

Desert Ridge Marketplace

Phoenix, Arizona

Project Type:
Commercial/Industrial

Case No:
C034001

Year:
2004



SUMMARY

Desert Ridge Marketplace is an open-air, shaded shopping and entertainment destination located in north Phoenix, Arizona. The \$180 million project is the first retail development in the state to combine the elements of a power center, a mall, and a neighborhood grocery center to create a "power village." Retailers both big and small face an entertainment core located at the center of the 1.2 million-square-foot (111,480-square-meter) project. Desert Ridge was 97 percent leased within six months of opening in November 2001 and has 19 major retailers and 35 restaurants. It has become an urban hot spot in a suburban setting that attracts visitors day and night.

FEATURES

- Innovative shopping center design
 - Pedestrian friendly
 - Preserved regional water-flow corridors
 - Created shaded areas in more than half of the open-air environment
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SPECIAL FEATURES

- Innovative shopping center design
- Pedestrian friendly
- Preserved regional water-flow corridors
- Created shaded areas in more than half of the open-air environment

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GENERAL DESCRIPTION

Desert Ridge Marketplace is a 1.2 million-square-foot (111,480-square-meter), open-air regional shopping, dining, and entertainment center in a rapidly growing area of north Phoenix, Arizona. The 110-acre (45-hectare) development was the first major retail project developed in the large, master-planned community of Desert Ridge. Instead of building a traditional power center, regional mall, or neighborhood shopping center, the developers chose to incorporate the most popular components of all these retail types into one large project. Desert Ridge Marketplace is a new type of development for Arizona that is being described as a “power village” instead of a “power center.”

The project is designed as five different and distinct shopping areas that are linked by shaded walkways and pedestrian-friendly promenades. The various retail and entertainment areas of the development are also defined for shoppers by large, themed-graphic panels on building walls that illustrate the character of the stores. In an atypical, introverted layout, three of the shopping areas—categorized as Hard Goods, Health & Leisure; Neighborhood Convenience; and Soft Goods—are positioned around the perimeter. The Lifestyle/Entertainment and Restaurant sections, collectively referred to as “the District,” are located in the project’s center.

The \$180 million project drew a mix of restaurants, stores, entertainment venues, and small service businesses that typically are not found in the same shopping center. The development is currently 98 percent leased with 19 major retailers and 35 restaurants. Tenants such as Target Greatland, Kohl’s, Marshalls Megastore, and Jillian’s—a large family entertainment and dining venue—made their Arizona debut at Desert Ridge Marketplace.

The \$80 million District, anchored by an AMC 18-screen megaplex, Jillian’s, Barnes & Noble, Tower Records, and 24 major restaurants and other local restaurant operators, has become a popular gathering spot for area residents. Wide benches, colorful murals, and background music draw different groups of visitors both day and night. Carts and kiosks line the pedestrian walkway. A Generation Y–focused area in the District features a 12-foot-by-12-foot (3.7-meter-by-3.7-meter) video screen that shows “extreme videos,” a live performance stage, and retailers catering to teenagers and 20-somethings. Another area has a rock climbing wall and a spongy playground for children.

Vestar Development Company of Phoenix developed Desert Ridge Marketplace, which opened in November 2001. The private firm specializes in the development of open-air retail centers and has built almost 50 retail projects across Arizona and California, including the Scottsdale Pavilions power center east of Phoenix.

THE SITE

Desert Ridge Marketplace is part of the 5,700-acre (2,307-hectare) Desert Ridge master-planned community, which is located at the intersection of Tatum Boulevard and Loop 101, approximately 30 minutes north of Phoenix’s Sky Harbor International Airport. The community, which is being developed by Northeast Phoenix Partners, will have as many as 20,000 homes and rental apartments and 3.5 million square feet (325,150 square meters) of office space at buildout.

Several other large, new housing projects are now underway to the north, east, and west of the development, which was considered the fringe of the valley a decade ago. With the recent completion of the Loop 101 freeway that runs along the southern edge of Desert Ridge Marketplace, the area has become a central business and residential hub for north Phoenix.

The city of Phoenix designated Desert Ridge as a growth corridor in the early 1990s, which means it was planned not only as a place for people to live, but also to work and play. The 950-room J.W. Marriott Desert Ridge Resort & Spa opened last year, and the Mayo Clinic Hospital—the first hospital planned and built by the internationally renowned Mayo Clinic—and a state-of-the-art Sumitomo semiconductor chip manufacturing facility are located in the community’s technology center.

DEVELOPMENT PROCESS

When Vestar first looked at the site for Desert Ridge Marketplace in the mid-1990s, there was little development in the desert area. Construction on homes in the community had only recently begun, and the freeway that now runs in front of it was years from being completed. The area’s early residents had to drive 20 to 30 minutes to shop or go to a movie. But metropolitan Phoenix’s growth was headed toward the northern area, and the city had designated Desert Ridge as one of its growth corridors.

Vestar executives saw the potential to build something other than a traditional power center, regional mall, or mega neighborhood shopping center on the large, untouched site. They saw the freeway opening up the area not only to homebuyers but also to businesses.

Planned almost 20 years ago, the land that is home to Desert Ridge is owned by the Arizona State Land Department. Vestar has a long-term ground lease for the state-owned site, and the rent proceeds go to the Arizona school system.

After working out a 99-year ground lease with the Arizona State Land Department, Vestar's development team took a year to travel around the United States, checking out other lifestyle, urban village, and entertainment projects. With the goal of creating a new and more innovative type of development, the team worked with the state, the city of Phoenix, local community leaders, and neighborhood groups to ensure that Desert Ridge Marketplace would meet everyone's needs, providing the area with enough retail and entertainment services so that residents would not have to make multiple car trips. The goal was to create a "downtown" for the suburban Desert Ridge community.

FINANCING

Vestar's long-term lease of the Arizona state land cost \$27.5 million. Donaldson, Lufkin & Jenrette—now Credit Suisse First Boston—financed the original deal with Vestar. A construction loan for \$131.3 million was used to develop the project in 2001. Then, in May 2003, a \$150.75 million permanent loan was funded on Desert Ridge Marketplace, which creates a return on equity of \$19.45 million.

The developer paid \$6.2 million to build the project's infrastructure on the raw desert land. This money went toward water and sewer lines, drainage improvements, and street widening and better landscaping on street medians. The company worked out a deal with the city of Phoenix to be reimbursed for these infrastructure costs through sales taxes from the project. Initial projections called for the infrastructure costs to be paid back to Vestar over seven years, but because Desert Ridge Marketplace sales are beating early forecasts, the developer may recoup the money after four years.

Desert Ridge Marketplace has achieved a return exceeding 12 percent on all project costs.

PLANNING AND DESIGN

Though there were no existing buildings or significant zoning constraints on the property, there was a potential issue with water drainage. To ensure that the desert site had the proper water-flow corridors required by the U.S. Army Corps of Engineers, Vestar built a mile-long (1.6-kilometer-long) underground drainage system. The company also preserved the substantial natural water-flow corridors that run through the property. Designers used large concrete pavers instead of asphalt to reduce the amount of impenetrable surface and allow water to seep into the soil. At the same time, Desert Ridge Marketplace was designed to use reclaimed water.

Although Desert Ridge Marketplace originally was planned as more of a lifestyle-retail project, the developer altered part of its theme midway through the planning process. Vestar saw demographic shopping trends shift to "Generation Y'ers" and changed part of its plans for the District to cater to this growing group. By lining up the 62,000-square-foot (5,760-square-meter) Jillian's "entertainment universe" and an AMC Theater, Vestar was able to draw many popular Generation Y stores such as Hollister, American Eagle, and Limited Too. The cinema component was a challenge, however, because Vestar was in the middle of a deal with AMC during the late 1990s when the entire movie theater industry began to contract. Because Vestar understood that the movie theater would be the key to drawing Generation Y retailers, the developer continued building the cinema and working with AMC until it signed on as a tenant.

The development's nontraditional plan to center big retailers around the District entertainment area took some negotiating, since large chains are accustomed to going into sites facing the freeway. Vestar had to work hard to convince stores like Marshalls and JoAnn's to locate off of the freeway. Some accommodations were made, such as situating the JoAnn's craft and fabric superstore at an angle to help shoppers find it.

To address retailers' desire for signage that is visible from the road, Vestar put up 40-foot-tall (12.2-meter-tall) obelisks along the freeway. Each of the 14 obelisks bears the name of one of the center's major retailers.

Once finalized, the design was not altered or compromised to accommodate the individual demands of the major retailers. In addition, some theme restaurants that had used the same design for all of their locations needed to modify some colors and signage to match the center's muted desert theme. However, one part of the original plan was changed to accommodate neighbors of Desert Ridge Marketplace. A 130-foot (39.6-meter) tower had been designed to go atop the AMC Theater, but some residents were concerned that its height might make it an eyesore, so Vestar removed the tower from its plans.

Brick pavers, torchères, fountains, and an 800-foot-long (243.9-meter-long), four-lane entryway lined with rows of 30-foot-tall (9.1-meter-tall) Canary Island palms, 25-foot-tall (7.6-meter-tall) date palms, desert willow trees, and bougainvillea create a sense of arrival for shoppers that would not have been possible had they driven instead into a vast parking lot. To minimize the size of the parking lots while still providing enough parking for customers, Vestar used a shared parking model that balances the needs of retail, entertainment, and dining tenants who require parking spaces at different times of the day. Multiple pick-up and drop-off spots have been set up that do not interrupt traffic flow. Valet parking also is available at four locations.

A full-time, alternative-fuel shuttle service makes ten stops throughout Desert Ridge Marketplace. It can transport guests to the adjacent J.W. Marriott Desert Ridge Resort & Spa and the surrounding office complexes.

As mentioned previously, Desert Ridge Marketplace was designed with a muted desert theme. Shade, water, and fire features were incorporated throughout to provide a comfortable year-round climate for visitors. To keep shoppers cool when outdoor temperatures climb, 50 percent of the project is shaded by building placement, canopy trees, vine-covered trellises, or an extensive misting and fogger system. For cooler days and evenings, heating lamps are spaced throughout the project and 20-foot-tall (6.1-meter-tall) gas torchères as well as a massive, open stone fireplace in the District are lit.

To protect the existing desert environment, more than 80 percent of the native plants on the site were identified, preserved, and replanted in key areas of the development. The project's landscaping incorporates over 300 cacti and trees, many of which are several hundred years old.

MARKETING AND MANAGEMENT

A division of Vestar operates an on-site management office with three full-time staff members. Tenants pay a fee for marketing and promotions based on the square footage of their retail operations.

In mid-November 2001, Vestar threw a three-day grand opening party to draw attention to Desert Ridge Marketplace. Several of the larger stores and restaurants were open, and Vestar brought in street performers and bands to entertain early shoppers. Vestar already is tracking an average of 300,000 visitors to Desert Ridge Marketplace each week. Overall sales receipts at Desert Ridge Marketplace are 22 percent higher than the city of Phoenix expected.

The innovation of Desert Ridge Marketplace as a "power village" drew retail and entertainment uses that were new to Arizona such as Target Greatland, Kohl's, Marshalls Megastore, and Jillian's. In addition, Vestar executives had to aggressively court Generation Y retailers like Hollister, American Eagle, and Limited Too to make the concept work. Many of these newer chains had never opened stores outside a regional mall before.

EXPERIENCE GAINED

- Taking extra time to research and develop the right project for an area can be more profitable in the long run than relying on a traditional development model.
- Adhering to a development plan and not compromising the overall character of a project in response to the desires of an important tenant also will make the project more profitable in the long run.
- Spending more on amenities such as covered walkways pays off in the overall scheme and success of a development.
- If done correctly, outdoor, open-air shopping centers can work in Phoenix and other areas with hot climates.
- Shared parking is a tricky proposition because of unexpected peak times for some tenants, but a packed parking lot can look more enticing to shoppers than an empty one.
- Be flexible about demographic shifts that affect shopping habits and a center's design.
- Creating places where people not only shop and eat but also gather makes a project more successful.

PROJECT DATA**LAND USE INFORMATION**

Site area (acres/hectares): 110/44.5
 Gross building area (square feet/square meters): 1,155,334/107,331
 Gross leasable area (square feet/square meters): 1,155,334/107,331
 Floor/area ratio: 24%
 Number of levels: 1
 Total parking spaces: 5,815

LAND USE PLAN

Use	Acres/Hectares	Percentage of Site
Buildings	26.4/10.7	24
Parking structures	N/A	N/A
Landscaped areas	11/4.5	10
Paved areas (surfacing parking and roads)	72.6/29.4	66
Total	110/44.5	100

RETAIL TENANT INFORMATION

Classification	Number of Stores	Gross Leasable Area (Square Feet/Square Meters)
General merchandise	2	242,348/22,514
Grocery	1	57,500/5,342
Food service	28	118,688/11,026
Clothing and accessories	21	172,621/16,037
Shoes	4	49,579/4,606
Home furnishings	5	31,992/2,972
Home appliances/music	4	62,657/5,821
Theaters/movies	1	75,312/6,997
Other entertainment	2	68,393/6,354
Hobby/special interest	13	145,283/13,497
Gifts/specialty	2	6,693/622
Drugs	1	15,251/1,417
Health and beauty	4	20,070/1,865
Personal services	9	20,388/1,894
Total	97	1,086,775/100,961

MAJOR TENANTS

Tenant Name	Space Occupied (Square Feet/Square Meters)
Target Greatland	153,940/14,301
AMC Theaters	75,312/6,997
Jillian's	64,348/5,978
Albertson's	57,560/5,347
JoAnn's	45,000/4,181
Ultimate Electronics	34,300/3,187
Ross Dress for Less	33,000/3,066
Marshalls	48,475/4,503
Barnes & Noble	25,000/2,323
Old Navy	22,000/2,044
OfficeMax	23,500/2,183
PetsMart	19,235/1,787
Tower Records	15,170/1,409
Osco Drugs	15,251/1,417
Dress Barn	9,000/836
Ulta Salon & Cosmetics	10,800/1,003

Annual rents (per square foot/square meter): \$24-\$40/\$258-\$431
 Average annual sales (per square foot/square meter): \$335/\$3,606

DEVELOPMENT COST INFORMATION

Land cost: \$27,536,563
Site improvement costs: \$20,204,537
Other site costs: \$8,593,677
Building improvements: \$57,201,677
Tenant improvements: \$15,935,295
Tenant reimbursements: -\$21,559

Soft Costs

Permits/fees: \$2,461,538
Architecture and engineering: \$8,255,338
Loan extension fee: \$604,282
Loan fees: \$2,133,625
Leasing commissions: \$5,396,401
Lender consulting fee: \$175,000
Legal and accounting: \$1,444,152
Property taxes/insurance: \$285,088
Cart program: \$172,070
Marketing and administration: \$757,081

Development fee: \$5,558,332
Hard cost contingency: \$110,027
Interest reserves: \$5,315,864

Total development cost: \$162,118,986

ANNUAL OPERATING EXPENSES, 2002

Taxes: \$653,230
Insurance: \$258,249
Services: \$815,105
Maintenance: \$740,206
Janitorial: \$440,397
Utilities: \$486,795
Legal: \$44,078
Management: \$520,556
Miscellaneous: \$306,774

Total: \$4,265,390

DEVELOPMENT SCHEDULE

Planning started: November 1998
Leasing started: March 1999
Approvals obtained: October 1999
Site acquired/leased: June 2000
Construction started: July 2000
Project opened: November 2001

DIRECTIONS

From Sky Harbor International Airport: Follow signs for 24th Street exit, then take State Route 51 (Piestewa Parkway). Merge onto the I-10 west exit ramp. Travel 0.5 mile (0.8 kilometer) to exit SR-51 north. Travel north on 51 to Loop 101 east. Take the Tatum Boulevard exit off of Loop 101. Turn right (north) on Tatum and go under the underpass. Desert Ridge Marketplace is on the right.

Driving time: 20 minutes in light traffic.

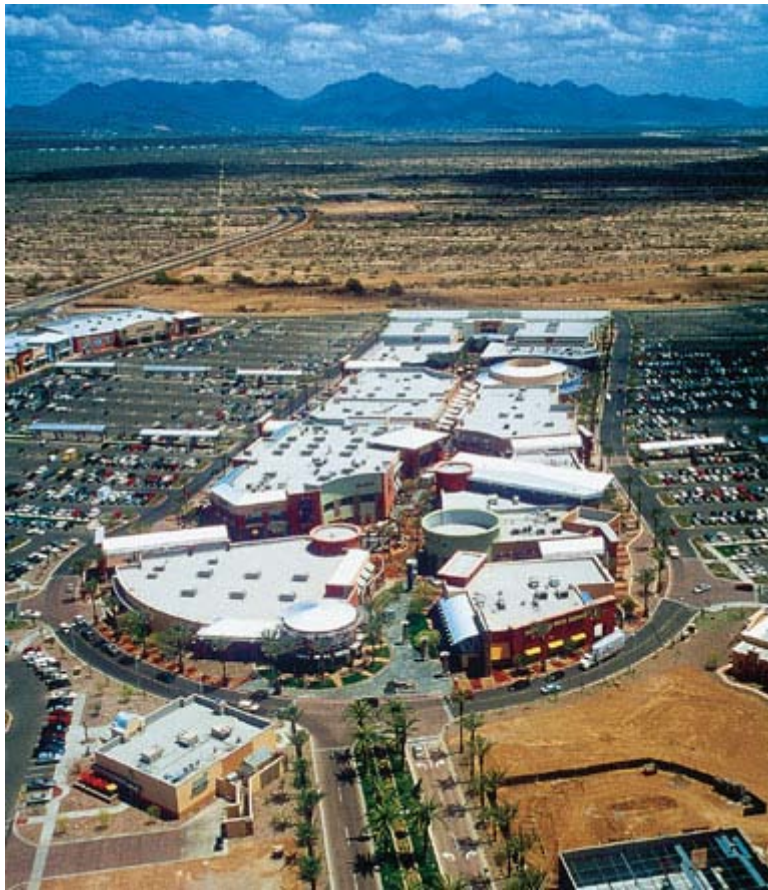
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This Development Case Study is intended as a resource for subscribers in improving the quality of future projects. Data contained herein were made available by the project's development team and constitute a report on, not an endorsement of, the project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

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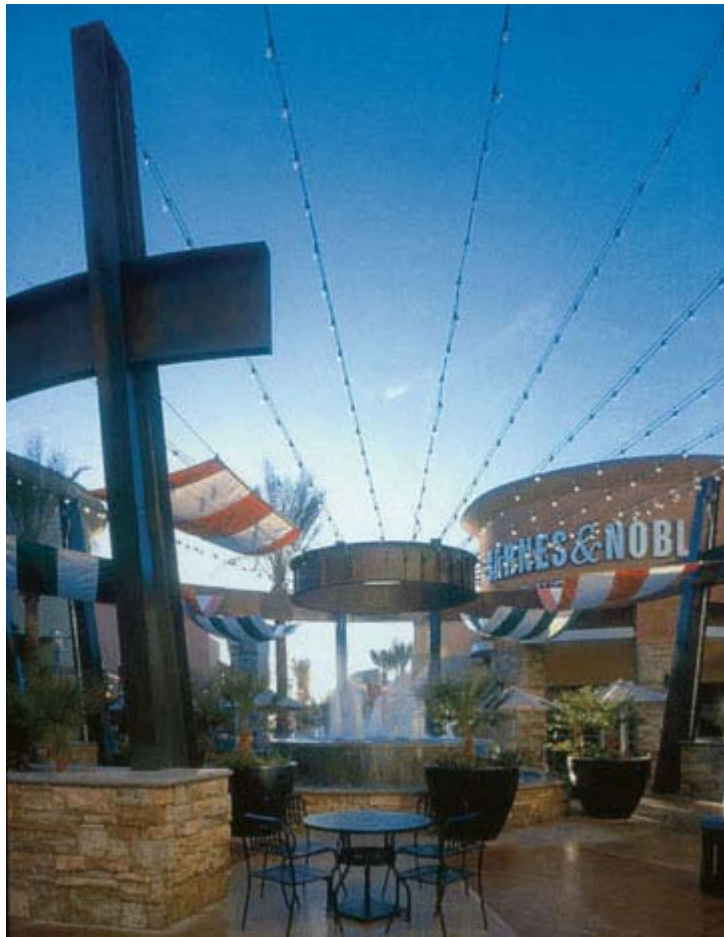
An 800-foot-long (243.9-meter-long), tree-lined entry leads into Desert Ridge Marketplace.



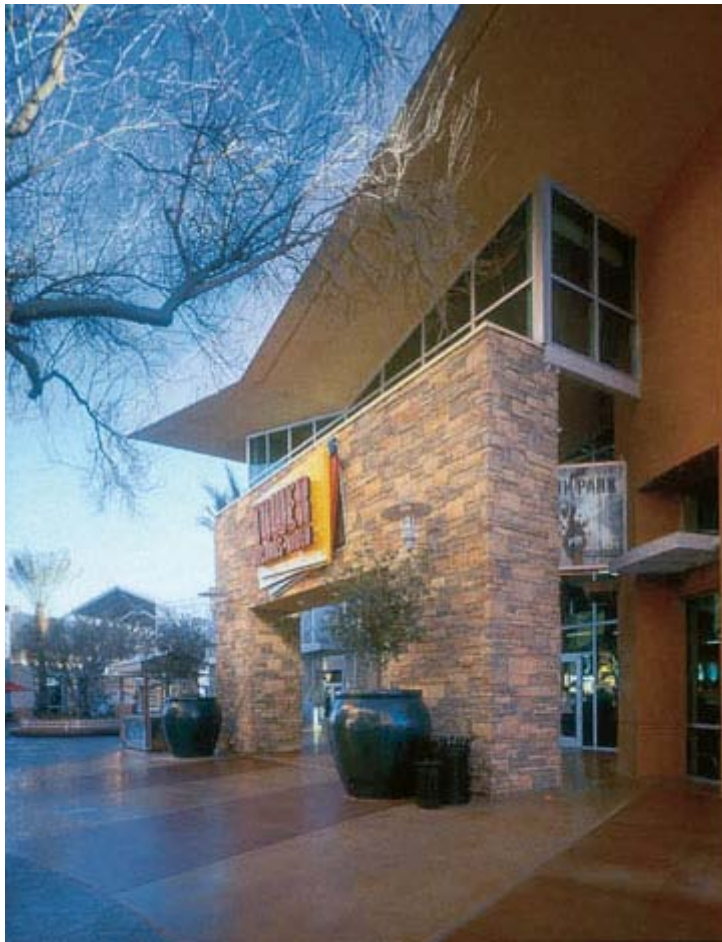
"The District," the centerpiece of Desert Ridge Marketplace, features abundant landscaping, decorative pavers, multiple entry portals, and shaded walkways.



The entrance to the District features a dramatic stone-paved courtyard, a fountain, signage, and three 20-foot-tall torches that come alive with flames at night. California pizza Kitchen's sloping roof shades pedestrians and outdoor diners.

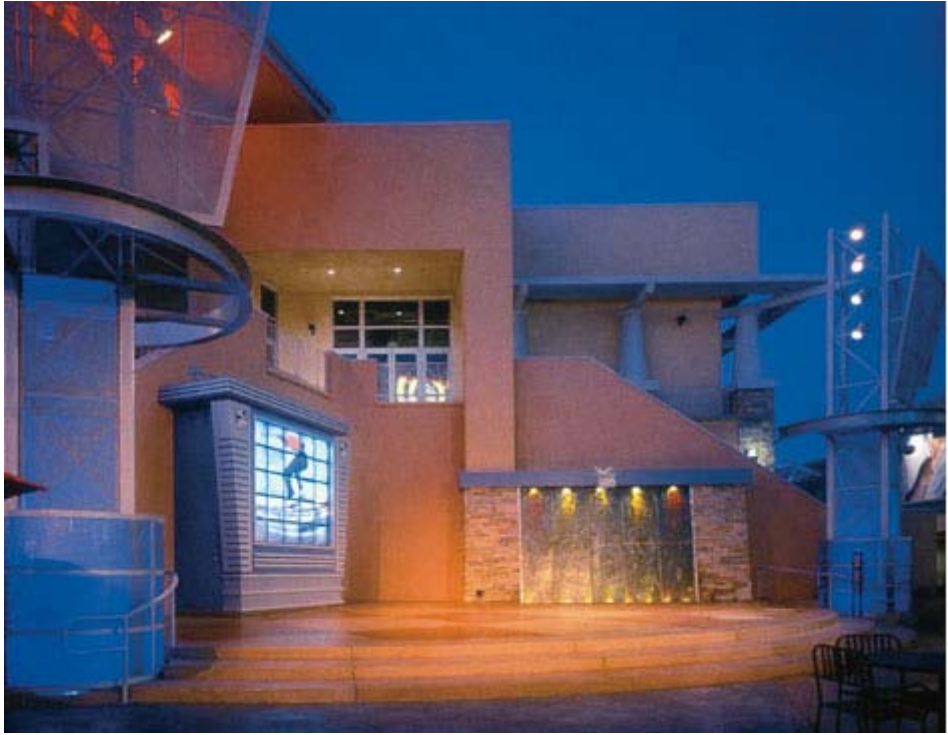


Decorative shade and water features, plus cozy seating areas, create a welcome oasis from the sun.



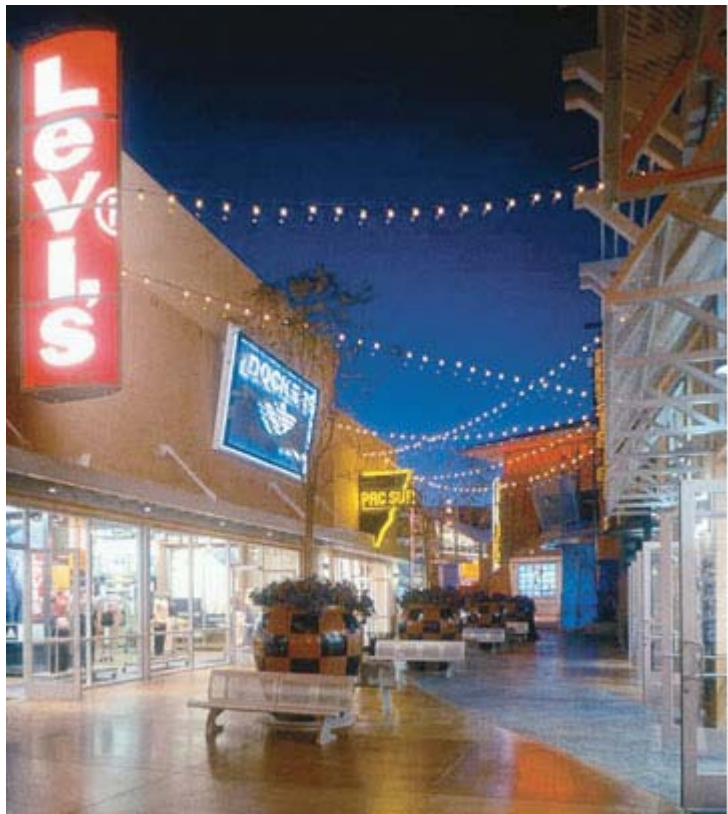
Paul Bielenberg

The Tower Records store features a dynamic winged roofline and textured stone entry.



Paul Blumberg

A live performance stage featuring a 12-foot-by-12-foot (3.7-meter-by-3.7-meter) video screen and a lively fountain lit by multicolored lights provides a venue for emerging musicians and community events.



Paul Bielenberg

A Generation Y-focused area in the District appeals to teenagers and 20-somethings with decorative colored lights; oversized signage; cool, colorful pavers; massive, eye-catching planters; plenty of seating; and music and videos tailored to these customers.



Architectural and landscaping details create an upscale look in the Soft Goods shopping area, which is linked to the District by a series of covered walkways and includes tenants such as Ulta Salon & Cosmetics, Bath & Body Works, Old Navy, and Ross Dress for Less.



Larger-than-life themed graphic panels adorn what traditionally would be bare building walls, defining and enhancing the character of each shopping area; shown here is the Soft Goods area.



Gregg Lanning

Cost- and energy-efficient conservation methods mitigate the effects of the hot sun, encouraging customers to stroll through Desert Ridge Marketplace, a 1.2 million-square-foot open-air shopping and entertainment destination in north phoenix, Arizona. Half of the project's outdoor space is shaded by strategically placed buildings, awnings, canopy trees, and vine-covered trellises and loggia.



Site plan.