

## Metreon

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San Francisco, California

Project Type:  
Commercial/Industrial

Case No:  
C030001

Year:  
2000



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### SUMMARY

A 350,000-square-foot urban entertainment center on a 2.75-acre site in downtown San Francisco. Developed by Millenium Partners and WDG Ventures, the project is located within the 87-acre Yerba Buena Center. Within the first few months of its opening in June 1999, Metreon attracted some 2.5 million visitors. As many as 40,000 people have visited on peak-period weekends. The four-level project offers amusements, games, shopping, restaurants, a food court, and cinemas—including a 600-seat SONY•IMAX theater, the largest of its type on the West Coast—enlivening the evening activity of the Yerba Buena Gardens neighborhood.

### FEATURES

- Urban entertainment center
  - Downtown development
  - Ground lease
  - Interactive entertainment
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### SPECIAL FEATURES

- Urban entertainment center
- Downtown development
- Ground lease
- Interactive entertainment

### DEVELOPER

Yerba Buena Retail Partners  
Millenium Partners  
1995 Broadway, 3rd Floor  
New York, New York 10023  
212-595-1600

WDG Ventures  
107 Stevenson Street  
5th Floor  
San Francisco, California 94105  
415-896-2300

### ARCHITECT

Simon Martin-Vegue Winkelstein Moris  
501 Second Street  
Suite 701  
San Francisco, California 94107  
415-546-0400

Gary E. Handel & Associates  
1995 Broadway  
3rd Floor  
New York, New York 10023  
212-595-4112

### OTHER DEVELOPMENT TEAM MEMBERS

Sony Development, Inc.  
3001 North San Fernando Blvd.  
Burbank, California 91504  
818-295-2313

San Francisco Redevelopment Agency  
770 Golden Gate Avenue

San Francisco, California 94102  
415-749-2400

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## GENERAL DESCRIPTION

Metreon is the newest attraction in San Francisco's Yerba Buena Center, an 87-acre master-planned district of cultural facilities and gardens. Although the San Francisco Museum of Modern Art and the Yerba Buena Center for the Arts are neighbors, Metreon offers a different sort of attraction: themed amusements, games, shopping, restaurants, and cinemas. The 350,000-square-foot urban entertainment center includes attractions based on Maurice Sendak's children's book *Where the Wild Things Are* and on David Macaulay's book *The Way Things Work*, as well as a games arcade based on the work of the French comic book author and graphic artist Jean Giraud, who is known as "Moebius." In addition to these paid admission attractions, Metreon has several unusual retail tenants, including Sony Style, microsoftSF, and a PlayStation store/video "bar." Adding to the mix are a 16-theater cineplex (including a SONY•IMAX theater), several restaurants, and a food court—Taste of San Francisco—that is worthy of a trip in its own right.

Though the offerings are varied, appealing to an unusual number of market segments, Metreon's design unifies the disparate elements into a cohesive entertainment destination. The four-level project, open since June 16, 1999, has brought a new, evening-oriented dimension to the life of the Yerba Buena Gardens neighborhood, reinforcing the status of the ambitious redevelopment project as the nucleus of the emerging South of Market Street (SoMa) district.

## HISTORY

Metreon is located on Fourth Street, at the west end of Yerba Buena Gardens. The 550-foot-long structure, which occupies the entire Fourth Street frontage from Mission Street to Howard Street, is built over the subterranean ballroom of the Marriott Hotel, which is located across Mission Street from Metreon. Though the below-grade ballroom was completed in the late 1980s, the above-grade portion of the site remained undeveloped until the early 1990s, when the city of San Francisco issued a request for proposals (RFP) for a mixed-use retail/entertainment project to be built over the ballroom. The 1992 RFP spelled out the city's intentions for the project: to create a mix of entertainment uses that would complement the area's cultural uses and enliven the neighborhood day and night, and to establish a reliable, long-term revenue stream that would be used to operate and maintain the public facilities in Yerba Buena gardens.<sup>1</sup>

A joint venture of Millennium Partners and WDG Ventures Inc. was selected as project developer in 1993 on the basis of the strength of Millennium's Lincoln Square Project, a mixed-use project in New York, and the firm's established tenant and financing relationships, as well as the depth of WDG's local San Francisco experience. The original concept for the project included several large national retailers—Barnes & Noble, Reebok, a music tenant, and a Sony Theaters Cineplex. Sony, however, was beginning to explore the potential for expanding its presence in the emerging entertainment center field, according to Mike Swinney, president of Sony Development. The Metreon concept began to evolve from the big-box-plus-theater model to having Sony as the master tenant and orchestrator of an integrated entertainment center. Planning and design continued from 1993 until 1997, while the developer carried on simultaneous negotiations with Marriott, whose approval was required for anything built above the ballroom, as well as with city officials, lenders, and Sony. "All issues affected everyone, and everyone had to agree," notes Mark Farrar of Millennium Partners. The project that emerged retained the cineplex as an anchor, but jettisoned the other large national tenants in favor of more unusual stores—some highlighting the Sony brand—and more purely entertainment-oriented attractions.

More than with most retail or entertainment centers, the design and construction of Metreon was a difficult and complicated task, starting with the design. The core-and-shell architects—Simon Martin-Vegue Winkelstein Moris (SMWM) and Gary E. Handel Associates—had to contend with the existing below-grade ballroom as well as with the highly-charged design context of the Yerba Buena project site. In addition, notes Linda Sobuta, project architect for SMWM, once the concept for the project changed, substantial adjustments to the design had to be made to accommodate the more open, atrium-like space envisioned by Sony. Sony itself designed much of the interior common areas and led the design effort for the *Where The Wild Things Are* and *The Way Things Work* attractions. Several other architects and designers participated in designing these attractions, as well as the cineplex and other tenant spaces.

Construction of the complex project took approximately two years. To facilitate Metreon's opening, the city established an interdepartmental committee that met with the contractor, architect, and owner every week while the project was being completed. In all, notes Millennium's Farrar, more than 20 different permits and certificates of occupancy had to be signed in the closing days of construction in an inspection process that continued nearly uninterrupted for eight weeks.

## DESIGN

The architecture of Metreon is sleek and modern, in keeping with the aspirations of its major sponsor, Sony. Like much of the Sony product line, the exterior finishes of the four-story Metreon structure are metallic, refined, and controlled. The bulk of the exterior is modulated by glass panels, balconies, and stairs, as well as by the articulated volume of various project components. The shaped box of the SONY•IMAX theater, with its 80-foot-high screen, dominates and anchors the street side of the project, while the open, glassy facade responds to the esplanade and

view on the Yerba Buena Gardens side.

Storefronts occupy the ground level on both the street and garden sides, making for pleasant window shopping, but, bowing to the "mall" model of operations, there are few direct entrances into tenant spaces. Instead, there are three entrances/passageways that open into Metreon from the street and two additional entries from the Gardens. The entrances converge on the 60-foot- high Metreon Gateway, the main circulation/orientation space. Within the Gateway are two information counters where attendants sell cards that are used for admission to the themed attractions. Also located in the Gateway and elsewhere throughout the project are self-service ATM-like machines, dressed in high-tech stainless steel and wood cases, which dispense or replenish cards.

By design, tenant spaces tend to merge with the common areas and with each other. Unlike in a more traditional retail center, there are few full-height demising walls. Rather, tenant spaces are defined more by their finishes and displays than by shop fronts and signage. In some cases, visitors can walk directly from shop to shop without going through a common corridor at all.

The first floor is occupied by shops—Sony Style, PlayStation, a flagship Discovery Channel Store, and the Metreon Marketplace—as well as by Taste of San Francisco, which offers smaller versions of four trendy local restaurants, and other restaurants. The second floor includes themed attractions (The Way Things Work and Airtight Garage), the microsoftSF store, a 3-D holographic imaging experience, and another restaurant. Sony Theatres Metreon and the SONY•IMAX theater occupy the whole of the third floor, and the fourth floor is the home of Where The Wild Things Are and its associated restaurant, In the Night Kitchen.

Connecting the floors is a multistory, sunlit atrium that looks out over the gardens, providing dramatic views of San Francisco. At the second and fourth levels are terraces, which allow for outdoor dining and viewing. The terraces have proven to be highly popular, and they are rented out for use after hours and on special occasions.

No parking is provided in the Metreon building. The project relies instead on a recently constructed public parking garage across the street from Metreon and on public transit. Along with a shopping guide, a transportation guide is handed out to Metreon visitors that lists all the transit options for getting to Metreon, which, in San Francisco, are considerable. Access has not been an issue, notes Kari Novatney, Metreon's vice president and general manager, because of the highly publicized transit options and the mix of local residents and workers, conventioners, and tourists. Surveys sponsored by Metreon indicate that only about one-third of Metreon visitors arrive by car. Another third arrive by transit, and the remaining third walk from nearby hotels, convention center, offices, and residences.

## OWNERSHIP AND LEASING

The city of San Francisco retains ownership of the land under Metreon and through the San Francisco Redevelopment Agency leases the site to the project owner/developer, officially listed as Yerba Buena Entertainment Center L.L.C. Yerba Buena Entertainment Center is a partnership of Yerba Buena Retail Partners (a partnership of Millennium Partners and WDG Ventures, Inc.) and SRE Retail (Sony). The lease runs through 2046, and the developer has the option to extend the lease for two 18-year periods. The lease includes the following provisions:

- *Holding rent:* Through this provision a minimal rent is paid to the city during the development period.
- *Minimum rent:* On completion of construction, the initial base rate will be set at \$1.75 per square foot of gross leasable area (GLA) per year, with a \$500,000 annual minimum. Minimum rent will be increased 15 percent every five years.
- *Percentage rent:* After the developer receives a preferred return of 14 percent of the cost of development, the redevelopment agency will receive 30 percent of net operating income, in addition to base (minimum) rent and other fees.
- *Index rent:* The total of minimum and percentage rent will be adjusted periodically based on the Consumer Price Index, to a maximum of 5 percent per year.
- *GMOS obligation:* Tenants of Metreon will be assessed a fee for gardens, maintenance, operation, and security (GMOS), based on each tenant's occupied square footage, plus a share of the GMOS fee accruing to vacant square footage. The GMOS obligation will be adjusted annually based on the Consumer Price Index, with a cap of 5 percent per year.
- *Sales proceeds:* The redevelopment agency will receive 10 percent of the net proceeds from the sale or refinancing of the project as prepaid land rent.

Project developer/owner Yerba Buena Entertainment Center L.L.C. in turn entered a master lease for the entire building with SRE Retail (Sony). Sony owns and operates various venues, including Airtight Garage, Where The Wild Things Are, The Way Things Work, Sony Style, PlayStation, and microsoftSF. Sony also participates in a joint venture for Montage, one of Metreon's restaurants, and leases space to third-party tenants, including the remaining restaurants, Marketplace, and the Discovery Channel store, as well as the theaters (Loews Cineplex Entertainment, which is partially owned by Sony).

## MARKETING AND TENANTS

In the months since Metreon's June 1999 opening, attendance has far surpassed projections. Some 2.5 million visitors were counted in the first few months, leading to projections of 8 to 10 million patrons in Metreon's first year of operation. Peak weekends have reached as many as 40,000 visitors, though the more typical numbers are 20,000 to

25,000 for weekend days and 15,000 for weekdays. Of these totals, approximately 65 percent of visitors come from the nine-county San Francisco Bay area, and 35 percent are nonlocal (tourists, conventioners, etc.)

The varied offerings at Metreon have attracted diverse market segments and have had varying levels of initial success. "The known quantities—theaters, restaurants, Sony Style, PlayStation—have done better right out of the box," says Novatney. The Sony Style outlet, one of only two Sony stores, showcases Sony's consumer electronics, everything from Walkman cassette recorders to compact disc players to flat-screen TVs. But unlike at an electronics or department store, the wares are displayed on finely designed pedestals and shelves and illuminated to highlight their design as much as their performance. Sony "took the showroom idea and made it into a lifestyle concept," comments Mike Swinney of Sony Development. As a result, according to Swinney, the Sony Style outlet "promotes the brand and makes money."

The restaurants and Taste of San Francisco also are surpassing expectations. Unlike a typical mall food court, Taste of San Francisco has no chain fast-food outlets. Instead, the offerings are mini versions of four of San Francisco's small, trendy restaurants—Longlife Noodle Company, Buckhorn, Firewood Café, and Sanraku. The food court and freestanding restaurants do well both during the day and evening, buoyed by lunch-time office workers, convention center visitors, and evening theater patrons. In The Night Kitchen, the restaurant associated with Where The Wild Things Are, is among the highest-grossing restaurants in Metreon. "The restaurant is for kids," notes Swinney, "but the high quality of the food is for parents."

Response to the themed attractions has been varied. The most successful by far has been Airtight Garage, Sony's answer to Dreamworks' Gameworks. Within an environment of futuristic imagery designed by Moebius, Airtight Garage offers several Sony-designed games, ("HyperBowl," "Quaternia", and "Badlands"), as well as Malvina's, a cantina based on a Moebius character. Says Swinney, "HyperBowl has been running at 70 percent occupancy, and no game on the planet does that." Airtight Garage devotees include adolescents and, on weekend evenings, an older, over-21 crowd.

Where The Wild Things Are, in contrast, is designed for younger children. The attraction consists of a walk-through (and "play-through") environment modeled on the characters and scenery from the children's book, with kinetic figures and noises and activities. Though successful, given the age group, patronage has marked peaks and valleys fluctuating with school days, weekends, and vacations.

The third paid-admission attraction, The Way Things Work, has been the least successful, though its associated shop has been doing well. In its initial configuration, visitors would go through a series of pre-event holding rooms, followed by a 12-minute, three-screen, 3-D video based on David Macaulay's popular book. Sony recently retooled the attraction, working with San Francisco's Exploratorium on changes intended to make the attraction more interactive. Sony also recently collaborated with the San Francisco school district on developing a learning guide and a program to bring school classes in to view the exhibit.

The theater component of Metreon consists of 15 theaters ranging from 106 seats to 589 seats, plus a 600-seat SONY•IMAX theater, the largest of its type on the West Coast. The box office is located conveniently on the first floor, while the theaters themselves are located on the third floor. The theaters are grouped around a large concession area and lobby fronted by a glass wall overlooking the gardens and the city. Along with Metreon's Taste of San Francisco and the restaurants, Sony Theatres Metreon has proven extremely popular, and the cineplex has ranked in the top five highest-grossing theater complexes in the country since its opening.

Metreon's management schedules events and activities to keep Metreon's name before the public and to encourage patronage. Regular programming includes a disc jockey at Airtight Garage on Wednesday nights and a Friday night music series. Metreon also programs holiday events, such as a haunted house for Halloween and "Nutcracker" tea parties, as well as special events like a celebration in honor of Martin Luther King, Jr. "There is a need to continually come up with good, solid programming to get people to come back week after week," notes Novatney. Adds Marlene Saritzky, director of communications and marketing for Metreon, "We want to create traditions at Metreon, to make it a gathering place."

## EXPERIENCE GAINED

- The success of Metreon is due in part to the uniqueness and strength of the tenants and to the broad market they attract. The combination of one-of-a-kind retail, theme attractions, unique food outlets (in lieu of fast-food chains), and the cinema and IMAX, has generated a strong complementary patron base, ranging from daytime workers, to evening and weekend visitors, to convention attendees and tourists.
- To achieve the project's market position, the developer and master tenant of Metreon have ventured considerably further than the norm architecturally as well as programmatically. Unlike in a traditional mall, the individual tenant spaces open onto each other, and the design of each tenant space contributes to the overall character of the project.
- Metreon's developer/master tenant partnership has provided benefits to both parties. By providing its design and marketing expertise, Sony has given a unique cast and market edge to the developer's project, while at the same time providing a showcase for Sony's products and image.
- Metreon's public/private partnership also has been successful. The city's substantial investment in the creation of Yerba Buena Gardens and in the surrounding cultural uses has provided a stable environment for the development of a private sector retail center in San Francisco's south of Market district. In return, Metreon

creates a substantial draw to the district, activating it day and night and providing a stable revenue stream pledged to the continuing maintenance of the public gardens.

<sup>1</sup>Robert Wetmore and Helen L. Sause, "Striking a Public/Private Deal," *Urban Land* (January, 1995).

PROJECT DATA		
LAND USE INFORMATION		
Site area: 2.75 acres		
Gross building area		
Use	Gross square feet	
Retail	45,850	
Entertainment	184,475	
Restaurant	46,150	
Public park	6,823	
Support	133,925	
Total	417,223	
Retail gross leasable area: 276,475 Floor/area ratio: 4.10		
LAND USE PLAN		
Use	Acres	Percent of site
Buildings	2.34	85
Landscaping	.41	15
Open space		
Total	2.75	100
RETAIL/ENTERTAINMENT INFORMATION		
Tenant classification	Number of stores	Gross leasable area (square feet)
Food service	9	46,150
Gift/specialty	9	45,850
Cinema	16	144,505
Other entertainment	3	39,970
Total	37	276,475
Master lease Term: 20 years with two 10-year options Rent: \$7,000,000 base rent, plus percentage rent		
DEVELOPMENT COST INFORMATION <sup>1</sup>		
Direct construction costs: \$75,000,000 Indirect construction costs: 20,000,000 Finance/interest costs: 5,000,000 Total: \$100,000,000		
<sup>1</sup> Core and shell only, not including tenant improvements.		
FINANCING INFORMATION <sup>1</sup>		
Sakura Bank (construction/mini-perm loan): \$70,000,000 Yerba Buena Entertainment Center: \$30,000,000		
<sup>1</sup> Core and shell only, not including tenant improvements.		
DEVELOPMENT SCHEDULE		
Site leased: May 1997 Planning started: June 1995 Construction started: May 1997 Project completed: June 1999		

## DIRECTIONS

From San Francisco Airport: 101 North to 4th Street Exit. Go east on Bryant. Make left on 3rd Street and left at Howard. Metreon is on the corner of 4th Street and Howard.

Driving time: 30 minutes in non-peak traffic.



Steven Fader, report author  
Eileen Hughes, managing editor  
Joanne Nanez, layout/art  
Clara Meesarapu, editorial assistant

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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1025 Thomas Jefferson Street, N.W. Suite 500 West, Washington D.C. 20007-5201



The newest attraction in San Francisco's 87-acre Yerba Buena Center, Metreon is a four-level, 350,000-square-foot urban entertainment center featuring amusements, games, shopping, restaurants, cinemas, and a 600-seat SONY-IMAX theater.



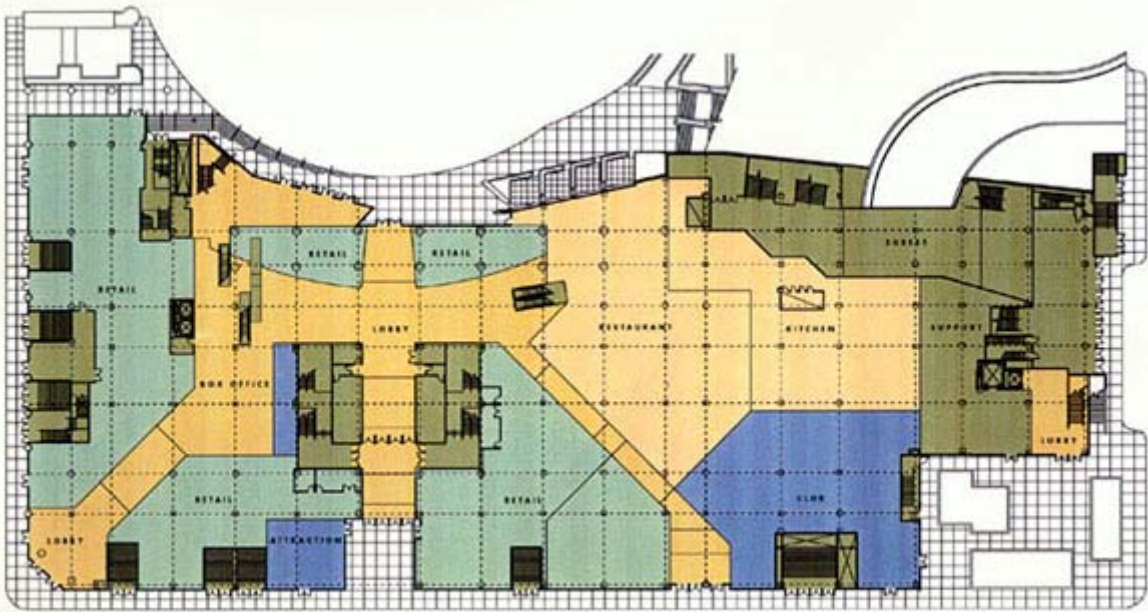
The center includes interactive-children's attractions, including one based on Maurice Sendak's *Where the Wild Things Are*.



Reflecting the Sony product line, the exterior finishes of the building are metallic, refined, and controlled.

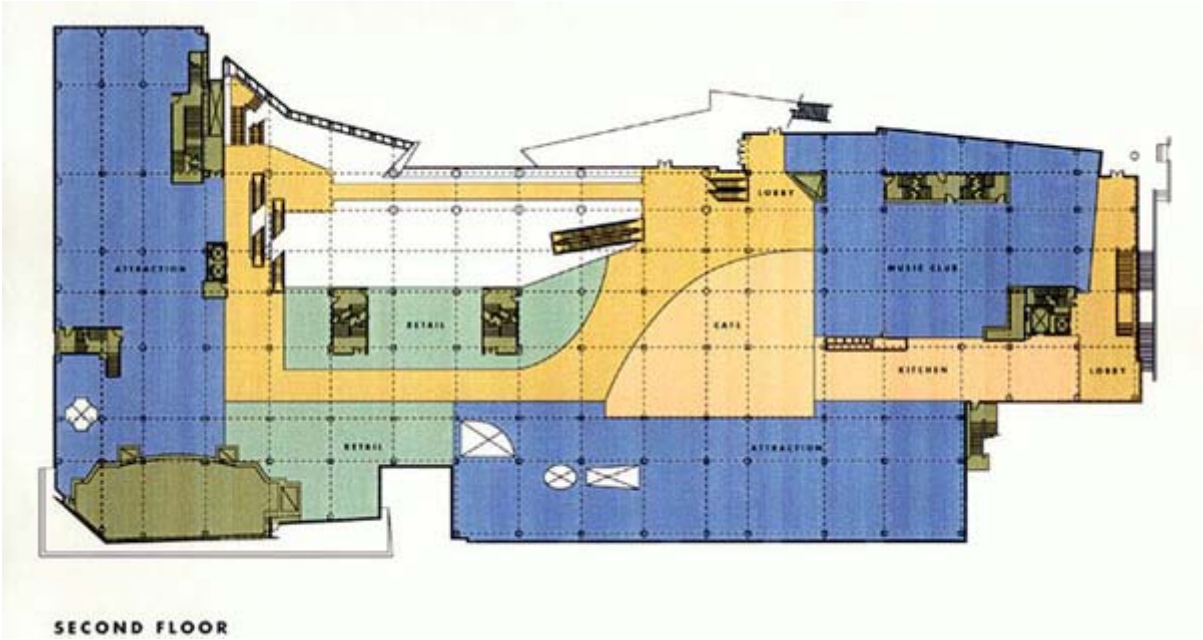


Storefronts occupy the ground level on both the street and garden sides of the building, but direct access to the building is limited to three entrances.

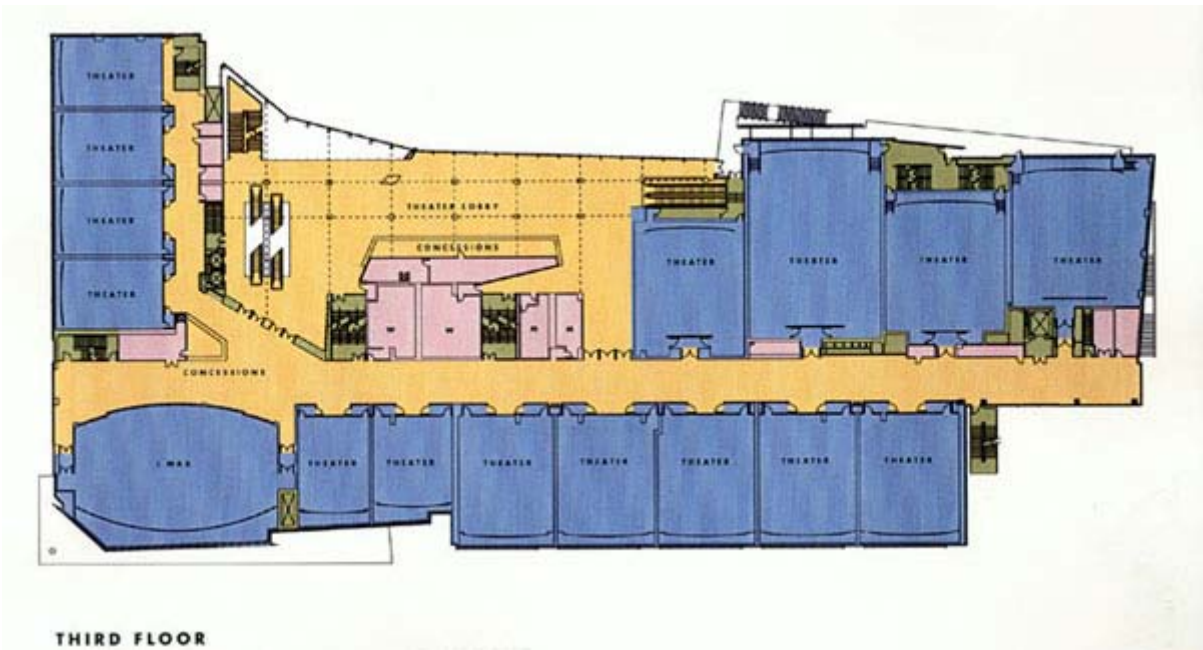


**GROUND FLOOR**

First floor building plan.

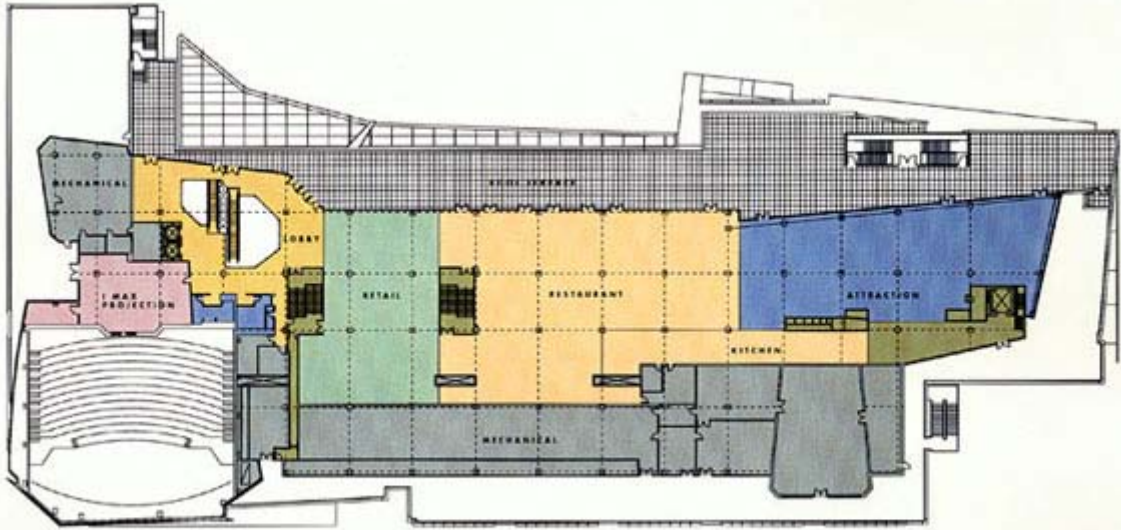


Second floor building plan.



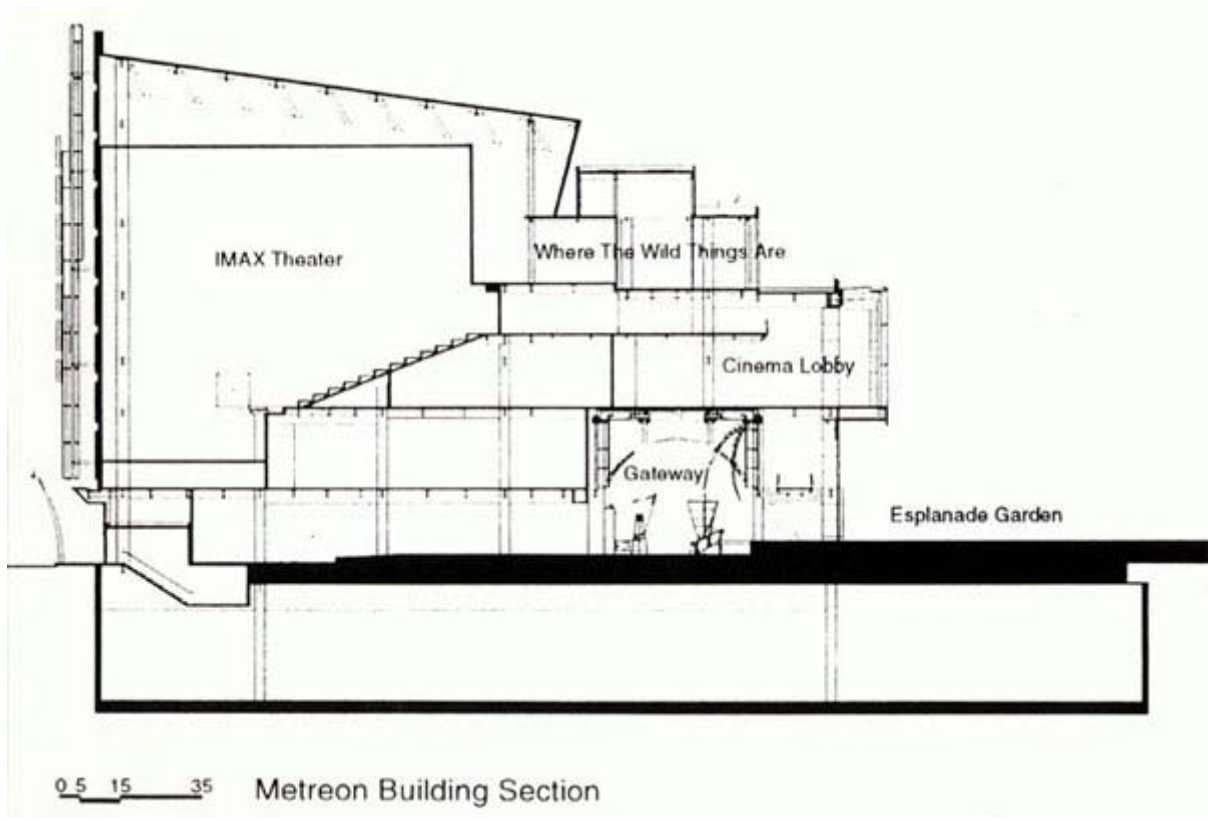
Third floor building plan.





**FOURTH FLOOR**

Fourth floor building plan.



Metreon building section.