

Seattle's revival is at the heart of an estimated \$2 billion construction boom that began in the city's downtown area in 1995 and will continue into 2001. Nearly 100 projects representing some 12 million square feet of new construction have been built in or planned for downtown Seattle since 1998. At the center of this activity is Pacific Place, a five-level, 335,000-square-foot shopping, dining, and entertainment complex that is part of a \$500 million, three-block, mixed-use development. Unlike in most other large cities, retail and entertainment projects are fueling this recent building boom—with office, residential, and hotel development following their lead. Between 1996 and 1998, more than 1 million square feet of new retail space came online in downtown Seattle, nearly doubling existing space. (See "Seattle Revitalized," October 1999 *Urban Land*.)

The downtown picture was totally different just six years ago, when urban retailing in Seattle was fading fast. The historic 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 instead to locate outside the downtown area.

Jeff Rhodes, a veteran shopping center developer who had helped create both Boston's Copley Place and Chicago's Watertown Place when he was with Chicago-based Urban Investment and Development Corporation (UIDC), had moved to Seattle to retire in the early 1990s but was troubled by the desolation creeping across his adopted city's downtown.

Rhodes started working with Seattle business and political leaders in 1993 on a plan to transform three downtown blocks, including the abandoned ten-story F&N department store, into a new retail

The retail/entertainment complex Pacific Place is at the center of a building boom in downtown Seattle.

Bridging a Building Boom

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Pacific Place, a five-level, 335,000-square-foot retail, restaurant, and entertainment complex designed to resemble a collection of smaller buildings that grew up over time, occupies one of the largest blocks in downtown Seattle, Sixth Avenue and Pine Street, and has changed this once-nondescript corner (inset) into downtown Seattle's retail epicenter.

center. He brought in Ken Himmel and Tom Klutznick, old colleagues from UIDC with whom he had worked on the Boston and Chicago projects, as well as local developer Matt Griffin to manage the development. Together they formed Pine Street Associates in 1994, which later became Pine Street Development (PSD). Rhodes, Himmel, and Klutznick sold their interest in the project in October 1998.

Their retail resuscitation plan called for buying the old F&N store and trading it to Nordstrom in exchange for Nordstrom's 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 would then knock down the parking garage and other buildings that stood on what would become the Pacific Place block and turn the block into a shopping center with underground parking. When Nordstrom moved out, PSD would take possession of the old store, fill it with retailers on the lower floors and office tenants on the upper ones, and then renovate the Seaboard Building.

Public/Private Partnering

Norm Rice, then mayor of Seattle, and the city's business leaders championed the plan as a way to stem downtown's downward spiral. Rice described the Pacific Place plan as "the biggest revitalization effort in downtown Seattle since we rebuilt from the Great Fire" (in 1889). But it drew considerable opposition, primarily because it required city participation. The plan first called for reopening Pine Street, which had been closed to vehicle traffic between Fifth and Fourth avenues to make way for an urban pedestrian park. The developers and most downtown businesses contended that the closure shut off access to several affluent urban neighborhoods and ultimately sent the wrong message—that access to downtown was difficult. Moreover, Nordstrom Inc., maintained that it could not justify investing \$100 million in a downtown that was hampered by the closure of a critical thoroughfare.

Pacific Place developers subsequently teamed up with the Downtown Seattle Association to mount a carefully orchestrated campaign to pitch the reopening of the street as an opportunity to "fix downtown." They corralled the support of a majority of downtown retailers, including shopkeepers at Seattle's Pike Place Market. The street reopening, which had been the subject of debate for several years, was approved by public referendum, garnering a significant 62 percent of vote cast.

The proposed underground 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 major deterrent to bringing shoppers downtown. The Pacific Place plan called for the developers to build a parking facility and for the city to chip in by purchasing it from the developers. Opponents insisted the price of \$73 million was too high, exceeding the developers' cost to build it. Although cities routinely encourage ur-

ban revitalization projects by directly subsidizing the cost of developing supporting parking, in Seattle this type of public/private partnership is stymied by the state's unusually 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 make private development attractive, as Seattle then did with the Pacific Place parking garage. After a barrage of negative press, audits by city and state departments, and legal battles, the garage deal finally was approved by the state attorney general's office.

Some three years after inception of the plan, Pine Street Associates acquired the F&N building in May 1996 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 a 320,000-square-foot headquarters. Located across the street from its former location, the new store opened in August 1998. Construction on the six-level underground parking garage at Pacific Place, which would serve the shopping center and the entire retail core, including Nordstrom's new store, began in January 1997. When Pacific Place finally opened in October 1998, downtown Seattle's retail epicenter had 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—functions essentially as an anchor for Pacific Place. Moreover, Nordstrom's commitment to invest more than \$100 million in its hometown sent a strong message of confidence to the finance and retail communities.

The final stages of the three-block makeover now are underway. Pine Street Development, headed by managing partner Matt Griffin, currently is transforming Nordstrom's former store into a mixed-use building with multilevel retail shops and offices above. Next PSD will redevelop the adjacent ten-story Seaboard Building, which Nordstrom used for office space, into offices with residential units above.

Venture capital for the Pacific Place project came from the original partners 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, who collectively contributed more than \$10 million. "I don't think any of these lo-



cal investors would have taken the financial risk if it weren't our hometown," says Griffin. "We all knew Seattle's downtown was in trouble." When the founding investors were first 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, says Griffin, "this investment was an act

More than a dozen entry points lead from the surrounding streets into the complex, where shops, restaurants, and an 11-screen cinema are built around an interior thoroughfare with a soaring atrium.



of faith." This group of local investors was later joined 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. Eighty percent of the equity capital in Pine Street Development was provided by MEPT and 20 percent by Pine Street Associates—the founding investors.

Construction financing was more difficult. By late 1996, the developers had secured a commitment from the city for the garage development plan, as well as a commitment from local Seafirst Bank for the construction financing, subject to finding financial partners. But at the time the developers could not find partners, and lease commitments for around 50 percent of the project did not satisfy the lenders, who required that the project be at least 60 percent leased. Although Nordstrom had committed itself to building its new flagship store downtown, potential tenants were still skittish. They were scared away by the 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 the plan was not put in motion, the project would not be ready for Christmas 1998. To make up for the missing leasing, MEPT eventually provided a subordinate loan that replaced part of the construction loan and allowed the developers to proceed with construction financing. Between January and July 1998, the occupancy rate at Pacific Place rose from 50 percent to 85 percent. The fast pace of other development downtown—the new symphony hall, eventual convention center expansion, and the new Nordstrom—helped to assuage retailers' fears about downtown Seattle, and they realized that if they wanted a spot at Pacific Place, they needed to move fast.

The city's main contribution to Pacific Place was its agreement in late 1995 to purchase the underground parking garage from Pine Street Development. With this move, the city took an entrepreneurial approach to furthering a development that was viewed as critical to reversing the slide of downtown Seattle and to help alleviate the lack of affordable, short-term parking for shoppers. The city agreed to pay the developers \$73 million for the completed parking 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 based on the expected cash flow and on a number of other items that would increase that 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 for 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 shakedown period to work out the bugs of the fully operating garage had passed.

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 rates for meter parking—to bring people downtown. Current parking rates at Pacific Place are the lowest in Seattle's retail core. As long as the cash flow covers its bond debt-service payments, the city says it will continue to keep rates low.

Built almost like two separate garages, the 1,200-space parking fa-

cility—the largest in downtown Seattle—has a double helix configuration that makes circulation easier and speedier than with standard garage design, and its two interlocking ramps have distinct travel systems with double sets of entrances and exits. The six-level underground garage offers valet parking as well as a self-park system that permits shoppers to pay at the concourse level before returning to their cars. This 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 type of parking system in an effort to avoid backups.

The Seattle-based architectural firm NBBJ, which designed Pacific Place along with Boston-based Elkus/Manfredi Architects Ltd., used bright lighting, coffered ceilings with coved lighting, and stainless-steel doors in the garage valet and pedestrian entrance to help create the look of a hotel drop-off rather than a basement. In addition, the curved wood-and-glass parking cashier station was designed to resemble a concierge desk at a hotel. An express, up-only escalator takes diners and moviegoers directly to the fourth floor. Sight lines were considered critical in the design, 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, obtaining views from specific vantage points throughout the interior. In some instances, columns were moved to open sight lines.

Although Pacific Place occupies one of the largest blocks in downtown Seattle, it was designed to resemble a collection of smaller buildings that grew up over time. Tenants such as Pottery Barn, Tiffany & Co., and Starbucks display signature storefront designs and separate street entrances. The shopping center was designed to be highly permeable, with more than a dozen entry points that lead from the surrounding streets into the building; this serves to entice pedestrians to take short cuts through the building and to use the ground floor lobby as an extension of the sidewalk.

As part of the center's indoor/outdoor environment, 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 streetlamps, help to create a city streetscape. "We've managed to bring a taste of Michigan Avenue to downtown Seattle," says Griffin. "But what sets Pacific Place apart from Chicago is that here all the shops are under one roof." 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, helping to create a year-round oasis in Seattle's rainy climate, where residents crave light during the long winter months.

A steel-and-glass skybridge over Sixth Avenue connects the third level of the center with the fourth level of Nordstrom's new flagship store in the refurbished Frederick & Nelson building. A drawbridge design was selected, which placed all the weight on Pacific Place to protect the older terra-cotta-faced F&N building. While the city generally discourages skybridges, which can block views and take people off the streets, the developers showed that the skybridge would not block water views and that it was essential for moving shoppers between Nordstrom and Pacific Place. To convince the city, the developers said that without the bridge, they would have to build a much smaller shopping center that would reduce the number of people on the street significantly more than would a bridge.

Seattle's retail boom is tied closely to the large number of entertainment, cultural, and tourist destinations that recently have settled in the downtown. These include three new, improved live-performance theaters, a new symphony hall, and multiplex cinemas, as well

as the new Safeco Field baseball stadium. The expansion of the Washington State Convention and Trade Center, which will nearly double the existing space, is due to open in 2001. All these facilities have helped to attract a multitude of entertainment-oriented stores and restaurants to the downtown, such as Warner Bros. Studio Stores, FAO Schwarz, and a Wolfgang Puck eatery. In 1996, the Meridian entertainment and retail complex opened with a 16-screen cinema, GameWorks video arcade, NikeTown, Planet Hollywood, and Levis Store.

At Pacific Place, three restaurants are located on the fourth floor at the entrance to the state-of-the-art multiplex cinema. The 11-screen cinema works in tandem with the fourth-floor restaurants to draw visitors to the top floors—always seen as 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. Hometown coffee king Starbucks selected the center for its new restaurant concept, Café Starbucks, a European-style café and coffee bar. More elegant dining can be had at Stars Bar & Dining, which caters to the after-symphony crowd, as well as Il Fornaio's, which has three different restaurants and a bakery at Pacific Place.

Pacific Place benefits from Seattle's robust tourist industry. Just a short walk from the convention center, the shopping center exposes tenants to travelers and convention-goers from around the world—a strong attraction for the 45 stores and restaurants that located at Pacific Place, of which about a third were new to the Pacific Northwest. Although it was anticipated that as much as 40 percent of customers would be tourists, the developers note that they 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," says Griffin. "And Seattle's residents deserve great stores without having to get on an airplane." ■

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