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In Cleveland, a Model of Economic Viability in the Arts  
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Cleveland – “Arts and culture is losing its market share of philanthropy,” according to the latest National Arts Index, published by Americans for the Arts. But several Cleveland performing-arts and public-media organizations are in better shape than their counterparts around the country because they are part of PlayhouseSquare, a unique business model in downtown Cleveland.

After New York's Lincoln Center, PlayhouseSquare is the second-largest performing arts center in the country by audience capacity. Home to 10 performance spaces with a total of more than 9,000 seats, it attracts more than a million visitors to its approximately 1,000 performing-arts events annually.

"In the late '60s, five wonderful theaters that were built in the '20s as vaudeville houses were closing, one by one," Art Falco, PlayhouseSquare's president and CEO, said in a recent interview. "**Ray Shepardson**, who worked for the Cleveland public-school system, stumbled into the lobby of one, the State Theater, looking for a place to hold a meeting. He knew nothing about theaters or urban renewal, but thought it would be a crime to tear that theater down." His early efforts to save these theaters led to the creation of the nonprofit Playhouse Square Foundation.

What makes PlayhouseSquare unique is that it not only renovated and manages the performance spaces—including the five historic theaters (the Ohio, the Palace, the State, the Allen and the Hanna) that otherwise would have been bulldozed for parking lots—but it also created a local development corporation that owns more than 1.6 million square feet of office and retail space inhabited by more than 3,000 workers in five buildings; developed the 205-room Wyndham Cleveland Hotel; and manages an additional million square feet of real estate throughout the Cleveland metropolitan area.

Its budget of more than \$60 million puts it ahead of the better-endowed Cleveland Orchestra and Cleveland Museum of Art. Two-thirds of PlayhouseSquare's annual budget supports the performing arts. One-third is reinvested in its real-estate ventures.

"The real-estate business is a working endowment for the theaters," said Gina Vernaci, vice president of theatricals for PlayhouseSquare. "The stages feed the neighborhood's excitement and vice-versa," she added. "People who work down here now think about PlayhouseSquare as a campus."

PlayhouseSquare got into commercial real estate when the office buildings containing the Allen and the Hanna theaters came on the market. "We were afraid of what another developer might do, so we bought them," Mr. Falco recalled. "We started a property-management business and hired Tim Luli, a top property manager," recounted Mr. Falco. PlayhouseSquare Real Estate

Services started out operating only PlayhouseSquare's properties. Now it also manages more than a million square feet of other owners' properties throughout the Cleveland area.

As the project grew, the trustees and staff became concerned that downtown Cleveland had little in the way of hotel accommodations. So in partnership with Wyndham Hotel Corp. they developed a hotel that opened in 1995 and generates profits for PlayhouseSquare.

"It's no longer enough for performing arts centers to focus on what's on stage," said Lawrence P. Goldman, the New Jersey Performing Arts Center's founder, president and CEO. "This model is not only right but smart because it secures the urban environment around the arts center, which is good for the city and generates revenue. Lincoln Center revived a marginal piece of Manhattan's Upper West Side. But until recently all the benefit of the increased value went to the landowners, not the performing arts." Following the Cleveland model, the 12 acres in downtown Newark, N.J., occupied by the New Jersey Performing Arts Center include eight "developable parcels," Mr. Goldman said. Beginning in July, he will switch roles to head up a new subsidiary called Theater Square Development to focus exclusively on the real-estate business.

One of PlayhouseSquare's 21st-century extensions has been into broadcast media. "In 2003, we asked the owner of an old, almost entirely vacant department-store building next door to donate his property," Mr. Falco said. "He agreed, if the insurance company would also donate the mortgage on the building, which it did." Ninety thousand square feet of that building now houses Cleveland's WVIZ public TV and WCPN public radio outlets, as well as dance studios and art galleries. "We raised \$29 million to redo the building, making it state-of-the-art technologically. We rent the remaining 150,000 square feet to tenants in design, high-tech, education and media—and it's more than 92% rented."

The enterprise keeps growing. Two years ago, PlayhouseSquare acquired the adjacent corner property, which now houses the Cleveland Urban Design Collaborative, which is supported by the College of Architecture and Environmental Design at Kent State University.

Ironically, the area's oldest and most highly regarded theater company, the Cleveland Play House, is moving its operations to PlayhouseSquare because real estate was a drain on its artistic resources. Until now, the 95-year-old theater was housed in a cultural no-man's land adjacent to the expanding Cleveland Clinic hospital complex in facilities constructed in the 1920s and added to in 1983 with a design by architect Philip Johnson. But as the Play House's current artistic director, Michael Bloom, said, "the move will allow us to focus on our mission, which is top-tier theater and education, and let PlayhouseSquare handle the real estate." Until now, some of his staff spent more time overseeing rental of their spaces than focusing on their theater projects.

With its move, the Play House's annual operating costs will be reduced by about a half-million dollars. PlayhouseSquare is reconfiguring the Allen Theater and building two smaller adjacent theaters for the Play House. The two organizations are jointly raising \$32 million for the renovation and new construction.

Next on the agenda is housing, according to Allen Wiant, who recently joined PlayhouseSquare from high-level positions with top commercial real-estate outfits Trammell Crow and C.B.

Richard Ellis. "We want to build 58 stories of housing in the next few years." Virtually nobody lived in downtown Cleveland when this project began in the '70s. Now there are about 12,000 downtown residents and the residential occupancy rate is about 95%.

"The hallmark of PlayhouseSquare is that they realized a successful theater district could only work if there was a successful neighborhood," Joe Roman, the president & CEO of the Greater Cleveland Partnership, said in a recent interview. "The business community expected a business rigor to what they were doing, and they got it. It's market-based and market-oriented. The theaters are the core, but now there's so much more. The project exceeded everyone's expectations."

*Mr. Henning writes about the arts and culture for the Journal.*