should be put into place to ensure the integrity and privacy of any electronically transacted business.

Service Provider Responsibility

The subject of service provider (e.g., America Online, CompuServe, ATT WorldNet, Microsoft Network) responsibility for policing Internet activity is a current subject of intense legal and regulatory debate. The rights of the user, vis-à-vis the service provider, will most likely be defined by the agreement you sign when you enroll with that provider. Most of the responsibility for monitoring the content of e-mail messages, newsgroups and Web pages that are transmitted and hosted through these providers is falling more and more on the user and/or the information providers that contract with the service providers to provide content.

Federal and state law is emerging on this issue with one focus being the level of oversight and editorial responsibility assumed by service providers. In many cases, the service providers are not responsible for knowing about or overseeing content that runs through their systems; practically, this would be impossible. The responsibility comes *after* they are made aware of potentially illegal or abusive content on their systems. In most contracts with content providers and users, the service providers insist on full indemnifications for any content of which they may be held responsible.

Web Disclaimers

It may be possible to use various types of disclaimer statements in an attempt to protect yourself from some of the potential problems described in this article. For example, a statement that "information is taken from sources believed to be reliable, and will be corrected as necessary" can indicate intent to maintain a clean WWW site. It is easier to make changes to electronic documents than it is to paper documents. Thus, the effects of errors are likely to be smaller.

The placement of disclaimer statements deserves mention. Disclaimers should be placed visibly, but not obtrusively, so they can be noted without deterring people from visiting the WWW site. In some cases, placement of a link leading to a disclaimer may be sufficient. There is one caveat. Disclaimers are not the end all of protection against liability. You should remain aware that there are instances in which, notwithstanding the prominent display of a disclaimer, you may have responsibility and liability for your actions and use of the Internet.

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