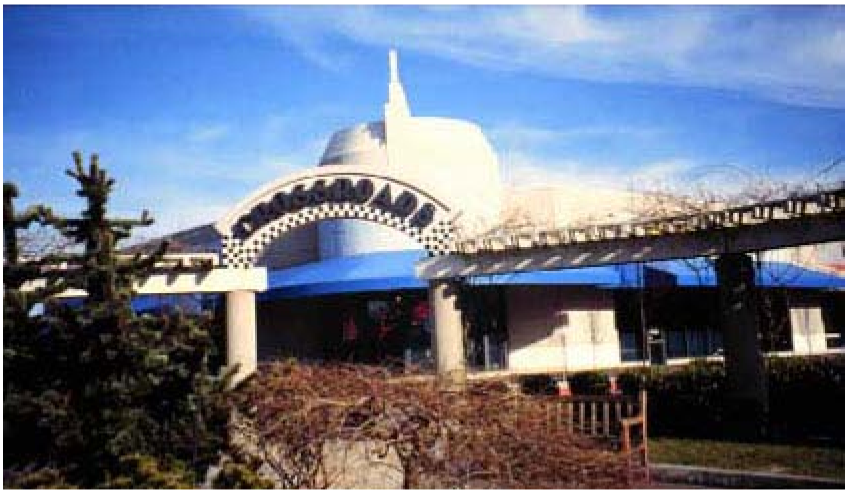
ULI DEVELOPMENT CASE STUDIES

Crossroads Shopping Center



Bellevue, Washington

Project Type:
Commercial/Industrial

Case No:
C028001

Year:
1998

SUMMARY

The 460,000-square-foot Crossroads Shopping Center offers live music four nights a week and has the most extensive selection of ethnic restaurants in suburban Seattle. The once-disconnected array of stores and vacant shops has become today the social hub and unofficial town center of east Bellevue. The redevelopment of the former public market with international eateries and a comprehensive program of free concerts and multicultural activities draws customers from around the region and has repositioned Crossroads as an entertainment center.

Situated at the intersection of 156th Avenue N.E. and N.E. 8th Street, the 40-acre site is located on the east edge of Bellevue, Washington, in the Crossroads neighborhood, a suburban community some 15 miles east of downtown Seattle. In addition to its entertainment component and its status as a community gathering place, the center provides a mix of regional big-box retailers along with community services and shops that serve the immediate neighborhood.

FEATURES

- Public market with international restaurants
- Mini-city hall and community police station
- Stage for public events and live entertainment
- Giant chess set

Crossroads Shopping Center

Bellevue, Washington

Project Type: Retail

Volume 28 Number 01

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Case Number: C028001

PROJECT TYPE

Renovation and repositioning of a failing strip shopping center that was enclosed as a mall in the late 1970s. The 460,000-square-foot center provides a mix of big-box retailers with community services and shops that serve the immediate neighborhood. The redevelopment of the former public market with international eateries and a comprehensive program of free concerts and multicultural activities draws customers from around the region and has repositioned Crossroads as an entertainment center.

SPECIAL FEATURES

- Public market with international restaurants
- Mini-city hall and community police station
- Stage for public events and live entertainment
- Giant chess set

OWNER

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GENERAL DESCRIPTION

The 460,000-square-foot Crossroads Shopping Center offers live music four nights a week and has the most extensive selection of ethnic restaurants in suburban Seattle. The once-disconnected array of stores and vacant shops has become today the social hub and unofficial town center of east Bellevue. The redevelopment of the former public market with international eateries and a comprehensive program of free concerts and multicultural activities draws customers from around the region and has repositioned Crossroads as an entertainment center.

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SITE HISTORY

Originally built as an open-air community shopping center, Crossroads was enclosed as a mall in the late 1970s. Poor access—it is located a mile and a half from any freeway—and the redevelopment in the early 1980s of nearby Bellevue Square into Seattle's premier super regional center hastened Crossroads' decline.

Once known mainly as an affluent bedroom community of Seattle, Bellevue had emerged by the mid-1980s into a commercial center with active real estate development and a growing number of financial and technology firms. Microsoft's headquarters in Redmond is about a mile north of Crossroads Shopping Center. By this time, national retailers recognized the Seattle area, including Bellevue, as a desirable metropolitan region in which to locate. Crossroads' demographics also were favorable: the center serves a population of more than 250,000 people, and average family income is approximately $84,000. There were, however, no large parcels available for new retail development in the Crossroads primary trade area. These factors motivated San Francisco-based real estate syndicate Terranomics Equity Investments (TEI) to acquire the center in 1985. The company formed the limited partnership Terranomics Crossroads Associates (TCA), which purchased the leasehold interest in the center and also assumed the long-term ground lease from the Crossroads developers for $17 million.

DEVELOPMENT PROCESS

When Terranomics Development took over the foundering center in 1987, it was a shabby hodgepodge of shops and vacant storefronts on the brink of bankruptcy. TCA's strategy was to develop a 40,000-square-foot "public market" at the central mall entrance modeled after Pike Place Market in downtown Seattle and Granville Island Market in Vancouver, British Columbia, complete with fish, produce, and restaurants. Leasing was a formidable challenge. Crossroads, which lacks the spectacular water views and urban synergy of Seattle and Vancouver, failed to draw the tourists that help maintain the vitality of the Seattle and Vancouver markets. Moreover, TCA underestimated the high start-up costs and the time required to build momentum and ended up subsidizing tenant operating costs and marketing much longer than anticipated. By 1987, the public market appeared unable to survive, let alone attract additional retailers and turn the center around.

Acknowledging that Crossroads was on a downward slide, the investors divided into two factions: one group wanted to salvage the situation; the other wanted to cut their losses. At this point, minority partner Merritt Sher, chairman of Terranomics, and his brother Ron Sher, who represented one of the limited partners and was living in the Bellevue area, decided to assume management and control of the center. The partnership was restructured in late 1987 with more than $6.5 million in new capital, most of which came from Eurodevelopment, a French investment partnership that had invested in other projects with the Shers. Eurodevelopment and the Shers bought out the syndicate's dissenting limited partners at a discount, with TEI subordinating its equity interest to the Shers, Eurodevelopment, and the remaining partners. The restructuring placed Ron Sher and Terranomics Development in control of the development, management, leasing, and marketing of Crossroads.

For Crossroads to succeed, Terranomics Development knew it needed to offer something different from the traditional shopping experience. The company envisioned a retail center that would celebrate the Crossroads community, the most ethnically diverse neighborhood in the Seattle area, and that would serve as the downtown of east Bellevue. Whereas many shopping center developers seek out locations next to affluent residential neighborhoods, Ron Sher viewed the ring of modest apartments encircling the center as an asset rather than a negative attribute.

Many of the residents were first-generation immigrant families who moved to the neighborhood in search of affordable housing. Terranomics Development recognized that these residents, who live in small spaces with no backyards, would probably welcome a place nearby where they could read a newspaper or book, play a game of cards, or just interact with other people. Sher wanted Crossroads Shopping Center to be a lively "third place", a concept he later read about in Ray Oldenburg's book The Great Good Place. The idea is that while home and work are important places, most people benefit from spending time in a third place. Whereas the English have their pubs and the French their cafés and city parks, most Americans living in suburbia have few third places where they can linger and mingle with others in their community.

Recently, the Seattle Post-Intelligencer (January 11, 1997) called Crossroads Shopping Center the "people-packed heart of the Crossroads community." Here turbaned East Indians share tables with Microsoft workers on their lunch break. Russian men play chess. Recent immigrants take English language courses at the mini-city hall, and music fans flock to the center on Friday and Saturday evenings to enjoy free jazz, folk, or world music concerts.

The first hurdle was to overcome the many negative perceptions. The shopping center had been sorely neglected over the years. Roofs leaked. Vacant storefronts were boarded up. Purported drug dealing and teenagers cruising the parking lot scared away many shoppers, and the center's image was tarnished further by rumors of neighborhood gangs and criminal activity. To show that Crossroads was changing, Terranomics moved first to demolish the three dilapidated, empty commercial buildings at the center's main southwest corner and replace them with a new retail structure (Building A) that included a 7,000-square-foot Blockbuster Video store. An art deco design with jazzy neon elements, reminiscent of the early theater marquees, was selected for Building A to emphasize Crossroads's new image as a place for entertainment. A ceremonial archway with a minipark and benches was created for this new front door to Crossroads.

At the same time, Crossroads Cinemas built an expanded movie complex diagonally across from Blockbusters at the northeast corner of the site. Its immediate success as one of the top-performing cinemas in the region helped boost Crossroads' new image as a high-energy, urban destination.

Terranomics Development focused next on the center's interior, renovating the public market area into a food court and bringing new tenants into the mall building. They then renovated the exterior of the main building facing 156th Avenue N.E. This back and-forth movement between the inside and outside characterized the developer's overall incremental approach to redeveloping the center.

Rather than developing a new master plan for the entire center, Terranomics chose instead to proceed with small, discrete pieces, allowing the center to evolve over time. By not locking into a formal plan in advance, the company could respond more directly to individual opportunities that surfaced during redevelopment.

The city of Bellevue facilitated redevelopment of the shopping center—and the neighborhood—by establishing a single-user local improvement district (LID) to fund a capital improvement program for the area. The main arterial streets were widened to five lanes, signals were installed, sidewalks were constructed, and landscaping was added at the front of the center. Half of the $1,000,000 cost was assessed against the center, to be repaid over ten years.

One of the greatest obstacles to redevelopment was the land lease on the center. Terranomics in 1985 had assumed the long-term lease on the land underlying the shopping center, which was controlled by an adjacent landowner. Although the lease would not expire for another 37 years, the rental rate was scheduled to jump from $138,536 annually to market rates in 17 years. Sher felt that if he did not purchase the land, his ability to manage the center with a long-term approach would be compromised and securing financing would be difficult. Terranomics paid $5.2 million for the land lease in 1989.

Once this was accomplished, Terranomics demolished an old movie theater, some small stores, and a small medical building on the north end to make way for the new mall anchor—QFC, a strong Northwest supermarket chain. At the same time, 7,000 square feet of stores was added. The public market was extended to the supermarket entrance so that QFC shoppers could participate in the market experience.

PLANNING AND DESIGN

Terranomics' incremental development strategy resulted in a design that includes far more variety than usually is found in shopping centers. The developer disliked the bland concrete box architecture that characterizes many suburban centers. Tenants at Crossroads were encouraged to create individualistic storefronts and to break up flat rooflines with distinctive features. Although it departed from corporate design, Barnes & Noble went along with a book motif created by the architect for the roof of its main corner tower, and Coyote Creek Pizza finished its rooftop with a coyote. Creating different identities along the center's facade and giving the smaller buildings their own character was part of Terranomics' strategy to make Crossroads look less like a mall and more like a village or main street. However, the new exterior had to be harmonious and cohesive. The standard elements of traditional shopping streets—awnings, individual storefronts, and signage—were used as unifying elements. Bright primary colors and a black-and-white checkerboard pattern also were applied throughout the redevelopment.

Public art is a prominent feature of the redevelopment. One of the artworks—a family of pipe people, constructed of air vents—was created and donated by a frequent Crossroads visitor. Other art pieces include a 19th-century replica of a 17th-century French fountain and a rock-like sculpture of a Volkswagen in front of the Crossroads vehicle licensing station.

Tenants

When Terranomics Development first took over Crossroads, one goal was to attract community-minded tenants to serve neighborhood residents. The company also wanted tenants that shoppers would patronize frequently. For that reason, there are few tenants, such as furniture stores, that usually draw shoppers no more than every couple of years. Unlike many retail centers, in which local tenants are a rarity, Crossroads supports a healthy mix of both national and local retailers. Terranomics specifically sought out Mom & Pops as a way to distinguish Crossroads from typical suburban centers and avoid the "cookie-cutter" syndrome.

Most of the public market tenants that were brought in as part of the 1985 makeover failed miserably. These one-unit operations suffered because they were not visible from the street and were hard pressed to absorb the high common area maintenance (CAM) charges. Nonetheless, Terranomics liked the concept and sought to retain the marketplace ambience. In place of the greengrocers, they brought in 17 eateries, most of which were local ethnic restaurants. These restaurants, which serve Indian, Italian, Vietnamese, Mediterranean, Russian, Thai, Mexican, Japanese, Korean, and French cuisine, constitute the largest collection of ethnic restaurants outside downtown Seattle. Ethnic food was not part of the initial strategy; it just happened that many of the small restaurants looking for a location in the Seattle area were ethnic, so Terranomics seized the opportunity. The decision affords the adjacent Crossroads residential neighborhood, which contains the largest ethnic population in the region, a variety of dining options. Besides the restaurants, the 40,000-square-foot public market area also contains a fresh-fish market, a world-class newsstand, a large used-book store, and a coffeehouse.

To help these small businesses survive the hefty startup and management expenses, Terranomics paid most of the CAM charges at first. Rent was sometimes deferred until tenants were strong enough to afford the full payment. Although Crossroads is about 97 percent leased today, its dismal reputation 11 years ago made attracting tenants difficult. In order to attract the types of tenant it wanted, in some instances, Terranomics created its own tenants.

If Crossroads was to become a gathering place for the entire family, it needed stores for children as well as a daycare center. A children's store operator wanted to locate at Crossroads but had no capital, so Terranomics created a partnership through which it financed, designed, and built a store that was leased to Kids' Club. Terranomics was the major partner. The operator was not successful. However, because the store significantly bolstered development momentum, Terranomics took over ownership and hired a manager to operate the store. After the takeover, the store generated annual sales of more than $1 million in its second year.

Terranomics also used creative leasing structures to attract tenants in the early years. One of the toughest locations was a secondary concourse area called "death valley" because it had been plagued by chronic vacancies since the mall was first enclosed. Terranomics' solution was to reconfigure the shops, including the concourse in a 22,400-square-foot superstore for Pacific Linen, a regional chain. However, persuading Pacific Linen to locate there—with no external entrance and in a format that was more than twice as large as that of other Pacific Linen stores—would be a hard sell. Terranomics convinced Pacific Linen's president to travel to California and visit such stores as Bed, Bath and Beyond and other retailers in its category.

A creative leasing structure with significant financial inducements finally convinced Pacific Linen to sign on, but the company lacked capital. Terranomics offered to pay $500,000 to construct the store and lent the chain $200,000 to pay for inventory. The rent agreement was structured so that if Pacific Linen performed well, Terranomics would benefit, but if Pacific Linen failed, Terranomics would absorb much of the loss. The Crossroads Pacific Linen store became the prototype for the chain's western expansion and one of its top performers.

From the start, tenant selection was based on the retailer's ability to reinforce the heart of the center—the public market. When Starbucks first negotiated for a Crossroads location in the early 1990s, it wanted to be on the west edge of the center with an external presence facing the main arterial street. But Terranomics rejected the proposal because it felt that Starbucks' presence there would detract from the energy of the public market. Instead, Terranomics convinced Starbucks to move in next to the used-book store, reinforcing the public market area. Starbucks also opened one of its early drive-through stores on the south end of the site.

By 1993, Crossroads had reached critical mass as a destination center. Despite its location off the beaten path and far from any freeway, large national retailers began to seek it out. In 1994 Barnes & Noble opened a 14,452-square-foot store north of the QFC supermarket that immediately became one of the chain's best-performing stores. Next, Sports Authority opened a 43,257-square-foot store in a new building on the northwest edge of the site, where several small, freestanding restaurants once stood. Circuit City followed in 1995 in a new building south of the cinema. These well-known national stores created greater traffic volume, which helped the smaller specialty shops.

MARKETING AND MANAGEMENT

A primary marketing strategy for repositioning Crossroads as the unofficial downtown of east Bellevue was to provide first-rate, free entertainment. A stage with a high-quality sound system was built in the market area, and performances now draw audiences from around the region. Live music concerts are featured four evenings a week with late-night concerts on Fridays and Saturdays, when the market restaurants remain open until 10:30 p.m. When the "Late Night at the Market" concerts first started, in 1991, it was difficult to attract professional musicians, who disdained performing in a shopping mall. However, the excellent acoustic system, non-smoking rule, and enthusiastic audiences—sometimes standing room only—changed their minds. Many serious jazz lovers now regard Crossroads as one of the best jazz venues in the region. Crossroads employs a booking agent who lines up performers for the programs, which feature a broad range of music, from jazz to folk. Thursday "Open Mike" night routinely features more than 20 performers. The "Late Night at the Market" program, which sometimes draws audiences of 1,500 people on Friday and Saturday nights, gets most of the credit for boosting overall public market sales, which climbed 25 percent in 1993.

Audiences at Crossroads are an international mix, mirroring the multicultural makeup of the adjacent residential neighborhoods. Ethnic folk groups and bands perform regularly. For seven years, audiences have flocked to "Cultural Crossroads," three days of nonstop entertainment from around the world. This year's program featured music and dance from Israel, Bosnia, Ireland, and Alaska, along with Egyptian belly dancers and tango dancers from Argentina.

In addition to the music and dance events, Crossroads features other entertainment, such as a Brobdingnagian-scale chessboard across which players, many of whom are Russian, move two-foot-high chess pieces. In fact, one ongoing problem was monopolizing of the chessboard. Crossroads management organized a "summit meeting" with the players to address this issue. A timer was installed, and designated game tables were set up for playing chess, cards, and checkers.

Crossroads patrons are encouraged to sit awhile in the market area, which offers tables and seating for more than 900 people. Visitors feel comfortable sitting there and browsing through books they bought at one of the two bookstores or magazines from the Daily Planet, a newsstand that features newspapers and magazines from around the world. Visitors are invited to linger in Crossroads' giant "living room," conversing with friends or just taking in the scene.

Although much of the entertainment at Crossroads is multicultural, Terranomics Development never targeted specific ethnic groups as part of a formal marketing strategy; its approach was more inclusive, aimed at celebrating the Crossroads community at large. For example, the Crossroads neighborhood supports a large population of physically disabled and handicapped people. When business lagged in the early years, some retailers feared that customers might be put off by seeing large numbers of these individuals. But Crossroads management, determined to make them feel welcome, provided various features to accommodate them, before state and federal law required businesses to do so.

Crossroads is the most culturally diverse community in the region. The last census showed that about 75 percent of the area's housing is composed of multifamily units. Almost one in five people living in Crossroads is foreign born, compared with one in seven in Bellevue overall. In about 5 percent of those households, no one older than 14 speaks English. Two of the largest ethnic groups are Asian and Russian. The fastest-growing ethnic group is Hispanic.

Several years ago Bellevue opened a Crossroads mini-city hall where residents can pay utility and tax bills and obtain employment information, job applications, and bus schedules. The schedules are published in Spanish, Russian, Vietnamese, and Chinese. The city hall sponsors classes in English as a Second Language (ESL). Crossroads management also offers ESL classes to Crossroads employees, many of whom are foreign born.

EXPERIENCE GAINED

- Terranomics' initial plans called for a more intensive mixed-use development. The outbuildings were first designed with second-floor office space. With Microsoft's campus less than a mile away, the developer reasoned that high-tech users would be demanding additional office space with large floor plates. Despite numerous efforts, however, the developer could not make the second floor office space economically feasible.
- Instead of adhering strictly to a formal strategy, Terranomics used a more flexible approach that allowed it to take advantage of opportunities as they arose. For example, most shopping centers do not feature used-book stores in prime locations. When the owner of Half Price Books approached Terranomics about becoming a tenant, the store was placed in a prominent location so that it could contribute to the overall character of the center.
- Late-night concerts at the Marketstage now draw as many as 1,500 people. Terranomics learned that smaller performances, such as poetry readings, work better in a more intimate space. A program of poetry readings was canceled after running for almost a year.
- Crossroads' success as a "third place" in which people linger in what is now regarded as east Bellevue's new town center inspired Terranomics to embark on a new business venture. Third Place Books, a new retail format, will blend some of the same elements offered at Crossroads, featuring books, restaurants, and entertainment for every age group. It also will include plenty of opportunities for people watching, which Ron Sher regards as the highest form of entertainment.

PROJECT DATA

LAND USE INFORMATION

Site area: 41 acres

Gross building area (GBA)
Before renovation: 419,000 square feet
After renovation: 533,000 square feet

Gross leasable area (GLA)
Before renovation: 365,000 square feet
After renovation: 475,000 square feet

Floor/area ratio (FAR): 0.27

Total surface parking spaces
Before renovation: 1,817
After renovation: 2,292

LAND USE PLAN

Use	Before renovation (acres)	After renovation (acres)	Percent of site
Buildings	9.6	12.2	30
Paved areas	22.9	24.9	60
Landscaped areas	1.0	3.9	10
Vacant areas	6.5	0	0
Total	40	41	100

REDEVELOPMENT COST INFORMATION

Site acquisition
Leasehold costs: $17,000,000
Land costs: 5,000,000

Site improvement costs: 2,000,000
Construction and soft costs: 25,000,000
Total: $49,000,000

FINANCING INFORMATION

Leasehold acquisition
Principal financial group: $7,500,000
Seller financing: 4,000,000
Equity and loans from developer's affiliates: 5,500,000

Land Acquisition
Principal financial group: $5,000,000

Construction Financing
Northwestern Mutual Life (with take-out financing): $18,000,000
Equity and loans from developer's affiliates: 9,000,000

Total: $49,000,000

RETAIL TENANT INFORMATION

Classification	Number of stores	Percent of total	Total GLA (square feet)	Percent of GLA
General merchandise	3	3.75	44,307	9.79
Food	25	31.25	25,794	5.70
Clothing and accessories	6	7.50	113,603	25.11
Shoes	1	1.25	487	.11
Home furnishings	3	3.75	29,053	6.42
Home appliances/music	2	2.50	41,741	9.23
Hobby/special interest	13	16.25	67,206	14.86
Gifts/specialty	5	6.25	8,060	1.78
Jewelry	1	1.25	2,522	.56
Drugs	1	1.25	14,016	3.10
Cinema and other retail	3	3.75	41,122	9.09
Personal services	6	7.50	9,304	2.06
Recreation/community	2	2.50	8,174	1.81

Financial	3	3.75	5,968	1.32
Offices (other than financial)	6	7.50	5,725	1.27
Vacant space under construction			35,270	7.79
Total	80	100	452,352	100

LEASING INFORMATION

Major tenants
Average length of lease: 19 years
Annual rent: $9 per square foot
Annual sales: $273 per square foot

Mid-sized tenants
Average length of lease: 12 years
Annual rent: $14 per square foot
Annual sales: $247 per square foot

Small shops
Average length of lease: seven years
Annual rent: $17 per square foot
Annual sales: $191 per square foot

Restaurants
Average length of lease: seven years
Annual rent: $21 per square foot
Annual sales: $378 per square foot

DEVELOPMENT SCHEDULE (Terranomics Development)

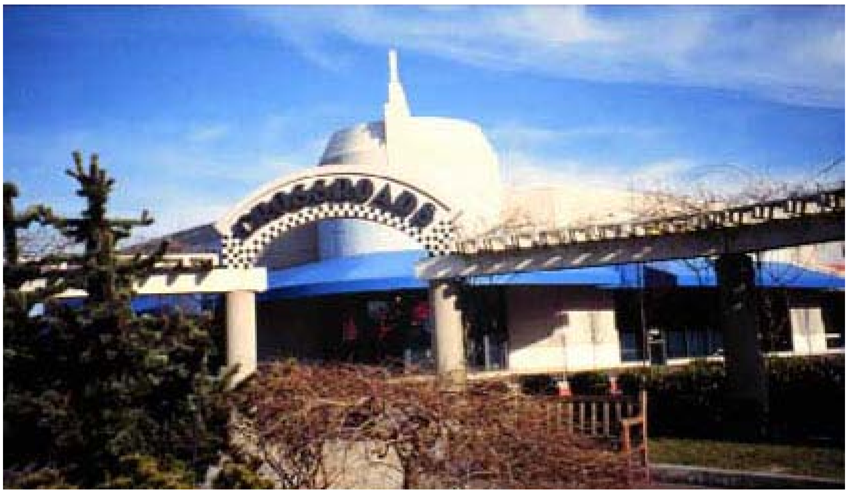
Control assumed: 1987
Planning started: 1987
Approvals obtained: 1988
Construction started: 1988
Re-leasing started: 1987
Land lease acquired: 1990
Project completed: 1998

DIRECTIONS

From SeaTac airport: Follow Highway 405 north and exit at N.E. 8th Street eastbound. Take N.E. 8th to 156th Avenue N.E. Shopping center is on the left.

Driving time: 40 minutes in non-peak traffic.

Terry Lassar, Report Author
David Mulvihill, Editor, Online Project Reference File
Eileen Hughes, Managing Editor



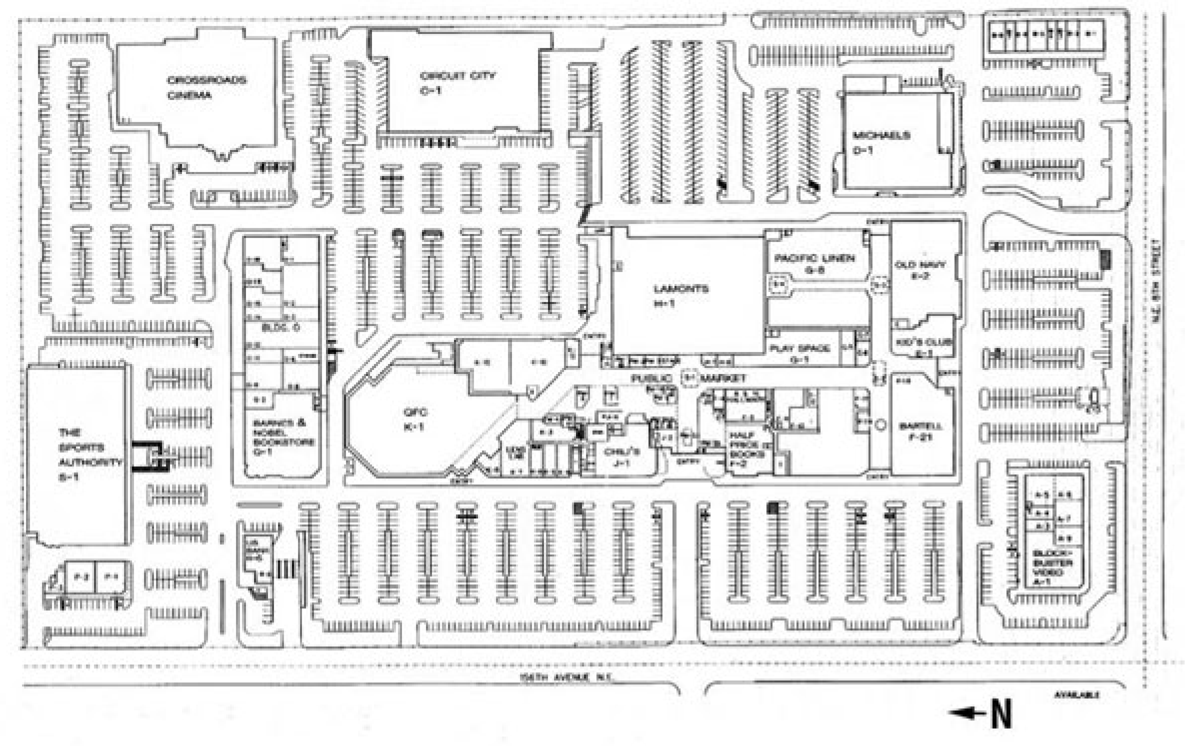
phase I of the renovation included the addition of a 7,000-square-foot Blockbuster Video store.

Tenants were encouraged to break up flat rooflines with distinctive features, such as this departure from the Barnes & Noble corporate design.

Live music concerts are featured at the center four nights a week. The developers installed a high-quality sound system for the performances, which draw audiences from around the region.

In addition to international restaurants, the 40,000-square-foot public market area also contains a fresh-fish market, a world-class newsstand, a large used-book store, and a coffeehouse.

The design of Crossroads makes the center look less like a typical suburban mall and more like a village main street. The standard elements of traditional main street design-awnings, individual storefronts, and signage-were used as unifying elements throughout the center.


CROSSROADS CINEMA
CIRCUIT CITY C-1
MICHAELS D-1
BLDG. O
BARNES & NOBEL BOOKSTORE O-1
THE SPORTS AUTHORITY S-1
QFC K-1
LAMONTS H-1
PACIFIC LINEN G-8
OLD NAVY E-2
PLAY SPACE G-1
KID'S CLUB E-1
PUBLIC MARKET
CHILI'S J-1
HALF PRICE BOOKS F-2
BARTELL F-21
BLOCK-BUSTER VIDEO A-1
156TH AVENUE N.E.
N.E. 8th STREET
AVAILABLE
N

Site plan.