ULI DEVELOPMENT CASE STUDIES

Denver Pavilions

Denver, Colorado

Project Type:
Commercial/Industrial

Case No:
C029015

Year:
1999

SUMMARY

A 347,750-square-foot urban entertainment/retail center occupying two city blocks along Denver's well-known 16th Street Mall. The mix of tenants in the three- and four-level open-air center includes a 15-screen, 80,000-square-foot United Artists cinema; a 25,000-square-foot Virgin Megastore; a 12,000-square-foot Hard Rock Cafe; the last NikeTown to be built in the United State; a 10,000-square-foot Wolfgang Puck Cafe; an 18,000-square-foot Maggiano's; the Corner Bakery; and other fine restaurants, plus a host of apparel and specialty retailers. Composed of four separate buildings linked by pedestrian walkways and covered escalators, the project features an understated design that opens on the street, showcases its distinctive tenants, and blends easily with its urban surroundings. A $1.5 million computerized electronic sign dubbed the "Great Wall" spans the two city blocks and serves to connect the separate components of the project. The sign also creates an icon for downtown Denver.

FEATURES

- Urban infill project
- Creative financing
- Downtown development

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SPECIAL FEATURES

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- Creative financing
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GENERAL DESCRIPTION

Occupying two full city blocks along the 16th Street Mall in downtown Denver, Denver Pavilions offers a new dimension in retailing and entertainment to residents, workers, and visitors. The project is the first completed by Los Angeles—based Entertainment Development Group (EDG) and co-developer, Northbrook, Illinois-based Arthur Hill & Co. L.L.C. It realizes a seemingly simple concept: combining retail and entertainment to create a synergistic environment that not only benefits the tenants at Denver Pavilions, but creates new traffic for existing tenants along the mall as well.

The three- to four-level 347,750-square-foot center, which includes four separate buildings, is designed to reflect the historic business district in which it is located. Its restrained but open design and signage showcase the center's tenants. With its combination of tenants, including theaters, restaurants, and nightclubs, Denver Pavilions is injecting new life into an area of downtown Denver that recently had seen the closing of long-present department stores, helping to extend the hours of vitality beyond 9:00 to 5:00.

SITE

Denver Pavilions occupies two city blocks on the southeastern end of the 16th Street Mall between Tremont and Welton Streets, the former site of two surface parking lots. Previous development proposals had been thwarted, including one to develop a downtown regional mall on the site. The recent departure of longstanding department stores had brought the upper end of the 16th Street Mall somewhat into decline relative to the lower downtown, or LoDo, section of Denver.

Entertainment Development Group (EDG) president Bill Denton proposed building the project in Denver because of the city's exceptional demographics and commitment to its downtown. The city has more than 4,000 downtown residents, an additional 65,000 residents in the surrounding central city area, and 120,000 downtown workers. As the only major downtown within 500 miles, Denver also enjoys significant loyalty from its suburban population. And not least important, the city has been active in locating attractions downtown, including the new Coors Field, the recently opened Pepsi Center, and the historic Elitch Gardens Amusement Park.

Denton arrived in Denver for the specific purpose of redeveloping historic Union Station, which quickly proved to be infeasible. Besides being too small and being owned by a half-dozen railroad companies, the site would have had to have been expanded on land owned by the U.S. Postal Service. Still convinced that Denver was an ideal city for an entertainment/retail project, Denton quickly turned his attention to the 16th Street Mall.

Built between two downtown bus terminals, the 16th Street Mall was developed as a transportation corridor, shuttling 45,000 passengers per day free of charge along its route. As the urban spine of the city, it had the critical mass necessary to support the proposed type of retail development. The parking dynamics of the site also made it attractive, with 8,000 spaces from nearby office buildings available each evening within a block and a half of the site. In addition, the site had only two landowners, making land assembly a somewhat less formidable task.

DEVELOPMENT

Development of Denver Pavilions required coordination among the developer, the architect, tenants, the city, the contractor, and the lender. The developer likens the process to a house of cards: the loss of any player would have meant the loss of the project.

Denton worked over a period of two years to form Denver Pavilions LLP in 1996. The partnership consisted of the German firm Roche Finanz, the Denver Urban Redevelopment Authority, Hensel Phelps (a contractor), and Denhill LLC, which was composed of EDG (75 percent) and Arthur Hill & Co. (25 percent). The partnership represented $18,850,000 in equity, plus $24,395,000 in tax-increment financing (TIF). One of Denton's first partners was the Denver Urban Development Authority (DURA), which is a profit participant in the project. In 1986, DURA had sold more than $60 million in tax-increment financing bonds. The bonds, to be repaid with sales and property taxes, were placed in escrow. Time, however, was running out for using the funds. DURA had long been seeking appropriate projects to revive this area of downtown.

Even with an equity partner in place, the lenders still required 70 percent of the space to be preleased. Time was a critical factor in the development of Denver Pavilions. In addition to DURA's need to use or lose the TIF money, the lenders' preleasing requirement placed a great burden on the construction schedule and placed the developer in a "Catch 22" situation. The "billboard" type tenants that EDG was seeking typically would not sign leases more than two years in advance of completion, but construction could not even begin without leases from those tenants. It was imperative to lobby the tenants to commit to leasing and thereby secure debt financing from the lenders.

The existing landowners had been reluctant to sell in the past, partly because they had hoped to develop the land themselves. Ultimately, both kept a portion of their existing lot. The landowners eventually were convinced of the value that would be added to their remaining land through the development of Denver Pavilions and the address it would create for new office space. Through a complex arrangement, the landowners retained a portion of their land in order to develop future office, hotel, and/or residential space. Denver Pavilions retained perpetual easement rights behind the Pavilions for service alleys; and in exchange, the sellers would share in the parking garage revenue and they would be entitled to develop office space.

EDG's philosophy for creating a tenant mix was straightforward, yet the mix was difficult to achieve. The tenants had to be unique in the region to give people a reason to visit the project. But, beyond that, the project required tenants that injected an element of entertainment into their marketing and merchandising philosophy. One of the most important components of the project, according to Denton, was the flagship theater. The next step was to secure the "billboard" tenants that place an emphasis on entertainment through exciting signage and interactive retailing. Finally, the project needed to include destination restaurants and nightclubs.

It was important that the project, while high-end, not be too upscale. Because the project serves several market segments—suburbanites, downtown workers, downtown residents, and tourists— it was important that prices not exclude any of these segments. At the same time, the center's tenant mix, particularly its nightclubs and restaurants, seek a more sophisticated adult customer.

In September 1995, Denton began lobbying Nike to locate what was to be its last North American NikeTown store in the Denver Pavilions project, although Denver had not been on the company's short list of potential sites. In addition to favorable downtown demographics, he touted the city's strong sports orientation. Area residents show a high level of participation in outdoor activities, and Denver is home to professional football, baseball, basketball, and hockey teams. Nike's existing relationships with the Denver Broncos and the University of Colorado in Boulder also were strong selling points. At the same time, EDG undertook negotiations with several other high-powered retailers, such as Virgin Records Megastore and Hard Rock Cafe. Also important to the tenant mix were restaurants such as the Wolfgang Puck Cafe and Maggiano's and the Corner Bakery. While intrigued by the synergistic concept espoused by Denton, each of these retailers was hesitant to be the first to sign on, and each waited for another to commit.

Denton eventually secured letters of intent from the retailers, who nonetheless were not willing to sign leases four years before occupation. Between December 1995 and August 1996, the theater and "billboard" tenants executed leases. With a major regional mall and several existing or planned specialty centers within a few miles of Denver Pavilions, competition for many of the other tenants was stiff. Some had radius clauses that prevented them from locating in Denver Pavilions. Talks that had begun in 1994 with AMC Theaters to be a part of Denver Pavilions subsequently fell apart. Fortunately, EDG was able to quickly secure a lease with Denver-based United Artists for an 80,000-square-foot, 15-screen multiplex. Finally, with commitments in hand for the required 70 percent of space, EDG was able to convince the lenders of the project's viability. The construction loan closed and construction commenced in February 1997.

Design

Denver Pavilions was envisioned as an integral part of downtown Denver, and it reflects the scale and pattern of the downtown grid. The Pavilions comprises four distinct three- to four- story buildings linked by open streets, courtyards, and bridges. The complex faces the 16th Street Mall, and this public space extends into the pavilions via two mid-block passages and Glenarm Place, redesigned as a pedestrian-friendly street.

The open-air, multibuilding design by ELS Architects was inspired by other thriving urban shopping districts such as San Francisco's Union Square and Chicago's Michigan Avenue. The network of pedestrian ways within the project not only provides multiple entries from the mall, but it also significantly increases the amount of retail frontage for the Pavilions' 55 tenants. Large, open stairways sweep down to the ground from the second floor, creating a street presence for second-floor tenants.

The architecture of Denver Pavilions takes its cue from nearby landmark buildings. The forms and details vary from building to building, giving the impression of a complex that, like its downtown neighbors, developed over time. The facades are elegant and restrained in both design and materials. Visual excitement comes from creative lighting and signage and from the large display windows that face the street.

Project and tenant signs were coordinated to incorporate tenant brand imaging into the architectural design. The most distinctive aspect of the project is the 356-foot-long landmark sign dubbed the "Great Wall," which rises 40 feet and spans the Pavilions's two city blocks. Costing $1.5 million, the wall is constructed of 273 perforated metal panels with 27- to 35-foot-high letters that spell out "Denver Pavilions." Programmed to change colored lighting throughout the evening, the curving sign creates a memorable visual image for the project. The sign also satisfied DURA's public art requirement for the project.

Retail shops and restaurants fill the first and second levels of the development. The project's high-profile tenants—NikeTown, Virgin Megastore, Hard Rock Cafe, Maggiano's, Barnes & Noble—each have frontage along the 16th Street Mall. The Wolfgang Puck Cafe forms a bridge over Glenarm Place that links the two blocks of the complex.

The third level is reserved exclusively for nightclubs and other destination tenants such as the 18,000-square-foot, 450-seat Cafe Odyssey, whose elaborate design and high-tech features transport diners to another world in one of three themed areas depicting Atlantis, Machu Picchu, and the Serengeti Plain. Part of the third and all of the fourth level are reserved for a United Artists Cinema. Acoustical insulation for the 15-screen cinema was established through a "floating floor" of 3-inch reinforced concrete, separated from a 6.5-inch floor slab by a series of 2-inch isolation pads.

Two underground parking garages provide more than 800 on-site parking spaces. The Pavilions also relies on another 8,000 spaces within a block and a half of the project that become available to shoppers and cinema patrons after office workers have left for the day. This ample supply of close-in parking space was vital to the feasibility of the project.

CONSTRUCTION

After closing with the lenders, the project was on a tight, 20- month schedule to open, which required a fast-track design and construction schedule. The schedule was complicated by design reviews with the city, DURA, and also some of the tenants. To expedite the construction process, steel for the project was ordered on the basis of design drawings, a practice that conceivably could put a project severely over budget.

As a partner in the project, the city worked to expedite approvals while maintaining proper due diligence. The contractor, Hensel Phelps, an equity partner, also took great pains to bring the project in on schedule, using technology to expedite construction practices. Excavation of both blocks took place simultaneously, a significant feat of organization that had dumptrucks leaving the site every 45 seconds. After quickly relocating utilities, the contractor began construction of the underground parking garages. Special probes set into concrete to measure time and temperature alerted work crews when deck forms had cured, eliminating the need to send samples off-site for analysis. The company used video surveillance technology to closely scrutinize on-site practices, searching for ways to improve productivity. Because of the large number of spectators who began to gather, the developer and contractor opened the site to the public and even set up special bleachers with clear lines of sight. The public gesture was received favorably and created so much local media coverage that the Associated Press ran a wire story that appeared in newspapers all over the country. Construction was completed on schedule in November 1998, in time for the holiday shopping season.

MANAGEMENT

As part of the 16th Street Mall, Denver Pavilions is a paying member of the downtown business improvement district (BID). In addition to the services provided by the BID, such as police, landscaping, maintenance, and sanitation, Denver Pavilions provides its own security. Management is not substantively different from that at a typical regional mall, but it tends to be more intense because of the open nature of the development. The project's visibility requires a highly proactive management style to maintain the property's appearance and good relations among tenants.

Tenant leases in most cases are based on typical regional mall leases and include remodeling and renovation clauses. However, in the case of some of the stronger tenants, leases were drawn from their own base lease and included some unorthodox conditions.

CONCLUSION

Denver Pavilions is achieving sales in excess of $450 per square foot, and the multiplex cinema boasts the highest weekly gross sales on a per-screen basis of 40 cinemas in the metro area. Denver Pavilions also has contributed to the success of other businesses along the 16th Street Mall. Traffic counts in the area near Denver Pavilions have increased nearly 50 percent since it opened, and nearby stores and restaurants are reporting increased sales.

EXPERIENCE GAINED

- It is difficult to be first with an unproven concept. Strong partners with an earnest belief in the project are essential. Likewise, the cooperation and commitment of local officials is indispensable in complex and expensive projects.
- The urban entertainment concept will not work in every downtown. A city's in-town and suburban residents must already display a strong disposition to visit downtown, and the downtown population needs to be strong, or at least on the upswing.
- Adequate parking is essential to the viability of downtown projects. While it may be tempting to locate these projects near existing downtown attractions, care must be taken that they do not compete for parking.
- Working with strong, high-quality tenants can be difficult. Many take justifiable pride in doing things their way. Nevertheless, a balance must be struck between the needs of individual tenants and the goals of the overall project.

PROJECT DATA

LAND USE INFORMATION

Site area: 3.21 acres

Use	Existing gross square feet
Retail	206,838
Entertainment	114,545
Restaurant	77,076
Parking	312,063
Common area	31,950

Total gross building area (GBA): 710,522 square feet (excludes common open-air space)
Retail gross leasable area (GLA): 347,750 square feet
Floor/area ratio: 2.48 (GLA); 5.08 (GBA)

LAND USE PLAN

Use	Acres	Percent of site
Buildings	2.72	85
Landscaping/open space	.49	15
Total	3.21	100

RETAIL INFORMATION

Tenant classification	Number of stores	Total GLA (square feet)
Food service	6	68,167
Clothing and accessories	19	92,165
Shoes	1	1,501
Home appliances/music	1	25,000
Hobby/special interest	4	29,766
Gift/specialty	14	21,765
Jewelry	2	1,058
Personal services	1	4,146
Cinema	1	79,419
Other entertainment	2	20,549
Other	4	4,214
Total	55	347,750

Percent of GLA occupied: 87 percent.
Annual rents: Approximately $19 to $80 per square foot.
Average annual retail sales: Approximately $450 per square foot, excluding theater.
Typical lease provisions: Base rent, percentage rent, pro-rata pass-throughs, common-area maintenance charges, taxes, insurance.

DEVELOPMENT COST INFORMATION

Land cost: $18,000,000
Construction costs: 45,028,000
Owner construction: 171,000
Tenant improvements: 20,264,00
Architecture: 4,255,000
Engineering: 365,000
Material testing/inspection: 207,000
Bank consultant: 134,000
Design analysis: 17,000
Construction management: 1,024,000
Travel and entertainment: 216,000
Development fee: 2,020,000
Syndication fee: 1,000,000
Legal: 1,959,000
Government fees/insurance: 866,000
Leasing commissions: 1,412,000
Promotions/advertising: 208,000

Taxes: 409,000
Title: 167,000
Predevelopment expenses: 489,000
Miscellaneous consultants: 25,000
Utility relocations: 642,000
Utility relocation credit: –575,000
Lender fee: 865,000
Investment banker equity: 613,000
Investment banker letter of credit: 250,000
Preferred equity return: 2,315,000
$10M letter of credit (bank): 343,000
$2M letter of credit (DURA): 273,000
Carrying costs: 1,996,000
Hensel Phelps interest costs: 107,000
Capital equipment: 193,000
3/4% on $10M letter of credit: 150,000
1% on $8M letter of credit for Hensel Phelps: 100,000
Bank administrative fee: 84,000
Interest rate protection: 79,000
Contingency: 573,000
Total: $106,245,000

FINANCING INFORMATION

Financing source	Amount
Denver Urban Renewal Authority	$24,395,000
Denver Pavilions LP equity	18,850,000
Construction loan	63,000,000
(1/3 Canadian Imperial Bank of Commerce) (1/3 Bank One Colorado) (1/3 Societe Generale)	
Total	$106,245,000

Public financing: 23 percent
Denver Urban Renewal Authority: $24,395,000 tax-increment financing (sales and real estate taxes) nonrecourse to development or developer.

Debt financing: 59 percent
Equity-financing: 18 percent

ANNUAL OPERATING EXPENSES FOR 1999

Taxes: $820,000
Insurance: 51,000
Services: 397,000
Maintenance: 90,000
Janitorial: 240,000
Utilities: 108,000
Legal: 60,000
Management: 300,000
Miscellaneous: 237,000
Total: $2,303,000

DEVELOPMENT SCHEDULE

Site purchased: February 1997
Planning started: November 1994
Construction started: February 1997
Leasing started: March 1995
Project completed: November 1998

DIRECTIONS

From Denver International Airport: Take PeZa Boulevard to I-70 West to I-25 South. Exit Spear Boulevard (east) to Colfax (left) to Welton (left) to16th Street Mall.

Driving time: 30 minutes in nonpeak traffic.

David A. Mulvihill, editor, Project Reference File
David A. Mulvihill, report author
Eileen Hughes, managing editor
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The facades of each of the four buildings are elegant and restrained in design and materials. Visual excitement comes from creative lighting and signage and from the large display windows that face the street.

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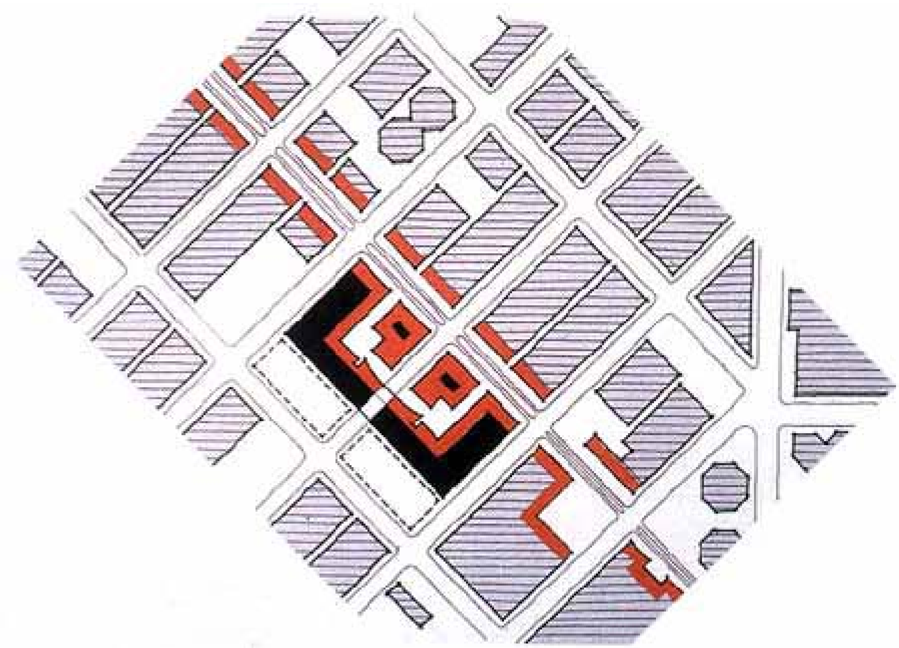

Site plan displaying retail frontage of project and surrounding area.