

## Pacific Place

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Seattle, Washington

Project Type:  
Commercial/Industrial

Case No:  
C029017

Year:  
1999



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### SUMMARY

A five-story, 335,000-square-foot retail/entertainment center occupying a full city block at Sixth Avenue and Pine Street in an up-and-coming area of downtown Seattle. The project was designed to look like a collection of smaller buildings, a perception reinforced by the signature storefronts and separate entrances of some of the tenants. Destination restaurants and an 11 screen cinema complex with state-of-the-art sound and projection systems and stadium seating for 3,100 people draw visitors to the center's upper floors. In addition, a skybridge connects the third floor with Nordstrom's new flagship department store. The project required significant assistance from the city, including the reopening of Pine Street to vehicle traffic and the city's agreement to purchase the center's 500,000-square-foot underground parking garage.

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- Downtown development
  - Redevelopment
  - Urban entertainment center
  - Creative financing
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### SPECIAL FEATURES

- Downtown development
- Redevelopment
- Urban entertainment center
- Creative financing

### DEVELOPER

Pine Street Development L.L.C.  
520 Pike Tower, #2200  
Seattle, Washington 98101  
206-340-9897

### ARCHITECTS

NBBJ  
111 S. Jackson Street  
Seattle, Washington 98104  
206-223-5555

Elkus/Manfredi Architects Ltd.  
530 Atlantic Avenue  
Boston, Massachusetts 02210  
617-426-1300

### STRUCTURAL ENGINEER

Skilling Ward Magnusson & Barkshire  
1301 Fifth Avenue, Suite 3100  
Seattle, Washington 98101-2699  
206-292-1200

### GENERAL CONTRACTOR

Lease/Sellen  
107 Spring Street  
Seattle, Washington 98101  
206-622-0500

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## GENERAL DESCRIPTION

Located at the corner of Sixth Avenue and Pine Street, Pacific Place is a five-level, 335,000 square-foot shopping, dining, and entertainment complex that is at the heart of the revival of downtown Seattle's retail district and part of an estimated \$2 billion construction boom.

The picture was totally different just six years ago, when Seattle's critical mass of urban retail stores was fading fast. The Frederick & Nelson (F&N) department store closed in 1992, followed two years later by its neighbor I. Magnin. Although national retailers were attracted by the region's growing economy, they were skittish about the future of Seattle's urban core and opted to locate outside downtown. Jeff Rhodes, a veteran shopping center developer who helped create Boston's Copley Place and Chicago's Watertown Place, had moved to Seattle to retire, but he was troubled by the desolation creeping across his adopted city's downtown.

In 1993 Rhodes started working with Seattle business and political leaders on a plan to transform three downtown blocks, including the vacant ten-story F&N department store, into a new retail center. He brought in development partners Ken Himmel and Tom Klutznick, with whom he had worked on the Boston and Chicago projects. To manage the development, he also brought in Matt Griffin, who had developed a number of Seattle's premier office and retail developments. In 1994, they formed Pine Street Associates, which later became Pine Street Development. Rhodes, Himmel, and Klutznick sold their interest in the project in October 1998.

## DEVELOPMENT

Their retail resuscitation plan called for buying the old F&N store and trading it to Nordstrom in exchange for its smaller store on Fifth between Pine and Pike streets and for the adjacent ten-story Seaboard Building, which Nordstrom used for office space. Pine Street Development (PSD) planned to knock down a parking garage and other buildings and turn the block into a shopping center with underground parking. When Nordstrom moved out, PSD would take possession of the old store, create retail space on the lower floors and offices on the upper ones, and then renovate the Seaboard Building.

Norm Rice, then Seattle's mayor, and city business leaders championed the plan as a way to stem downtown's downward spiral. In the *Seattle Post-Intelligence* (May 3, 1996), Rice described the Pacific Place plan as "the biggest revitalization effort in downtown Seattle since we rebuilt from the Great Fire" (in 1889). But the plan drew considerable opposition, primarily because it required the city's participation. Pine Street, which had been closed to vehicle traffic between Fifth and Fourth avenues to make way for an urban pedestrian park, would have to be reopened. The developers and most downtown businesses contended that the closure cut off access to several affluent urban neighborhoods and ultimately sent the message that access to downtown was difficult. Nordstrom said that it could not justify investing \$100 million in the F&N in a downtown that was hampered by the closure of a critical thoroughfare. The larger Nordstrom facility would allow the company to partly consolidate some of its many office users into one central downtown space.

The developer teamed up with the Downtown Seattle Association to mount a carefully orchestrated campaign to pitch the street reopening as an important opportunity to improve downtown. They corralled the support of most every downtown retailer, including shopkeepers at Seattle's enshrined Pike Place Market. The street reopening, which had been the subject of debate for several years, was approved by public vote, garnering a significant 62 percent of votes cast.

The parking garage was another critical piece of the plan. Almost every study of downtown retail conducted in the early 1990s cited the lack of affordable, convenient short-term parking as a main deterrent to shopping downtown. The Pacific Place plan called for the city to chip in by purchasing the center's underground garage from the developers. Opponents insisted that the price of \$73 million was too high because it exceeded the developers' cost to build it. Although cities routinely encourage urban revitalization projects by directly subsidizing the cost of developing auxiliary parking, in Seattle this type of public/private cooperation is stymied by the state's strict constitutional ban against gifts of public money to private business. As a result, cities in Washington state have had to devise alternative ways to help developers. After a barrage of negative press, audits by city and state departments, and legal battles, the garage deal was deemed appropriate by the State attorney general's office. The *Seattle Times* ultimately recanted its harsh criticism and endorsed the agreement.

In May 1996, Pine Street Associates acquired the F&N building and conveyed it to Nordstrom in exchange for rights to the old Nordstrom store and the Seaboard Building. Nordstrom immediately started renovating the F&N building into a new, 380,000-square-foot flagship store topped by 320,000 square feet of office space. The building reopened August 1998. In January 1997, the developers started construction on the six-level underground garage at Pacific Place to serve the shopping center and the entire retail core, including Nordstrom's new store. When Pacific Place opened in October 1998, downtown Seattle's retail epicenter shifted from Fifth Avenue and Pike Street to Sixth Avenue and Pine Street.

Although the specialty shopping center contains no department store anchors, Nordstrom—just a skybridge away—essentially assumes that function. Moreover, Nordstrom's commitment to invest more than \$100 million in its hometown sent a strong message to the finance and retail communities, who knew that developers frequently offer

Nordstrom large incentives to locate at their centers.

The final stages of the three-block makeover are now underway. Pine Street Development, headed by Matt Griffin, is transforming Nordstrom's former store into a mixed-use building with multilevel retail shops and offices above. They next will redevelop the adjacent Seaboard Building into offices with residential units above.

## FINANCING

Venture capital came from the original partners—Rhodes, Griffin, Himmel, and Klutznick (RGHK) and the founding investors—a group of prominent local families and business people including the heads of such companies as Starbucks, Costco, and McCaw Cellular. They eventually contributed more than \$10 million. Says managing partner Matt Griffin, "I don't think any of these local investors would have taken the financial risk if it weren't our home town. We all knew downtown was in trouble." When the founding investors first were approached, the project had no tenants and no equity partner. The developers did not yet have a deal with Nordstrom, and Pine Street had not been reopened. "So this investment was an act of faith," notes Griffin. Some of the same families that invested in the three-block project were involved a generation ago in bringing the World's Fair to Seattle.

The local investors later were joined in the equity financing by the Multi-Employer Property Trust (MEPT), a pooled equity real estate fund that invests in both commercial and multifamily residential projects in communities where participating pension plans are located. Kennedy Associates Real Estate Counsel, Inc., a full-service investment firm based in Seattle, is MEPT's investment adviser. Eighty percent of the equity capital in Pine Street Development was provided by MEPT and 20 percent by Pine Street Associates, the founding investors. Three of the original partners—Rhodes, Himmel, and Klutznick—sold their interest to Pine Street Associates in October 1998.

Construction financing was more difficult to come by. By late 1996, the developers had secured a commitment from the city for the garage development plan as well as a commitment from Seafirst Bank for the construction financing, subject to finding financial partners—but they could not find partners. Lease commitments for around 50 percent of the project did not satisfy the lenders, who required the project to be at least 60 percent leased. Although Nordstrom had committed to building its new flagship store downtown, potential tenants were still skittish about downtown's physical deterioration—the graffiti, the boarded-up storefronts, and the prevalence of street people.

By the end of 1996, the developers' option to purchase the ground on the Pacific Place block was due to expire. If they did not get started, they would not be ready for Christmas 1998. MEPT eventually provided a subordinate loan (which replaced part of the construction loan) to make up for the missing leasing, allowing the developers to proceed with construction financing. In April 1997 the developers secured construction financing from Seafirst Bank, as agent, with Washington Mutual Bank and MEPT Bank. Between January and July 1998, Pacific Place went from 50 percent to 85 percent leased. The tremendous pace of development downtown—the new symphony hall, eventual convention center expansion, and a new Nordstrom Store—assuaged retailers' fears. They realized that if they wanted a spot at Pacific Place they needed to move quickly.

Early in the project, Pine Street Development obtained a loan under the U.S. Department of Housing and Urban Development's (HUD's) Section 108 program to address urban blight. The city backed the HUD guarantee, which the developers then backed with a letter of credit. The developers used the loan to purchase the vacated Frederick & Nelson department store, which had been languishing for a number of years. Some local housing advocates argued that the money should have been used instead to build low-income housing, mistakenly thinking that the Section 108 program was designated for housing development.

In the end, the costs associated with the loan—i.e., creating the documents, securing letters of credit, paying interest rates—made the loan just as expensive as the developer's construction financing. In retrospect, the loan probably did not warrant the costly effort and heightened public scrutiny that it attracted. On the other hand, the city's endorsement of the loan sent the message that the city supported the project, which was especially important at the early stage.

The city's main contribution was its agreement in late 1995 to purchase the garage from Pine Street Development after completion and a successful startup. The city took an entrepreneurial approach to helping reverse the slide of downtown Seattle and to addressing an important public issue—the lack of affordable, short-term parking for shoppers. The city agreed to pay the developers \$73 million for the completed garage, for which they would issue bonds to be paid off with the garage cash flow within 30 years. Although the garage costs were \$50 million, the city agreed to pay the \$73 million because of the expected cash flow; it also had a number of requirements to increase the flow.

As part of the deal, the developers agreed to build at least 300,000 square feet of retail space above the garage and to secure a commitment from a department store of at least 200,000 square feet to occupy the F&N building. Also, the city would not take over the garage until 150,000 square feet at the center had been occupied, the theaters were up and running, and a six-month shake-down period had worked out all the bugs in the fully operating garage. As an additional protection, the developer further agreed that if the garage was not generating sufficient money to cover the city's debt service payments after 20 years, the city would have the option of "putting it back" to the developer for up to \$50 million.

The city took over the garage in November 1998. Both the developer and the city agreed it was important to keep

parking rates low—comparable to meter parking—as an incentive to bring people downtown. The parking rates at Pacific Place are the lowest in the retail core. As long as the cash flow covers its bond debt service payments, the city will keep the rates low.

## PLANNING AND DESIGN

The six-level 1,200-space underground garage—the largest in downtown Seattle—has a double helix configuration, almost like two separate garages, to make circulation easier and speedier than with standard garage design. The two interlocking ramps have distinct travel systems with double sets of entrances and exits. The garage features valet parking as well as a "pay-on-foot" self-park system whereby shoppers pay at the concourse level before returning to their cars. The system brings additional traffic to concourse tenants and accelerates traffic flow out of the garage. Concerned about potential congestion from moviegoers as they leave the theaters, the developer installed this parking system to avoid backups.

To achieve the most efficient and user-friendly design, NBBJ architects, who designed Pacific Place along with Elkus/Manfredi Architects Ltd., first created a mockup of the garage. This exercise showed that it is easier for drivers to maneuver when columns are placed in front of rather than on the side of vehicles, so that they do not block vehicle doors. Removing the columns from the sides also enhanced visibility and minimized concerns about someone hiding in a corner or behind a column. As many stalls as possible were made full size. Ceilings, walls, and structural beams were painted white to brighten the space. High-quality design elements—such as bright lighting, coffered ceilings with coved lighting, and handsome stainless steel doors—were used to create the look of a hotel drop-off rather than a basement. The elegant curved wood-and-glass cashier's station is designed to look like a concierge desk at a hotel.

Each atrium level is connected by standard escalators. An express, up-only escalator whisks diners and moviegoers directly to the fourth floor. Sight lines were critical, especially those of the shops as viewed from the escalators. The architects used a model scope—a minuscule camera mounted on a pen-like structure—to simulate the visual experience of a shopper and views from specific vantage points throughout the interior. Some columns were moved to free up sightlines.

Although Pacific Place occupies one of the largest blocks in downtown Seattle, it was designed to look like a collection of smaller buildings that were built over time. Many of the tenants, such as Pottery Barn, Tiffany & Co., and Starbucks, feature signature storefront designs and separate street entrances. The exterior center design was made deliberately simple to better showcase the individual storefronts. Although tenants were encouraged to express themselves with different finishes and colors, they worked within a standardized modular panel system that established a cohesive framework for the development.

In contrast to the fortress style of many suburban shopping malls, Pacific Place is highly permeable, with more than a dozen entry points that lead from the surrounding streets into the building. Pedestrians are invited to take short cuts through the building and to use the groundfloor lobby as an extension of the sidewalk. Pacific Place was designed to achieve the sense of energy and openness experienced on a bustling retail street. "We've managed to bring a taste of Michigan Avenue to downtown Seattle," says developer Matt Griffin. "But what sets Pacific Place apart from Chicago is that here all the shops are under one roof."

Shops and restaurants are built around an interior thoroughfare. Materials such as textured, colored concrete flooring for sidewalks and terra cotta-like panels for the walls, as well as ornamental street lamps, create a city streetscape. The soaring, crescent-shaped atrium lined with shops and restaurants is designed to resemble a European-style plaza. Natural light from an enormous skylight fills the atrium throughout the day, creating a welcome year-round oasis. In this rainy climate, where people crave light during long winter months, the plaza is a favorite place to linger over espresso and Italian pastries from the Il Fornaio Restaurant and Bakery, which has a café in the center of the atrium.

On the fourth floor, restaurants and sidewalk cafés are aligned along a pedestrian promenade complete with sidewalks and street furniture. Details such as awnings and flower boxes add to the outdoor ambience. Several of the restaurants provide decks for outdoor dining where diners can enjoy views of the downtown skyline. City planners were pleased with the several groundfloor sidewalk cafés, as well as the canopies framing store windows and the multiple entrances that add interest and help mitigate the blank wall syndrome.

A steel-and-glass skybridge over Sixth Avenue connects the third level of Pacific Place with the fourth level of Nordstrom's new flagship store. The historic landmark status of the former Frederick & Nelson department store placed constraints on the skybridge design. For example, a drawbridge design was selected, which placed all the weight on Pacific Place to protect the older terra cotta-faced building. The city generally discourages skybridges, which can block views and take people off the streets. The developer showed that the skybridge would not block water views. The developer reasoned that the bridge was essential for moving shoppers between Nordstrom and Pacific Place and that without it, it would have to build a much smaller shopping center, which would reduce the number of people on the street more than would a bridge.

## TENANTS

Seattle's retail boom is tied closely to the slew of entertainment, cultural, and tourist facilities that recently have appeared downtown, including three new and improved live performance theaters, a new symphony hall, and multiplex cinemas, not to mention the new Safeco Field baseball stadium. The convention center expansion, which

will nearly double the existing space, will open in 2001. These facilities have attracted a multitude of entertainment oriented stores and restaurants downtown, among them Warner Bros. Studio Stores, FAO Schwarz, and a Wolfgang Puck eatery. The Meridian entertainment/retail complex opened in 1996 with a 16-screen cinema, GameWorks video arcade, NikeTown, Planet Hollywood, and Levis store.

Although Pacific Place offers a variety of entertainment features, including a broad mix of restaurants and a state-of-the art multiplex cinema, the developer emphasizes that the primary entertainment is the actual experience of visiting the center—whether it is lingering over a latte in the sun-lit central piazza or checking out the J. Peterman Co., store, famous for its quirky catalogue. A recent intercept survey reported that some 45 percent of visitors come to Pacific Place to walk on the indoor pedestrian promenade, check out the shops, or just sit at a café and people watch, with no specific destination in mind. This figure supports the developer's goal of creating a lively environment for shopping and dining, where people come to mingle and enjoy the urban experience.

Three restaurants are located on the fourth floor as well as at the entrance to the two-level movie theaters. The 11-screen General Cinema Theaters complex features stadium seating for 3,100 people and state-of-the-art sound and projection systems. The cinema works with the fourth-floor restaurants to draw visitors to the top floors—always a big challenge in vertical retail developments. Because the theaters were too large to fit on half a floor, they were stacked on the fourth and fifth floors.

In keeping with the developer's vision of Pacific Place as a place for everyone, the restaurants offer a broad range of prices and menus. Hometown coffee king Starbucks selected the center for its new restaurant concept, Café Starbucks, a European-style café and coffee bar. Desert Fire, offering Southwest cuisine, is a family-priced restaurant. More elegant dining can be had at Stars Bar & Dining, which caters to the after-symphony crowd. Il Fornaio has three restaurant formats and a bakery at Pacific Place. Most restaurants keep extended hours for late-night diners attending the symphony or a movie. Likewise, some retailers stay open late to complement the restaurants and cinema.

Pacific Place benefits from Seattle's robust tourist industry. Just a short walk from the Washington State Convention and Trade Center, the shopping center attracts travelers and convention goers from around the world—a strong inducement for the 45 stores and restaurants located at Pacific Place, of which about a third were new to the Pacific Northwest. It was anticipated that as much as 40 percent of customers would be tourists. The developer felt equally committed to serve the local market. Fueled in part by the technology boom, "Seattle is a much wealthier community than it used to be. And Seattle people deserve great stores without having to get on an airplane," says Griffin. High-end retailers like Tiffany and Cartier jewelers or MaxMara's Italian clothiers for women recognized this unfilled niche when they decided to open their first Northwest stores at Pacific Place.

## EXPERIENCE GAINED

- Many factors influence an investor's decision to support a project that appears risky. Were Seattle not their hometown, the group of local investors probably would have been reluctant to get involved before Nordstrom had committed and before the project had an equity partner and tenants. According to the developer, the investment was an act of hope. Griffin emphasizes the importance of teaming with partners and investors who fervently believe in the project to assist during trying times. By the end of 1996, the developer's option to purchase the ground for Pacific Place was due to expire. MEPT provided a subordinate loan (which replaced part of the construction loan) to make up for the missing leasing; that allowed the developer to proceed with construction financing. The developer eventually secured construction financing from Seafirst Bank, as agent, and Washington Mutual and MEPT. Pine Street Development also put up money to accelerate the construction schedule, which was essential to meeting the Christmas 1998 deadline.
- With hindsight, the developer probably would have not have applied for the HUD loan. The associated costs made the loan just as expensive as construction financing, and the benefits probably did not warrant the costly effort and the heightened public scrutiny that the loan attracted. On the other hand, the city's guarantee of the loan showed the city's support, which was especially important at the early stage.
- The center's exterior design—which looks like a collection of smaller buildings, giving tenants such as Pottery Barn and Tiffany separate street entrances and individual storefront designs—was a significant draw. Recognizing that many retailers were seeking venues outside malls to strengthen their identity, the developers of Pacific Place selected a design that would offer tenants a greater street presence.

PROJECT DATA		
LAND USE INFORMATION		
Site area: 2 acres		
Gross building area (GBA)		
Use	Gross square feet	
Office	2,700	
Retail	223,000	
Entertainment (cinema)	65,000	
Restaurant	48,000	
Parking	500,000	
Common area	160,000	
Total GBA	998,700	
Leasable area: 335,000 square feet Parking: 1,200 spaces Floor/area ratio: 4		
LAND USE PLAN		
Use	Acres	Percent of site
Buildings	2	100
OFFICE INFORMATION		
Percent of NRA occupied: 100 percent Number of tenants: 1 (property management office) Average tenant size: 2,700 square feet Annual rents: Approximately \$25 per square foot		
RETAIL INFORMATION		
Tenant classification	Number of stores	Total GLA (square feet)
General merchandise	11	58,000
Food service	6	48,000
Clothing and accessories	19	87,000
Shoes	1	1,900
Home furnishings	3	35,000
Home appliances/music		
Hobby/special interest	2	6,000
Gift/specialty		
Jewelry	2	10,000
Drugs		
Personal services		
Cinema	1	65,000
Health club		
Other entertainment		
Financial	1	5,900
Other		
Total	46	316,800
Percent of GLA occupied: 95 percent Annual rents: Approximately \$25 to \$90 per square foot Average annual retail sales: Approximately \$500 per square foot (excludes Cinema/Barnes & Noble) Average length of lease: seven to ten years Typical lease provisions: Tenant allowance provided. Base plus percentage rent.		
DEVELOPMENT COST INFORMATION		
Site acquisition cost: \$18,000,000		
Site improvement costs		
Demolition: \$1,180,000		

Excavation/grading: 7,225,000  
Sewer/water/drainage: 230,000  
Paving/curbs/sidewalks: 200,000  
Landscaping/irrigation: 15,000  
Fees/general conditions: 1,130,000  
Other  
Total: \$9,980,000

Construction costs  
Office  
Retail/garage: \$122,000,000  
Residential  
Public parks  
Hotel  
Other  
Total: \$122,000,000

Soft costs  
Architecture/engineering: \$10,000,000  
Project management: 5,300,000  
Marketing: 3,000,000  
Legal/accounting: 3,000,000  
Taxes/insurance: 600,000  
Title fees: 90,000  
Construction interest and fees: 8,800,000  
Other: 2,230,000  
Total: \$33,020,000

Total development cost: \$183,000,000

#### FINANCING INFORMATION

Financing source	Amount
Seafirst Bank, as agent (construction financing)	\$106,000,000
Multi-Employer Property Trust (construction financing)	21,000,000
Equity and other	56,000,000
Total	\$183,000,000

Publicly financed: 0 percent  
Debt-financed (private): 70 percent  
Equity-financed (private): 30 percent

#### DEVELOPMENT SCHEDULE

Site optioned: 1994  
Site purchased: January 1997  
Planning started: 1994  
Construction started: January 1997  
Sales/Leasing started: Fall 1994  
Project completed: October 1998

#### DIRECTIONS

*From Seattle-Tacoma airport:* Go north on I-5. Take Seneca Street exit to downtown Seattle. Go north to Sixth Avenue. Continue north on Sixth Avenue until Pine St. Just north of Pine St., turn right into the garage at Pacific Place.

*Driving time:* 20 minutes in non-peak traffic.

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This Development Case Study is intended as a resource for subscribers in improving the quality of future projects. Data contained herein were made available by the project's development team and constitute a report on, not an endorsement of, the project by ULI-the Urban Land Institute.

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The five-story, 335,000-square-foot pacific place retail/entertainment center is part of an estimated \$2 billion construction boom and retail revival in downtown Seattle.



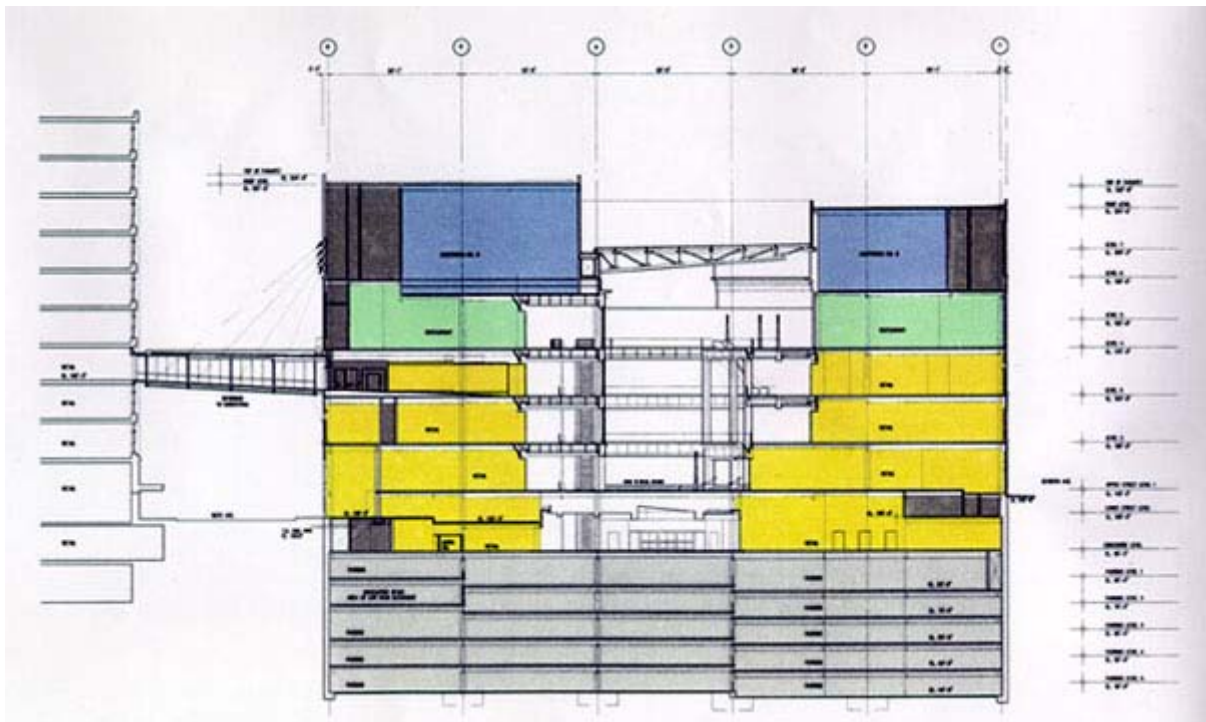
The soaring, crescent-shaped atrium lined with shops and restaurants is designed to resemble a European-style plaza.



Shops and restaurants are built around an interior thoroughfare. Restaurants on the fourth floor help to draw visitors to the project's upper levels.



On the fourth floor, restaurants and sidewalk caf  s are aligned along a pedestrian promenade complete with sidewalks and street furniture.



Building plan.