THE POWER CENTER:
SYNTHESIZING NEW PRODUCT SUCCESS

by

FELIX PIUS WEHRLI

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Signature of Author

Department of Architecture
July 31, 1991

Certified by

Sandra Lambert
Lecturer, Department of Urban Studies and Planning
Thesis Supervisor

Accepted by

Gloria Schuck
Director of Education
Interdepartmental Degree Program in Real Estate Development
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ABSTRACT

During the late 1980s, a new type of discount shopping center – the power center – began appearing in many communities across the United States. What exactly is a power center? How did it come about? What makes it successful? Answering these questions is the basis of this thesis.

The methodology used to answer these questions is borrowed from marketing theory's "new product development" literature. In the past, this academic theory typically has been applied to new consumer products such as portable stereos; this thesis proposes that the theory is also applicable to new real estate products – specifically power centers. Consequently, the three sequential hypotheses addressed are:

- The power center is a new product.
- The power center was born for the same reasons that new consumer products are born.
- The power center is successful for the same reasons that new consumer products are successful.

Research material stems from two sources: statements of industry leaders, and three California case studies.

The thesis concludes that all three hypotheses are valid. Concrete guidelines for developing successful power centers are also outlined.

Thesis Supervisor: Sandra Lambert
Title: Lecturer, Department of Urban Studies and Planning
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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION</td>
<td>5</td>
</tr>
<tr>
<td>CHAPTER 1: BACKGROUND</td>
<td>7</td>
</tr>
<tr>
<td>The Power Center as New Product</td>
<td>7</td>
</tr>
<tr>
<td>Birth of the Power Center</td>
<td>14</td>
</tr>
<tr>
<td>The Road to Success</td>
<td>24</td>
</tr>
<tr>
<td>CHAPTER 2: CASE STUDIES</td>
<td>45</td>
</tr>
<tr>
<td>280 Metro Center</td>
<td>47</td>
</tr>
<tr>
<td>Escondido Promenade</td>
<td>57</td>
</tr>
<tr>
<td>Tustin Market Place</td>
<td>65</td>
</tr>
<tr>
<td>CHAPTER 3: ANALYSIS</td>
<td>78</td>
</tr>
<tr>
<td>The Power Center as New Product</td>
<td>78</td>
</tr>
<tr>
<td>Birth of the Power Center</td>
<td>80</td>
</tr>
<tr>
<td>The Road to Success</td>
<td>85</td>
</tr>
<tr>
<td>CHAPTER 4: CONCLUSIONS</td>
<td>98</td>
</tr>
<tr>
<td>APPENDIX: INTERVIEW QUESTIONS</td>
<td>104</td>
</tr>
</tbody>
</table>

**EXHIBITS**

1. 280 Metro Center Project Summary ................. 55
2. 280 Metro Center Site Plan .......................... 56
3. Escondido Promenade Project Summary ................ 63
4. Escondido Promenade Site Plan ....................... 64
5. Tustin Market Place Project Summary ................ 72
6. Tustin Market Place Site Plans ..................... 73
INTRODUCTION

When 280 Metro Center in San Francisco opened in November 1985, many industry experts believed that a new era in retail development had dawned. Not since the invention of the enclosed regional mall in 1950 had a new shopping center idea generated such excitement and immediate wide-spread imitation. What exactly was this new shopping center idea? How did it come about? What makes it successful? Answering these questions is the basis of this thesis.

In particular, the objective is to observe the power center "product" from its birth in 1985 to what most experts believe are its adolescent years today. This observation will be conducted through a "new product development" lens. In the past, this academic theory typically has been applied to new consumer products such as portable stereos; this thesis hypothesizes that the theory is also applicable to new real estate products — specifically power centers.

The research, therefore, began with a survey of contemporary "new product development" literature. Since this literature was initially conceived with new consumer products in mind, it first needed to be "translated" into a general shopping center context. With a portable stereo consumer product, for example, the producer has one focus — the end buyer. This end buyer, however, never purchases a shopping center "product." Instead, the shopping center is an intermediary vehicle through which merchants sell consumer products. Nevertheless, the physical design, tenant mix, or other attributes of the shopping center itself can be instrumental in luring a buyer to purchase a consumer product at that particular center. Clarifying this and other complexities resulting from applying "new product development" theory to the shopping center industry, therefore, was the second task. The final task involved applying this "translated" theory to the more specific power center "product." Following this three-step framework, Chapter 1 develops the background for three sequential hypotheses:
• The power center is a new product.
• The power center was born for the same reasons that new consumer products are born.
• The power center is successful for the same reasons that new consumer products are successful.

Chapter 2 presents three case studies of power center developments, together with the methodology for choosing these sites. Chapter 3 analyzes the case studies using the power center-specific "new product development" framework devised in Chapter 1. Finally, Chapter 4 draws conclusions from the research findings, focusing on (sometimes painful) lessons developers learned in these early years of power center development.
CHAPTER 1: BACKGROUND

Power centers provide an environment previously not available in enclosed malls or traditional strip centers — that is, the shopping convenience of a strip center with the regional draw of an enclosed mall. Kurt Krall, Chicago Power Center Developer

What exactly makes a power center successful? In order to appropriately answer this question, several more basic ones must first be asked. Is a power center truly a new product, and therefore worthy of separate evaluation? If so, what has led to this new product’s creation? Once these issues have been addressed, a clearer basis for understanding exactly which characteristics make a power center successful should emerge.

This chapter, therefore, is organized into three sections, each addressing one of these questions. Each section first reviews and discusses relevant new product development academic literature, then "translates" this literature into a general shopping center context, and finally applies this general context to power centers.

THE POWER CENTER AS NEW PRODUCT

A standardized set of characteristics does not exist for determining whether a product is considered new or not. Several well-respected authors, however, have expressed their opinions.

C. Hearn Buck considers a product new when a salesman has a convincing story to tell his customers. He has defined five separate types of new products:

*Completely New Product* - This product results from technical innovation. The selling story lies in its novelty.

*Product New To The Organization* - This product results from corporate diversification. The selling story lies in its somewhat different design, which is necessary to differentiate it from the competition.

*Technically Improved Product* - This product results from incremental technical improvement. The selling story lies in its superiority over the old model.

*Product With Changed Appearance* - This product results from different external design. The selling story is rather thin, except for fashion items such as clothing.
**Product With A Different Price** - This product results from redesign for cheaper production. The selling story lies in its lower price.

Any product falling outside these parameters is not considered a new product. Offering a narrower view on new product definition, Eugene Cafarelli differentiates between *new products* and *repositioned products*. He considers new products to be significantly different from anything a company currently offers, normally requiring separate marketing, packaging, advertising, and financial control. New products include product line extensions, but not product improvements, which usually require only a modest introductory effort. In contrast, he defines repositioned products as merely an evolutionary step beyond current products. Usually the physical product remains largely unchanged; only the communication that the consumer receives about the product is altered, such that the consumer views the product in a new light.

A third source of new product definition is Booz, Allen and Hamilton (Wizenberg, 1986). In 1982, this international management consulting firm surveyed 13,000 new product introductions, categorizing its findings as follows:

- *New-to-the-World Products*
- *New to a Company Products*
- *Additions to Existing Products*
- *Improvements in Existing Products*
- *Cost Reductions of Existing Products*
- *Repositionings of Existing Products*

When comparing these three new product definitions, the first and third are strikingly similar, each classifying a wide range of products as new. In contrast, Cafarelli advances a narrower new product definition, which excludes market repositioning of, or improvements or cost reductions to, existing products.

**The Shopping Center Industry**

Before applying this new product definition to shopping centers, one must address the unique characteristics of real estate "products." What exactly is a real estate product? Unlike consumer products such as specific models of portable stereos which are identical,
real estate projects are designed uniquely and located specifically. It can be argued, therefore, that since no two real estate projects are identical, each is itself a separate product. This approach, however, may not be appropriate.

Alternately, real estate projects might be grouped into product classifications at a level informative to the user. At the most general level, such product classifications are usually residential, commercial, and industrial. This level of data may be adequate, for example, for a statistician analyzing construction trends. Further disaggregation, however, is required by a prospective office tenant. A large law firm may refine commercial real estate into immediately available 200,000 square foot "chunks" of prestigious downtown Class-A office space with a minimum of six corner offices per floor. This concept of relevance to the user, generally termed "materiality" by the accounting profession, is critical to consider when defining new real estate products.

When proposing the first hypothesis discussed in the Introduction: "The power center is a new product," the materiality level should be limited to identifying specific characteristics of several types of shopping centers. Consequently, the hypothesis appears appropriately phrased.

In order to apply new product definitions to power centers, therefore, one must first understand the different existing product types within the more general shopping center industry. In most broad terms, the Urban Land Institute's (ULI's) Shopping Center Development Handbook defines a shopping center as:

A group of architecturally unified commercial establishments built on a site that is planned, developed, owned, and managed as an operating unit related in its location, size, and type of shops to the trade area that it serves. The unit provides on-site parking in definite relationship to the types and total size of the stores.

Within this context, the ULI has defined three distinct types of shopping centers and related trade areas:
**Neighborhood Center** - This type of center provides for the sale of convenience goods and personal services. It is typically anchored by a supermarket or large drug store, and often contains other locally-oriented merchants such as a dry-cleaner or hair dresser. Its trade area is located within a five- to ten-minute drive, and center size averages approximately 50,000 square feet.

**Community Center** - This type of center provides for the sale of hard or soft goods, in addition to convenience goods and personal services. It is typically anchored by a discount department store or strong specialty store (e.g., hardware/home improvement merchant), and often contains a supermarket and other tenants characteristic of a neighborhood shopping center. Its trade area is located within a ten- to twenty-minute drive, and center size averages approximately 150,000 square feet.

**Regional Center** - This type of center provides for the sale of general merchandise, apparel, and furniture in full depth and variety. It is typically anchored by one or more full-line department stores, and contains a wide variety of smaller specialty shops. Its trade area often stretches beyond a thirty-minute drive, and center size averages from 400,000 square feet for a "regional center" to 800,000 square feet for a "super-regional center."

Further differentiation has occurred within these shopping center types as a result of merchandise pricing. Higher-priced specialization began in the 1970s:

**Festival Center** - This specialization features a strong entertainment theme, which is re-enforced with memorable architectural character. It is typically not anchored by a single large tenant, but instead features a wide variety of full-price specialty restaurants and food vendors. Its trade area is regional, but its size is generally similar to that of a community center.

**Fashion Center** - This specialization features a strong high-quality theme, and often concentrates on expensive apparel or gourmet food. It is typically anchored by one or more fashion-oriented department stores or a gourmet supermarket, and includes a significant number of smaller "boutique" tenants. Both its trade area and size may be neighborhood, community or regional in scope.

Lower-priced specialization began in the 1980s:

**Off-Price Center** - This specialization features a strong value-oriented theme, offering high-end name-brand merchandise at prices well below those charged at full-price department and/or specialty stores. It is typically anchored by one or more discount department stores or an off-price supermarket, and includes a significant number of smaller discount tenants. Both its trade area and size are community or regional in scope.

**Outlet Center** - This specialization also features a strong value-oriented theme, but is differentiated by its reliance on tourist trade. It is simply an anchorless aggregation of factory outlet stores, with few or no smaller tenants. Both its trade area and size are regional in scope.

The power center, not specifically addressed in the ULI literature, may very well be the third type of lower-priced specialization born in the 1980s.
The Power Center Specialization

Merritt Sher, Chairman of San Francisco-based Terranomics and a pioneer in power center development, explains the power center concept:

In a power center, every retailer should be dominant in its category. [A retailer achieves this dominance through] clarity of offer, large selection, competitive prices, and strong advertising. If you put enough of these retailers together to create an appropriate critical mass, you will then have an alternative to the regional shopping center. You will have a power center. (Shopping Centers Today, 1989)

The only previous academic study on power centers, written by graduate students Bruce Eatroff and Marc Geffroy at the University of Pennsylvania's Wharton School, defines the product as follows:

A power center is an unenclosed shopping space (i.e., strip center) with 200,000 - 600,000 square feet of shopping space. The centers have at least two anchors, with an average of four to five [anchors]. Two general characteristics differentiate power centers from other types of shopping centers. First, the retailers are all value-oriented destination-type retailers [known as "category-killers"]. Second, is a power center's heavy anchor weighing of 60 - 85% of gross leasable area.

These two differentiating characteristics are explored below.

Category-Killers

Historically, most shopping centers have been anchored by general merchandise department stores. Fashion centers, for example, are anchored by full-price department stores such as Macy's, Bloomingdales or Nordstrom, while off-price centers are anchored by discount department stores such as Sears, K-Mart or Target.

In the late 1970s and early 1980s, a new type of anchor emerged, which was strikingly different from the department store mold. This anchor did not offer a wide selection of general merchandise, but instead concentrated on becoming the pre-eminent retailer for a specific type of merchandise. Within its chosen type of merchandise, this category-killer offered the widest selection, the deepest inventory, and the most competitive price. Toys, for example, became dominated by Toys 'R' Us (often referred to as the "granddaddy" of category-killers), home entertainment by Circuit City, and fashion clothing by Marshalls.
Located separately, these category-killers generally have a community-wide trade area. (Christman, 1989)

**Anchor Dominance**

Traditionally, 35 - 50% of neighborhood, community and regional center gross leasable area (GLA) has been occupied by anchor tenants, with the balance reserved for smaller specialty tenants. These department store anchors, averaging 115,000 square feet, advertise heavily, thereby drawing consumers to the center. The smaller specialty tenants, situated between anchors, benefit from the foot-traffic generated by this advertising and anchor name recognition. (Eatoff and Geffroy, 1989; Beyard and Burr, 1990)

As power centers evolved, anchor space averaged from 70 - 80% of GLA in the late 1980s to more than 85% in 1991. This high percentage of anchor space generally translates into five to seven anchors in a 300,000 square foot power center. Category-killers are significantly smaller than department stores. The size of a typical Toys 'R' Us, for example, is 45,000 square feet, a typical Circuit City 30,000 square feet, and a typical Marshalls 25,000 square feet. To avoid redundancy, traditional smaller specialty stores are de-emphasized since category-killers already offer a wide range of products within a particular specialty. According to traditional retail theory, this concentration of anchor stores in a shopping center tends to enlarge the trade area beyond that of any single store alone, thereby increasing sales of all tenants. (Doocey, March 1991; Huff, 1963)

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Based on these two significant differentiating characteristics, it appears that the power center could not reasonably be classified as one of the existing ULI product types or specializations. Consequently, the most appropriate designation of the power center is as a third lower-priced specialization, joining the off-price center and the outlet center as a new product of the 1980s. Its definition might appear as follows:
**Power Center** - This specialization features a strong value-oriented theme, offering high-end name-brand merchandise at prices well below those charged at full-price department and/or specialty stores. It is typically anchored by four to ten or more category-killers, and includes few small stores. Both its trade area and size are community or regional in scope.

Applying the new product literature discussed earlier in this section, it appears that the power center can truly be labeled a new product. Buck would consider the power center to be a "Completely New Product," since it has resulted from the technical innovation of introducing category-killers as anchors to shopping centers. To consumers, the selling story becomes, "Now you can find the exact product you want at the lowest possible price, all at one location." The power center would also be considered a new product under Buck's less stringent criteria of "Product New To The Organization," "Technically Improved Product," "Product With A Changed Appearance," and "Product With A Different Price." Similarly, Booz, Allen and Hamilton would label the power center as a "New-to-the-World Product," since it introduced the agglomeration of category-killers to the shopping center world. In addition, the power center was clearly a "New to a Company Product," and might also be considered an "Addition to Existing Products," or an "Improvement in Existing Products." Cafarelli, applying a more narrow definition, would nevertheless consider the power center to be a "New Product" since it differs from existing product types in two material respects: category-killers as anchors, and anchor dominance. It therefore appears that the power center can justifiably be considered a new product.

**Power Center Statistics**

This recent phenomenon of power center development has caught researchers by surprise: no comprehensive power center-specific statistics are yet available. In 1989, however, Eatroff and Geffroy conducted an informal survey of six major power center developers, who collectively were operating 59 power centers, and constructing 113 more. By the end of 1991, therefore, these six developers alone will operate 172 power centers nationwide.
BIRTH OF THE POWER CENTER

New products result from organizational responses to factors in the environment. Focusing on consumer products, Glen Urban and John Hauser of MIT have identified eleven initiating factors, classifying them into three categories: specific market stimuli, externally generated pressures, and internally generated pressures.

Specific market stimuli are demographic and lifestyle changes, consumer requests, and supplier initiatives.

Demographic and Lifestyle Changes - Firms develop new products in response to demographic and lifestyle changes. As the United States population ages and therefore consumes fewer soft drinks per capita, Pepsico, Inc. has diversified such that less than half of its total sales relate to beverages. A shift to a more health-conscious lifestyle has lead to increased development of tennis and jogging equipment.

Customer Requests - Firms develop new products in response to customer requests. The Frisbie was mass-produced when one company recognized that Yale students were forsaking the five-cent deposit on pie tins from the Frisbie Pie Company, preferring to throw them about.

Supplier Initiatives - Firms develop new products in response to supplier initiatives. In the 1980s, Tetrapak, the Swiss packaging company, succeeded in persuading United States beverage and juice manufacturers to introduce aseptic containers, or "drink boxes."

Externally generated pressures include competitive position, the product life cycle, technology, invention, regulation, and material costs and availability.

Competitive Position - Firms develop new products to remain abreast of the competition. The Russian Sputnik was the competitive indicator that spurred the United States to develop the space program that beat the Russians to the moon.

Product Life Cycle - Marketing theory suggests that products follow a sales pattern over time that can be divided into introduction, growth, maturity, and decline. Firms develop new products to replace older products in the decline phase, where profits fall. When food industry sales declined in 1975, General Mills (an industry leader) had already purchased Lionel and Parker Brothers, thus becoming the largest company in the game and toy business.

Technology - Firms develop new products to take advantage of the latest technology, thereby avoiding product decline. Computer data storage has become more powerful and less expensive as it has changed from moving head disks to cartridge disks to floppy disks and now increasingly to compact discs.
Invention - Firms develop new products as a result of inventions. A study of the new technology based enterprises in the Boston area indicated that 160 new companies had been formed by past employees of MIT's research labs. (Roberts and Wainer, 1968)

Regulation - Firms develop new products to take advantage of government regulation or deregulation. Airline deregulation has lead to both no-frill (PeopleExpress) and high-frill (MGM Grand Air) varieties of new airline service.

Material Costs and Availability - Firms develop new products in response to raw material costs and availability changes. The increase in gasoline prices during the 1970s was a tremendous force on American automobile manufacturers to develop small cars.

Internally generated pressures result from financial goals and sales growth.

Financial Goals - Firms develop new products to reach earnings per share goals. After a significant drop in stock value as a result of little growth in earnings, Kodak's president stated that "our emphasis will be on the marketplace."

Sales Growth - Firms develop new products to increase sales. Japanese consumer electronic firms, for example, have introduced a stream of new products to maintain sales growth and thereby lower per-unit costs.

The Shopping Center Industry

Specifically applying these environmental factors to the shopping center industry requires some elaboration. Who exactly represents the "environment" from the shopping center developer's perspective? Specific market stimuli appears to encompass consumers, merchants and lenders; the external environment would include inventors, designers, regulators and competing owners; and the internal environment seems to be the developer himself. Each shopping center-specific factor is separately discussed below.

Market Stimuli

Consumers - New shopping center types are created to satisfy consumer requests and address demographic and lifestyle changes. The developer of Potomac Mills noticed a 1980s trend that consumers were becoming more price-conscious. At the same time, however, their taste for better merchandise remained. To satisfy consumer requests for higher-quality but lower-priced merchandise, Western Development built this unusually large outlet center near Washington, D.C. (Doocey, May 1991)
Merchants - New shopping center types are prompted by tenant requests. In the late 1970s and early 1980s, large promotional retailers were expanding rapidly. At first located separately in single-store locations, these category-killers realized that locating together instead would create a tremendous regional draw, further increasing sales. Terranomics responded with 280 Metro Center—the first power center—in which 70% of GLA was purposefully leased to these category-killer tenants. (Doocey, May 1991)

Lenders - New shopping center types can be encouraged by lenders. As 1985-1989 average annual office returns fell below 4% and empty buildings abounded, the risk of office loan default loomed large. Retail returns, quite to the contrary, had held steady at almost 12% over the same period. Within retail property types, regional center loans are considered least risky, since such properties are difficult to build and thus not oversupplied, resulting in high tenant occupancy and low loan default rates. As a result, lenders continue to fund regional center development. (Kateley, 1990)

External Environment

Inventors - New shopping center types are created by far-sighted inventors. The architect John Jack Graham Jr., for example, is credited with inventing the regional mall. At Northgate in Seattle, shoppers were separated from their cars and from the outdoors for the first time. Ample parking allowed people to leave their cars behind. Service facilities were built under the ground to leave more room for storefronts and shop displays. Fixed entrances and exits limited distractions and thus directed shoppers to concentrate on the shops. Stores were arranged along an enclosed forty-foot wide pedestrian "street" with large department stores at either end to act as "anchors" and "magnets." He called the retail street "The Mall." (Doocey, May 1991)

Designers - New shopping center types are created through innovative design influenced by new technology, or material cost or availability. The mixed-use component of fashion centers was developed in response to limited land availability, usually in downtown areas. Chicago's Water Tower Place, for example, was the first vertical shopping center incorporated within office, hotel and residence uses in one integrated structure. The eight-level mall anchored these other uses above. Recent technology provided specialized high-speed glass-enclosed elevators, and state-of-the-art security equipment essential for such a product's viability. (Doocey, May 1991)

Regulators - New shopping center types are created either through public sector encouragement, or stringent government regulation. The City of Boston required preservation of existing buildings as a condition for obtaining the development rights to transform the old Quincy Market area. As a result, Faneuil Hall Market Place became the festival center prototype. (Frieden and Sagalyn, 1989)
**Competing Owners** - New shopping center types are created to retain or wrest market share from competing centers. South Coast Plaza, in Costa Mesa, California, evolved through renovation and expansion from a modest two-anchor regional mall in 1967 to a high-end eight-anchor super-regional center by 1986. During this period, over twenty other regional shopping centers opened nearby. Renovation and expansion ensured that it remained in the growth/maturity stages of the product life cycle, thereby avoiding the inevitable decline phase which accompanies centers hindered by outdated design or tenant mix. Today, South Coast Plaza continues to be the pre-eminent shopping center in Orange County.

**Internal Environment**

**Developer** - New shopping center types are created to generate wealth for developers. Partnerships, not corporations, are the primary ownership vehicle in the shopping center industry. As a result, increased asset value, not earnings per share growth, is the relevant method for calculating wealth. This asset value is simply the capitalized rental stream. Rent, therefore, directly affects asset value. Since most shopping center leases contain percentage rent clauses, the level of tenant sales ultimately determines asset value. Donald Dayton followed this exact reasoning when he was planning the enclosed Southdale Center in Edina, Minnesota. Since only one of every three days was appropriate for outdoor shopping in this harsh northern climate, sales would be lost if he could not "somehow control the climate." Thus the enclosed regional center was born. (Doocey, May 1991)

Many of these environmental factors may also have influenced the birth of the power center.

**The Power Center Specialization**

These shopping center-specific environmental factors can now be applied to the power center product, to determine influences encouraging its creation. Each factor is discussed separately below.

**Consumers**

"Power centers are the result of an evolution in demographics," explains power center pioneer Walter Zaremba. He cites two significant changes in the consumer profile. First is the aging of the baby boom generation, with the resulting "echo" effect. This has increased retail demand for children's clothing, toys, appliances and home furnishings. Second is the increasing number of working women, who statistics indicate represent 55% of all adult women in 1989. This has created "greater household purchasing power, and a greater need
for convenience. Women no longer have time to spend shopping." Citing a shift in consumer preference towards value-oriented merchandise, Demetrios Dellaportas, a Chicago-area developer, describes today's consumers as "sophisticated buyers who know what they want." According to Zaremba, these shopping tastes call for "name brands, depth in merchandise selection and good value." (Peterson, 1989; Lupas, 1988; O'Neill, 1989)

**Merchants**

Largely in response to these consumer demands, merchants sprouted up to provide a wide selection of quality name-brand goods at low prices. Merritt Sher of Terranomics recounts:

> From 1980 to 1983 not much was happening, but by 1984 there was an entry of more large-scale specialty retailers, such as Circuit City, Nordstrom Rack, Toys 'R' Us, and Ross Stores. Meanwhile the smaller promotional stores became bigger. The whole world of specialty retail exploded. *(Shopping Centers Today, 1989)*

During this period, 25,000 - 50,000 square foot category-killers evolved in many major merchandise specialties: Marshalls, T.J.Maxx, Mervyn's, Nordstrom Rack and Ross Stores (fashion clothing); Home Depot and HomeClub (home improvement); IKEA and Pier 1 (home furnishings); Circuit City (home electronics); Toys 'R' Us (toys); and Kids 'R' Us (children's clothing). General merchandise department stores were simply unable to stock the wide selection of goods increasingly demanded by consumers. Zaremba flatly stated, "Being 'everything to everybody' no longer worked." In response, several discount department stores founded their own category-killer spin-offs: Sears' Paint and Hardware, and K Mart's Builders Square (home improvement); and Montgomery Ward's Electric Avenue (home electronics). *(Christman, 1989; O'Neill, 1989)*

At first, these category-killers located in stand-alone locations or anchored strip centers along major highways, and sales levels were good. When Marshalls opened its first power center location in San Francisco, however, its sales suddenly jumped 20% compared with that of an identical store located in a strip center nearby. A similar sales increase occurred
when an Illinois Toys 'R' Us store moved to a power center from a stand-alone site one mile away. As one merchant recounted, soon "tenants were telling developers, 'I'd like to see this tenant with me.' The strength [of power centers] definitely comes from co-tenancy." Category-killers had discovered that they have the same consumer base. Consequently, locating together would provide the benefit of "one-stop-shopping" for their convenience-minded customers. (Totty, 1988; Lupas, 1988)

More recently, 10,000 - 12,000 square foot "mini-anchors" have increasingly begun to locate in power centers. These include Strouds Linen Warehouse (bed and bath), Walden Books, The Warehouse (music and video rental), and Herman's Sporting Goods, which have the same wide selection, value-orientation and therefore customer base as category-killers, but require less leasable area. Traditionally, these stores have located in malls. Power centers, however, offer lower rents, lower common area maintenance charges, and lower promotion fees. With the drawing strength of category-killers, Zaremba describes these mini-anchors as enjoying "big mall traffic without big mall overhead" at power centers. (O'Neill, 1989)

It appears that both category-killers and mini-anchors ultimately prefer power centers over strip centers and malls because of lower occupancy costs. Unfortunately, however, no comprehensive power center-specific survey data is yet available to confirm this theory. Nevertheless, Daniel Dupree of Atlanta-based New Market Development strongly argues, "Power centers perform best for the retailer." He states that in 1990 power centers averaged sales per square foot of $180 nationwide, with rents averaging $17 per square foot, for an occupancy cost slightly exceeding 9%. Regional shopping centers, he continues, have average sales of $250 per square foot, but charge rents in excess of $30 per square foot, so occupancy costs average 12%. In strip centers, he calculates an average occupancy cost of 13%. Power centers, with the lowest occupancy cost percentage, therefore, provide the retailer with the "biggest bang for the buck." (Doocey, March 1991)
Lenders

"Power centers are definitely something lenders are interested in," says Nicholas Adamson of Bankers Trust. He points to the high percentage of anchor space typically occupied by national credit tenants, which provide long-term stability in the form of lower default and vacancy rates. Developer Daniel Dupree adds that, owing to their value-oriented merchandising strategy, power center tenants tend to perform well "in both good and bad times," thereby further reducing lender risk. Aetna Realty Investors, for example, provided construction and long-term financing for one of the nation's first power centers, in San Francisco. (Doocey, March 1991; Totty, 1988)

Other lenders, however, are more cautious. Steven Murphy of Equitable Real Estate, for example, highlights regional differences. "It all depends where in the country this power center would be. The Northeast's low retail square footage per capita would decrease merchandising risk, but the lack of comparables (which are critical to the evaluation process) increases risk. On the West Coast, there are many comparables, but the risk of oversaturation is much greater." He also advises that "betting the ranch on the success of three or four [anchor] merchants is unwise." Specifically, he points to a Hyannis Massachusetts power center where both Hyland and Child World, two well-known retailers, went dark, leaving the center 50% vacant. Although they were risky undertakings, the first power centers were nevertheless financed by traditional lenders. (Telephone interview: July 2, 1991)

Inventors

Power centers are "a damn good idea," says Jack Gould, a Washington-based retail consultant. "Previously, you had eight or nine freestanding retailers, and now you collect them to create a critical mass." Bernard Rosenshein, a New York-based power center developer, agrees. "Having 70% of your space tied up in anchor tenants – that's what makes them work. That's what creates the traffic." (Christman, 1989; Peterson, 1989)
Many experts consider San Francisco-based Terranomics to have invented the power center in 1985 with its 280 Metro Center in Colma, California. Most agree that this was the first strip center where the developer purposefully leased more than 70% of the space to category-killer tenants, thereby earning its designation as power center. Later that year, Terranomics trademarked the phrase "Originator of the Power Center." (Doocsey, May 1991)

Zaremba Midwest of Chicago also claims to have coined the term "power center," with its Yorkshire Plaza complex in Aurora, Illinois. Meanwhile, BD&E Development of Nashville maintains to have been planning and building power centers before the term ever became common. (Silbey, 1987)

With the advent of ever-larger power centers, the concept has been significantly modified by Riley/Pearlman of Los Angeles. To retain the convenience aspect of the original smaller power centers, its 750,000 square foot Valley Central development in Lancaster, California has been segregated into five separate smaller centers. Each area features a distinct theme: supermarket/convenience, soft goods, warehouse club, appliance/furniture, and entertainment. (Lupas, 1988)

**Designers**

Power centers were uniquely designed to take advantage of underutilized sites. Initially, these centers required twenty-five to fifty acres – too small for a regional mall, but too large for a community center. Referring to low land prices, Merritt Sher of Terranomics notes, "At first it was pretty nice before everybody knew what was going on." (Lupas, 1988; *Shopping Centers Today*, May 1989)

Since power centers were simply "big boxes" similar to industrial facilities, construction costs – compared to those of regional malls with their expensive build-outs – were unusually low. Hard construction costs for an early Zaremba power center, for example,
were only $30 per square foot. Also unlike regional malls, power centers contain no unleasable common areas, which are expensive to build and maintain. (O'Neill, 1989)

**Regulators**

Power centers create substantial fiscal benefits for local communities. Higher median sales per square foot ($180) than traditional community centers ($162) generate greater sales tax revenue to the host city. These sales taxes together with incremental property tax revenues (including public school taxes) significantly exceed additional costs incurred by the municipality. As a result, regulators usually encourage power center development. Communities which cannot attract a fashionable regional mall (with sales per square foot often exceeding $250), usually opt for the next-best alternative - a new power center. Increased local traffic congestion appears to be the only major negative factor discussed during the approvals process. (Doocey, March 1991; Dollars and Cents of Shopping Centers: 1990)

Industry professionals maintain that the power center is also an attractive vehicle for redevelopment. Expansion and remerchandising can transform dilapidated and poorly performing community centers into modern-designed higher-sales-volume power centers. (Christman, 1989)

**Competing Owners**

Traditional community centers are anchored by a discount department store or strong specialty store, may include a supermarket, and usually contain many smaller tenants providing convenience goods. In contrast, power centers provide more specialty anchors offering a wider selection of merchandise with the same convenience philosophy. "That could mean trouble for community centers," says retail consultant Jack Gould. "The basic elements in a community center are all pre-empted by power center anchors. The community center is very vulnerable." Kurt Krall of Zaremba agrees, commenting that "the
traditional strip center with a discounter and food store has peaked." It appears, therefore, that in wrestling market share from competing community centers, Terranomics, Zaremba and others may have created a new product – the power center. (Christman, 1989; Silbey, 1987)

Developer

By the mid-1980s, retail developers had seemingly caught up with consumer demand. Regional shopping centers had been built in virtually all locations which could reasonably support one. Also, most developers had renovated and expanded their centers in response to changing demographics. There was little traditional development work remaining to be done. In response to this building slow-down, many developers expanded into the third-party fee-for-service business, offering asset management to pension funds and other passive investors. Some, such as Melvin Simon & Associates, The Hahn Co., Crown American Corp., and Homart Development Co. also expanded their product offering to include power centers. This transition was further simplified since developers often already controlled land well-located for power centers. This land was usually adjacent to their existing mall, or near a competitor's mall which had won approval over their still-vacant site. (Melody and Wagley, 1989; Doocey, April 1991)

At the same time, smaller developers had overbuilt neighborhood and community centers, especially in rapidly expanding areas such as Florida and Arizona. Clearly, they too needed to find another product with growth potential. Terranomics, Zaremba, and Schurgin are three neighborhood/community center developers who capitalized on the opportunity to build power centers.

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These eight "players" – consumers, merchants, lenders, inventors, designers, regulators, competing owners, and developers themselves – all positively influenced the eventual birth
of the power center. It appears, therefore, that the application of new product development theory may be broadened from its traditional focus on consumer products to also include the real estate product known as power center.

THE ROAD TO SUCCESS
Having described the attributes of a power center, and discussed the reasons for its emergence, we are ready to ask the critical question: "What makes a power center successful?" Unfortunately, however, new product success has not been the focus of much academic research. Instead, this new product development research has concentrated on product failure, with the understanding that success is simply avoiding failure. Several studies have quantified the rate of new product failure. A 1982 report by Booz, Allen and Hamilton, for example, found that 35% of products introduced into the market fail. Similarly, C. Merle Crawford concluded that 30-35% of consumer products fail. Another study by the Association of National Advertisers reported a new product failure rate ranging from 27% to 46%. Clearly, new product success is not automatic.

Compiling the results of these and other studies, MIT's Glen Urban, John Hauser and Nikhil Dholakia have outlined twelve reasons for new product failure. Each is explained below, followed by their recommended action/attribute necessary to enhance success.

*Market Too Small* - New product failure results if the target market is not large enough to support a minimum level of sales necessary to earn adequate profit. To enhance success, sales potential should be measured in several markets (with market boundaries and growth patterns carefully understood), and efforts directed only at high potential market opportunities.

*Poor Match For Company* - New product failure results if the product does not match the company's unique skills. To enhance success, companies should ask questions such as "What business are we in?" to identify markets and generate ideas that fit the unique capabilities of the organization.

*Not New! Not Different* - New product failure results if consumers perceive the product as being a direct copy of an existing product. According to the compilers, parity products are not enough. To enhance success, the new product should be unique in a direction important to the consumer.
No Real Benefit - New product failure results if consumers do not perceive real benefits from product concepts and actual use of the physical products. In 1976, J. Hugh Davidson studied 100 new grocery products in Britain and found 74% of the successful products offered better performance, but only 20% of the failures did so. To enhance success, a new product should be both physically and perceptually better than existing products.

Poor Positioning - New product failure results if consumer needs are ignored. In separate studies, Robert Cooper and Geoffrey Briscoe confirmed this hypothesis for the industrial market. To enhance success, companies should define a good psychological positioning and a set of physical features to back it up (such as Hewlett Packard, which successfully positioned its hand-held calculators as having "uncompromising quality").

Little Support from the Channel of Distribution - New product failure results if middlemen fail to accept and promote the product. To enhance success, rewards for channel members should be planned to encourage the desired actions.

Forecasting Error - New product failure results from an overestimation of sales. To enhance success (or know when to abandon a marginal product), sales forecasts must be reasonably accurate.

Competitive Response - New product failure results from rapid duplication by competitors of an initially successful product. To enhance success, a new product should be so well designed such that any duplication will result in little more than a parity product, which according to the compilers is doomed to failure.

Changes in Consumer Tastes - New product failure results from a change in consumer preferences during the product development process. Initial research supported the larger Ford Edsel, but consumer tastes shifted from large to small cars during the three-year development process, resulting in a spectacular product failure. To enhance success, companies must continually monitor consumer tastes, such that products can be redesigned, repositioned, dropped, or delayed.

Change in Environmental Constraints - New product failure results from new government regulations, technology, or material supplies. In 1977, General Motors aborted its Wankel Rotary engine, which had cost $100 million to develop, after new pollution and mileage requirements rendered it infeasible. To enhance success, companies must continually monitor environmental constraints, such that products can be redesigned or dropped.

Insufficient Return on Investment - New product failure results when the product does not meet its profit goals. To enhance success, companies should follow a process where profit is protected, by entering big markets with major new ideas that are effectively designed and tested, so that there is a substantial margin of safety to allow for unexpected events.
Organizational Problems - New product failure results from poor organization. Separate studies by C. Merle Crawford and Volney Steffire concluded that poor relations between the marketing research and marketing departments may cause important negative product information to be ignored. Roy Rothwell et al. found that the lack of higher-level management responsibility for new product development led to poor execution of the introduction plans, thereby contributing to failure. To enhance success, companies need a clearly-responsible "champion" for the new product to keep its managerial momentum high.

The Shopping Center Industry

Applying these twelve requirements for new product success to the shopping center industry again requires some elaboration. How exactly is a new shopping center product created? According to the ULI Shopping Center Development Handbook, each shopping center development passes through four distinct stages: Project Feasibility, Planning and Design, Leasing, and Management. When determining project feasibility, the developer should analyze the market, prepare a financial pro-forma, evaluate the site, obtain anchor tenant commitments, create a leasing plan, secure financing, and obtain public approval. During the planning and design stage, the developer should create inviting exterior features, and pleasant interior features. In the leasing process, the developer should finalize anchor tenant selection, assemble tenant mix, and determine tenant placement. When managing the completed property, the developer should coordinate advertising and promotion, and oversee remerchandising. These ULI-recommended tasks are reviewed below in light of the twelve requirements for new product success previously discussed.

Project Feasibility

Analyze Market - To be reasonably sure that the market is large enough, a shopping center developer should perform a market study. This study gauges retail sales potential by determining the trade area, estimating consumer purchasing power within this trade area, and identifying current and future competitive centers. To be reasonably sure that a forecasting error which overestimates sales does not occur, the developer should insist on conservative trade area, purchasing power, and competitive center underlying data.
Prepare Financial Pro-Forma - To be reasonably sure that the return on investment is sufficient, the developer should prepare a financial pro-forma. This analysis typically includes hard and soft development costs, and annual lease revenues and operating expenditures. To be reasonably sure that a forecasting error which underestimates development costs or operating expenses, or overestimates lease revenues does not occur, the developer should insist on conservative cost and revenue data. To be reasonably sure that the proposed project takes advantage of the unique capabilities of the organization, the developer should answer the question: "What business are we in?"

Evaluate Site - To be reasonably sure that any future shopping center would face a competitive disadvantage, the developer should carefully identify and acquire the best available site. Three principal factors weigh heavily when evaluating a location: size of the market; availability of key tenants for the selected site; and site characteristics, which include access, size and shape, acquisition and site preparation costs, and zoning and environmental considerations. The availability of vacant adjacent land for future expansion also should influence site selection.

Obtain Anchor Tenant Commitments - To be reasonably sure that the shopping center is perceived by consumers as new and different, the developer should obtain commitments from anchors which currently are not present in the trade area. More than any other factor, anchor tenants determine the center's image.

Create Leasing Plan - To be reasonably sure that the shopping center is properly positioned, the developer should prepare a leasing plan which conceptually identifies types of tenants desired by consumers in the target market.

Secure Financing - To be reasonably sure that the return on investment is sufficient, the developer should seek the most inexpensive financing. Traditional financing sources for shopping centers have been banks, pension funds, and life insurance companies. More recent financing vehicles include participating loans, foreign investor syndicates, and debt securities issues.

Obtain Public Approval - To be reasonably sure that the shopping center design will satisfy the regulatory environment, the developer should seek early zoning and environmental approval. To obtain this approval, the design will often be altered to address the local community's concerns. Although time-consuming, incorporating these desires into the project should augment the center's acceptance by the community, which often results in higher sales levels.

Planning and Design

Create Inviting Exterior Features - More than any other factor, exterior features initially create an image which draws consumers into a shopping center. Prominent exterior features include building materials, building entrances, canopies, signage, landscaping, parking availability, and night lighting. To be reasonably sure that the shopping center is perceived by these consumers as new or different, the developer should highlight especially innovative exterior features. Additionally, to be reasonably sure that these innovative exterior features will actually generate greater consumer traffic and thus increase sales, the developer should continually monitor consumer tastes such that poorly performing features can be redesigned. Less prominent, more logistical exterior design issues include building configurations,
stormwater management, uneven topography, and truck service facilities. To be reasonably sure that all applicable environmental issues are addressed, the developer must continually monitor regulatory constraints.

Create Pleasant Interior Features - More than any other factor, interior features create a pleasant atmosphere which retains consumers once they have entered the shopping center. Prominent interior features include malls, kiosks, multiple levels, food courts, inviting storefronts, adequate lighting, and soft interior wall and floor treatment. To be reasonably sure that the shopping center is perceived by these consumers as new or different, the developer should highlight especially innovative interior features. Additionally, to be reasonably sure that these innovative interior features will actually lengthen consumer shopping time and thus increase sales, the developer should continually monitor consumer tastes such that poorly performing features can be redesigned. Less prominent, more logistical interior design issues include tenant spaces, building flexibility, store size, basements, plumbing, and heating and air conditioning systems. To be reasonably sure that all applicable environmental issues are addressed, the developer must continually monitor regulatory constraints.

Leasing

Finalize Anchor Tenant Selection - To be reasonably sure that the shopping center is perceived by consumers as new and different, the developer should finalize commitments obtained during the project feasibility stage from anchors new to the trade area. Especially desirable are merchants which create a lively and exciting shopping experience through colorful decoration and imaginative presentation. These anchors, more than any other factor, will determine the center's image.

Assemble Tenant Mix - To be reasonably sure that the consumer will perceive a real benefit from shopping at the center, the developer should create a balanced tenant mix adapted to consumer income ranges and local buying habits. Typical tenant classifications include general merchandise, food, food service, clothing, shoes, home appliances/music, gifts/specialty, jewelry and cosmetics, and personal services.

Determine Tenant Placement - To be reasonably sure that the return on investment is sufficient, the developer should place tenants to maximize center-wide sales per square foot. Typically, the major anchors are located at either end of the shopping center, which maximizes foot-traffic for the smaller retailers located between them.

Management

Coordinate Advertising and Promotion - To be reasonably sure that the channel of distribution (i.e., the tenants) support the overall success of the shopping center, the developer should create a merchants' association responsible for promoting the center. Typically, tenants contribute a specified amount per square foot to a fund, which support print or radio advertising, or celebrity visits or county fair-type promotions.
**Oversee Remerchandising** - To be reasonably sure that changes in consumer tastes are accommodated, the developer should commit to short three- to five-year leases only, such that less successful smaller tenants can easily be replaced with newer and more desirable merchants.

Coordinating this entire development process may be the most challenging task. To be reasonably sure that organizational problems are not encountered, the developer should assign a strong project manager who oversees each stage of the development process and is ultimately responsible for the shopping center's success.

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Each Urban, Hauser and Dholakia requirement for new product success has now been linked to one or more ULI stage of shopping center development. These relationships are tabulated below.

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<tr>
<th>Project Feasibility</th>
<th>Poor Market Feasibility</th>
<th>None New/Not Different</th>
<th>Poor Product Positioning</th>
<th>Local Support From The Control Of Distribution</th>
<th>Financial Risk</th>
<th>Competitive Response</th>
<th>Changes In Consumer Tastes</th>
<th>Change In Environmental Conditions</th>
<th>Sufficient Return On Investment</th>
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Interestingly enough, the continued positive influence of the eight founding "players" described in the previous section is apparent in these fifteen requirements for new shopping center product success. It appears, therefore, that the success characteristics of new consumer products are very similar to those of new shopping centers.
The Power Center Specialization

These shopping center-specific success characteristics can now be applied to the power center product, to determine attributes essential for its success. Each developer task necessary to produce one or more success characteristic is discussed separately below.

Analyze Market

"Power centers are a tenant-driven product, not a developer-driven one," insists Michael George, a Chicago-area broker. Developer Walter Zaremba agrees, noting that power centers "are being developed as a direct response to what the retailers are telling us." Typical of these retailers is Cary Adams of Hechinger Co., who emphasizes location over shopping center type when selecting future sites: "We would be attracted to the location because we wanted to be there first, and the power center is just one of the vehicles that we might study." As a result, tenants, not developers, prepare most in-depth market studies of power center sites. (Lupas, 1988; Peterson, 1989; White, 1989)

Developers, however, should not follow retailers blindly, warns Barry Dotson of BD&E Development. "Just because an anchor wants to go to a market, doesn't mean we go there. The anchor alone can't support the center." He notes that "the key to a power center is its market, which must have the strength to support such a center. You need the demographics, the buying power." (Silbey, 1987)

According to David Bossey, another Chicago-area broker, successful power centers are supported by a population of 200,000 or more within a five-mile trading area, with a minimum average household income of $25,000. "The overwhelming requirement is user demand," adds Michael George. (Lupas, 1988)

Since ideal power center locations are typically in densely populated areas, retailers continually find appropriate sites located in existing, well-established communities that have undergone demographic change. Los Angeles developer Mark Schurgin looks for
"highly developed, highly built-up markets with a high population base," and notes, "We find we're often redeveloping something to create a power center." (Peterson, 1989)

Prepare Financial Pro-Forma

"We used to aim for a 15% or better unleveraged yield on a project," says Arthur Pearlman of Riley/Pearlman. "Now we are accepting an unleveraged yield of 12% and often need to sell pads in order to make that." Power center developers say their projects are being squeezed by a lack of small tenants to fill the spaces not occupied by the giant category-killer anchors. Many, in fact, had leased anchor space at or below cost, with the intention of recouping their investment solely through much higher small-tenant rents. "Despite the fact power centers have very little small-shop space," Pearlman continued, "this space has to be leased in order for the developer to get a profitable return from the property." (Doocey, March 1991)

Means Square Foot Costs: 1991 estimates that total hard and soft costs for a typical power center-type structure range from $48 to $53 per square foot. Compared with average rents of $17 per square foot, this cost of construction appears extremely low. Two unanswered issues, however, must be addressed: acquiring land, and finding small tenants. Land costs are often prohibitively high, since premium power center sites are usually located in wealthier established communities. Also, finding successful small tenants able to afford these higher rents has proved difficult, especially in the currently overbuilt market during a nationwide recession.

Investors are still debating the long-term value of power centers. "Power centers are just too new a concept for the investment community," says Nick Javaras of Terranomics. "The cap rates fluctuate for them, showing that investors are not comfortable with the format yet." According to various developers and lenders, cap rates for power centers have fluctuated between 9% and 11%, while expected returns range between 12% and 13%. The small 2% to 3% spread between cap rate and desired annual return represents an
expectation of low future rental growth potential. This assumption appears reasonable, since the majority of GLA is occupied by anchors with long twenty or twenty-five year leases at low rental rates, and only 15% to 20% of GLA is occupied by smaller stores with shorter leases which could be turned over at much higher rates within five to seven years. (Doocey, March 1991)

Evaluate Site
Within a desirable trade area, successful power centers are often located on or near major highways or their arteries. Good visibility and convenient access are key. According to broker David Bossey, a minimum average of 20,000 - 25,000 cars should pass the site daily. Parcel size is another consideration, with forty to fifty acres ideal for a 400,000 to 500,000 square foot project. Unfortunately, this larger parcel requirement has precluded power center development in certain expensive but otherwise desirable areas of New England and the Atlantic seaboard. (Lupas, 1988)

A hotly debated location issue is proximity to a regional mall. Developer Mark Schurgin insists on sites located within existing regional shopping areas, explaining that "a nearby regional mall helps draw shoppers to our center. That's a strong, important ingredient for us. Existing shopping patterns are the key. We tend to feed off them. We're almost parasites, in that we feed off the drawing power of regional malls." Walter Zaremba agrees, viewing power centers as enhancing the regional shopping experience. "Rather than competing with the enclosed mall, our center [Indian Ridge in South Bend, Indiana], with its emphasis on soft goods, is viewed as a satellite." Merchants, too, speak strongly for locating in power centers near regional malls. Edward Leinieks of Shoetown, for example, notes that "we have found that our success grows entirely in those areas that have proven retail shopping areas. So, if there is a proven regional mall across the street, our success rate [in power center locations] is much higher." (Peterson, 1989; O'Neill, 1989; White, 1989)
Other experts disagree. Retail consultant Jack Gould believes that proximity to regional malls is "helpful but not essential. A power center doesn't need a regional mall; it needs location [i.e., appropriate demographics]." Merritt Sher of Terranomics is more blunt: "To us the regional mall is irrelevant. That is because the power center is the dominant project of specialty retail in the trade area." Melvin Simon apparently agrees, having built by 1989 nearly a dozen successful power centers in locations without regional malls nearby. (Christman, 1989; Shopping Centers Today, 1989)

Obtain Anchor Tenant Commitments

Successful power centers always contain strong anchor tenants, which are typically nationally known category-killers. Increasingly, however, non-category-killer tenants (but nevertheless successful merchants) such as large supermarkets, warehouse clubs and discount department stores have begun to anchor power centers. Will these non-traditional anchors dilute the power center concept?

New York developer Bernard Rosenshein insists that large supermarkets are the perfect anchor for his version of a power center. "A power supermarket – a superstore – provides the week-in, week-out attraction to bring shoppers. Add a discount drugstore, a home improvement center, a big name soft goods operator, and you're on your way." Merritt Sher disagrees, noting that "the trade area is defined by its largest retailer. If the largest retailer in the power center is a supermarket, then probably the people in that market are going to have about ten or more supermarket opportunities within the same trade area. By putting a supermarket in the power center, in the consumer's mind you diminish the importance of that center as the dominant specialty retail project. The people from farther away don't think it's that special because they have a supermarket closer to home. It's a real subtle thing." Less subtle is the argument that food spoils or melts. Many developers believe that the supermarket attracts crowds that subsequently rush home, thereby not
shopping at the other power center stores. (O'Neill, 1989; Shopping Centers Today, 1989; Peterson, 1989)

Likewise, mass merchandisers are keen on the power center concept. Gene Sword of Costco states emphatically, "We think that's the place of the future for warehouse clubs. We would rather be in power centers than any place else." Other stores, he believes, could do well in centers that include a Costco because they could profit from the customers who drive long distances to come to Costco but cannot find the brand, color, or size of product from its limited selection. Naturally, more traditional power center developers point to this limited selection with disgust, arguing that a fundamental tenet of the power center concept is anchors providing a wide selection of merchandise at a discount price. (Lupas, 1988)

Create Leasing Plan

Once anchor tenants are committed, the developer is able to integrate smaller stores into his power center concept. "When power centers first started out, there was anywhere from 25% to 35% small-tenant space," says James Ashton of Crossroads Development in Beverly Hills, California. "Near the end of the 1980s, small-tenant space shrank to under 20% of total gross leasable area. [In 1991] you are seeing some centers with only 5% of the space devoted to the small tenant. Although there will always be small-tenant space at power centers, we are definitely seeing less of it." This decline in small-tenant space resulted from customer habit of shopping in just one store per visit, leaving little business for small tenants that were not destination stores. Ashton explains, "Power centers have simply grown so large that cross-shopping never developed to the extent needed for the smaller tenants to prosper." At the same time, these small tenants could not compete with the wide selection and discount prices offered by neighboring anchor stores. After all, says developer Daniel Dupree, "Category-killers are in existence to kill categories." For the developer, less small-tenant space lowers profitability, since small tenants regularly pay
between two and three times more rent per square foot than anchor stores. (Doocey, April 1991; Christman, 1989; Doocey, March 1991)

According to Merritt Sher, "In a power center, every retailer should be dominant in its category." Power center owners are increasingly following this advice with respect to smaller stores. They are abandoning most "mom-and-pops" in favor of nationally known mid-sized mini-anchors and smaller-sized specialty chains. Name recognition and wider selection within a narrower niche are key. Unlike category-killer Marshalls, which offers men's, women's and children's clothing, a small 4,000 square foot Dress Barn, for example, concentrates solely on women's clothing. It appears, therefore, that the category-killer philosophy still predominates; the categories themselves, however, are becoming more narrow and specialized. (Shopping Centers Today, 1989; Doocey, March 1991; White, March 1989)

Secure Financing

After overcoming initial lender hesitancy, developers were able to secure financing for power center projects. "Lenders love to see 70% of the space occupied by Triple A-1 power players who are paying you Triple A-1 rent factors," says developer Bernard Rosenshein. Following the typical power center formula of 85% or more of GLA reserved for category-killer tenants, developers can easily meet this requirement. However, as more lucrative small-tenant space has shrunk from 25% to 15% of GLA, lowering investment yields from 15% to below 12%, developers have scrambled to find alternative, less expensive finance vehicles. (Peterson, 1989; Doocey, March 1991)

One alternative is to demand that land owners accept less cash. "You have to make the land owner understand the effect all this downward pressure on retail development [i.e., lower investment yields] is having on the value of land," argues Donald Chasen of Chicago-based Homart Community Centers Inc. Another possibility for lowering finance costs is phasing construction. "It allows you to plan for construction but wait until a building is over 50%
leased before starting," says Arthur Pearlman of Riley/Pearlman. His firm is currently developing Valley Central in Lancaster, California, which has been segregated into five distinct smaller centers amenable to phased construction. On the income side, developers are relying on selling/leasing anchor pads or outlots to reduce borrowing requirements. "The sale of pads can mean huge initial profit for the developer," says James Ashton of Crossroads Development. (Doocey, March 1991)

To make matters worse, all three traditional power center lending sources have virtually dried up within the past year. The current national banking crisis, often referred to as the "credit crunch," has precluded banks from writing any new loans. Varying degrees of oversupply during the current national recession have softened rents and thus lowered investor returns. These decreased yields have discouraged both pension funds and life insurance companies from either lending on or providing joint venture equity capital for new projects. In these difficult economic times, to whom can developers turn?

The answer appears to be large, expansion-minded, well-funded anchor chains. Thomas Seay of Wal-Mart predicts "a new era of unprecedented partnership between developers and retailers." Marshalls' John Ingram agrees, pointing out that his chain has "a credit line to choke a horse." Expansion-minded Costco, for example, is proactively pursuing joint venture deals with developers who control desirable land but lack financing to proceed. Founder Jeffrey Brotman initiated this strategy after concluding that "power centers can't be conventionally developed any further with the expectation of traditional yields." San Diego-based Price Club has proceeded one step further by forming P&K Associates Inc., a joint venture with Los Angeles developer K&F Commercial Properties. "Being a partner gives Price Club the advantage of being able to grow at its own pace and control the tenant environment in the center," says Joseph Kornwasser, a general partner at K&F. "The partnership gives us a major tenant in most of our projects." The group has completed five centers, and plans to build at least six more in 1991. (International Council of Shopping Centers, 1991; Doocey, March 1991)
**Obtain Public Approval**

Communities generally encourage power center development to capture the resulting sales tax revenues. Their major concern is heightened local traffic congestion caused by shoppers. To obtain approval, therefore, developers often must widen adjacent roads or improve nearby intersections. The other issue is aesthetic: power centers are simply "big boxes" occupied by category-killers, surrounded by a sea of asphalt parking. To shield neighboring residential areas from this eyesore, developers are sometimes required to berm and shrub the property perimeter.

**Create Inviting Exterior Features**

Los Angeles developer Mark Schurgin points out that "power centers often have power aesthetics. We believe in strong aesthetics, and in making a strong architectural statement." Merritt Sher of Terranomics agrees, describing power centers as "linear visual statements." Even in the less glitzy Midwest, Zaremba successfully uses California mission or other interesting motifs to lure shoppers into its power centers. (Peterson, 1989; Totty, 1988; O'Neill, 1989)

Besides modern uniform architecture, developers use large signs featuring anchor logos along major adjacent traffic routes. Entrances along these major roads are typically well-landscaped, and usually controlled by traffic lights for convenience. Parking lots offer ample but close-in parking. The ability to park very near to retailers is a critical convenience attribute, since shoppers are adverse to walking more than 250 feet from their automobiles to store entrances. At the same time, efficient internal vehicle circulation is especially important, since the average customer spends only one-half hour at the power center. Pleasantly landscaped parking lot dividers appear to reduce parking lot size to a more manageable level. Delivery areas at the rear are usually well-hidden by large berms and extensive landscaping. (Eatroff and Geffroy, 1989; Lupas, 1988)
Create Pleasant Interior Features

From wherever the customer has parked, he or she should be able to clearly see anchor tenant logos, such that even stores at the far reaches of the power center seem within easy access. Anchor stores generally have larger signs, but even small tenants should have 30-inch individually lit letters directly above their entrances. (Totty, 1988; O'Neill, 1989)

Since power centers have no interior common area, a canopy along the storefronts protects shoppers from the weather, and bushes or other landscaping separate them from the parking area. (Christman, 1989)

Finalize Anchor Tenant Selection

"With a community center you have to work with one or two anchors, then you can begin construction," says broker David Bossey. "In a power center, you need four, five or more anchors committed before you can start. It just multiplies your headaches." After a handful of appropriate anchors have expressed their desire to locate on one site, getting them to agree on architecture and positioning can be the ultimate exercise in tactful persuasion. "Most major anchors want to keep their identities, which in many cases have made them successful," notes developer Demetrios Dellaportas. "If you can tie them together with pleasant looks, you are a hero." (Lupas, 1988)

Assemble Tenant Mix

Once anchor tenants have been finalized, the developer is able to begin leasing smaller-tenant space. Synergy with anchor offerings is the key. Edward Leinieks of Shoetown explains, "We find that the synergism of having apparel, then the shoes and other types of soft goods uses together, creates a very positive shopping environment, and we definitely benefit from having all those apparel stores around us." Elise Jaffe of Dress Barn concurs: "Other anchors that sell women's clothing, such as Marshalls and T.J.Maxx, are not competitors with us. They're very complementary, in fact, and we would seek them out as
good anchors for centers we're in." Interestingly enough, synergy is a two-way street, with anchors benefitting as well. "I'd pass if I were the only apparel retailer in a [large] 500,000 square foot center," says Marshalls' John Ingram. (White, 1989; International Council of Shopping Centers, 1991)

Some anchors, however, are more synergistic than others. Traditional home improvement category-killers such as Builders Square, for example, attract primarily men, who usually do not visit other stores in the center. Developer Mark Schurgin prefers Home Depot, because it offers a more participatory shopping experience. "They show you how to operate this or that, and tend to attract larger numbers of women for that reason." (Peterson, 1989)

Determine Tenant Placement

First, the anchor tenants jockey for position. "They all want premier position with a premier parking field," says broker David Bossey. Merritt Sher explains that Terranomics defers site planning until just before construction. "Our site planning is very tenant-specific, and we'd rather take more time revising our site plan because it allows us to highlight each individual tenant the way it wants to be." (Lupas, 1988; Shopping Centers Today, 1989)

Then smaller tenants seek to exploit their synergistic ties with anchor stores. "We would like to be as close to the front door of the T.J.Maxx or Marshalls type of store as possible," says Edward Leinieks of Shoetown. "Our most successful stores are those that are nearby or next to a number of women's apparel stores." (White, 1989)

These tendencies of anchors desiring prominence, and smaller stores coveting proximity to a synergistic anchor, have departmentalized power centers. Valley Central in California is a prime example. This very large power center is actually a grouping of five smaller retail areas, each specializing in one product type. Food is anchored by a Food 4 Less supermarket; soft goods is anchored by a Marshalls clothing store; warehouse club is
anchored by Home Club, Costco, and Wal-Mart; furniture is not yet under construction; and entertainment is anchored by a 12-Screen Cinemark Theatre. Surrounding each of these prominently visible anchors are numerous complementary smaller stores. For example, Food 4 Less is surrounded by Drug Emporium and Downey Savings & Loan; Marshalls is surrounded by Fashion Bug and C&R Clothiers; the warehouse clubs surround Home Furniture and Fusion Audio; and the Cinemark Theatre is surrounded by Mr. G's Family Arcade and Subway Sandwiches.

In an effort to create additional valuable space, developers have increasingly designated areas immediately adjacent to anchor entrances for small tenants. This design reduces overall anchor frontage, but creates premium locations which provide the high foot-traffic necessary for smaller tenants to thrive. (Peterson, 1989)

Coordinate Advertising and Promotion

Most power center developers organize merchant associations, which coordinate advertising and promotion. Typically, only non-anchor tenants join this merchant association, since category-killer anchors, by definition, already advertise heavily. "The biggest challenge to managing a power center," says developer Barry Dotson, "is developing a stronger marketing program and assuring participation by tenants." Collecting an additional $0.50 to $3.00 per square foot in association dues annually is often difficult, since tenants cannot measure the direct effectiveness of advertising on their sales. Advertising generally encompasses direct mail, newspaper, radio, and (rarely) television; promotions include sidewalk sales, craft shows, and similar staged events. (Silbey, 1987; O'Neill, 1989)

Anchor stores are nevertheless an integral part of the overall marketing strategy. Developer Mark Schurgin comments, "It's an active, aggressive marketing effort that's going on out there," and adds that marketing is more clearly a joint effort between anchors and landlord in power centers, than in any other retail product type. (Peterson, 1989)
Oversee Remerchandising

Power center developers face a stiff challenge when an anchor fails or otherwise needs to be replaced. Consumer traffic quickly falls, and the remaining merchants suffer. "Nothing is deader than a dead power center," comments Merritt Sher. Replacement merchants are often difficult to find, since anchor spaces were constructed to the original tenant's (sometimes unusually wide, deep, or large) specifications. In themed power centers, the developer faces the additional challenge of finding an anchor selling a specific type of merchandise, in order to support the existing small tenants surrounding the vacant space. (Shopping Centers Today, 1989)

These issues are not nearly as ominous for small-tenant vacancies, since space requirements tend to be more uniform, and easily adjusted interior partitions provide adequate flexibility. In addition, the number of small tenants within a particular merchandising category is far larger than the number of appropriately-themed category-killers.

Coordinate Development Process

As with all development projects, power center properties are most ably developed by a qualified project manager. Typically, this person coordinates all aspects of the feasibility, planning and design, leasing, and initial operations stages of development. Power center project managers must therefore be skilled negotiators and delegators, and should be conversant in the disciplines of real estate economics, finance, site planning, municipal politics, design, construction, leasing, and retail marketing.

********

It appears that diligently completing these fifteen tasks – analyze market, prepare financial pro-forma, evaluate site, obtain anchor tenant commitments, create leasing plan, secure financing, obtain public approval, create inviting exterior features, create pleasant interior

41
features, finalize anchor tenant selection, assemble tenant mix, determine tenant placement, coordinate advertising and promotion, oversee remerchandising, and coordinate development process – will eventually lead to a successful power center project. Therefore, it seems that the application of new product development theory may be further broadened from its traditional focus on developing successful consumer products to also include developing successful real estate products – specifically those known as power centers.
WORKS CITED IN CHAPTER 1


CHAPTER 2: CASE STUDIES

In Chapter 1, a shopping center-specific framework for analyzing new product development was proposed, and power center-specific issues within this framework were discussed. Building on this argument, the next logical step in testing the three original hypotheses appears to be applying this framework to several existing power center developments. These hypotheses appear valid when broadly discussed with industry leaders, but will they remain sound when applied to specific projects?

Having decided to focus on specific projects, one is faced with another question: Of the more than 172 power centers currently in operation, which should be chosen for further study? According to Eatoff and Geffroy, most existing power centers have been developed in the densely populated areas of California, Chicago and Atlanta. To facilitate the comparison of public regulation, climate and other regionally influenced issues, the selections should fall within a limited geographic area. At the same time, both early and more recently completed projects should be chosen, to observe how the power center has evolved over time. Also, since the power center "product" was born quite recently and thus may not yet be fully standardized, observing centers built by different developers may provide further insight. Finally, since this thesis is the first piece of academic research analyzing specific power center projects, the centers themselves should be well-recognized and widely-respected by industry leaders.

The State of California is the only geographic location within which all these site selection criteria are met. Highly visible power centers have been completed over time by different developers in areas near San Francisco, San Diego, and Los Angeles. The name, location, region, and opening date of the centers chosen appear below:

<table>
<thead>
<tr>
<th>Center Name</th>
<th>Location</th>
<th>Region</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>280 Metro Center Colma</td>
<td>San Francisco Region</td>
<td>1985</td>
<td></td>
</tr>
<tr>
<td>Escondido Promenade Escondido</td>
<td>San Diego Region</td>
<td>1987</td>
<td></td>
</tr>
<tr>
<td>Tustin Market Place Tustin</td>
<td>Los Angeles Region</td>
<td>1988</td>
<td></td>
</tr>
</tbody>
</table>
Each project was first visited to gain a clearer understanding of its physical features and regional context. Then, its project manager during the development process was interviewed. Finally, independent literature such as the consultant's market studies, the architect's site plans, and relevant newspaper/magazine articles were gathered.

Each case study is structured into three distinct sections: Discussion, Project Summary, and Site Plan. The development and operations experience of each project are discussed under the broad headings of Project Feasibility, Planning and Design, Leasing, and Management first introduced when creating the shopping center-specific success characteristics framework in the final section of Chapter 1. This discussion is followed by a one-page Project Summary describing essential tenant and site data, market data, and financial data. A detailed site plan outlining all tenant locations is the third and final component of each case study.
280 METRO CENTER

280 Metro Center is located six miles south of downtown San Francisco in the small town of Colma, California. With only 1,100 residents, Colma is more widely known for its fourteen cemeteries and nearby retail. This unusual combination of land uses has spurred jokes such as "Shop 'til you drop," and the infamous "Shop a lot, buy a plot." (Doocey, May 1991)

The thirty-one acre site was originally owned by U.S. Equities, and approved for twenty-four acres of residential and seven acres of retail development. The Town, however, by allowing construction of only fifty residential units per year, burdened the owner with unacceptably high carrying costs. Another solution needed to be found. Thus, U.S. Equities asked San Francisco-based Terranomics to evaluate the feasibility of building a larger retail center on the entire site. Eventually, these two entities formed a joint venture, with U.S. Equities supplying the land, and Terranomics providing the shopping center development expertise.

Terranomics itself was founded as a strip center developer in 1970. During subsequent years, it expanded throughout the western United States and more recently into the Northeast. Terranomics also broadened its product mix over time to include power centers and regional malls. By 1991, the company had developed nearly three million square feet in seventeen properties throughout the United States.

Project Feasibility

Terranomics quickly realized that the location held tremendous retail potential. Over 740,000 people, with an average household income of $35,000, lived within a seven-mile radius. The immediately surrounding area was already an established retail magnet, with the successful 860,000 square foot Serramonte Mall and many thriving stand-alone merchants nearby. The site itself was located on Junipero Serra Boulevard, one-half mile from the I-280 Freeway interchange (see site plan on page 56). Unfortunately, however, it
was below grade, and between a dump and a cemetery. Also, frontage along Junipero Serra Boulevard was minimal, with the site much deeper than it was wide. To relieve this access problem, Terranomics petitioned the Town to create a special assessment district, funds from which would be used to construct Colma Boulevard along the southern edge of the site. Incremental increases in property and sales taxes would eventually retire these development bonds. The developer explained that rezoning to an all-retail use was not contested by the Town, since the cost of this additional infrastructure would not be borne by Colma residents.

Finding tenants was the next step. Home Depot, United Artists Theatres, New York Fabrics and Federated Electronics were so enthused by the regional demographics that they bought their store pads. Marshalls, Nordstrom Rack and The Wherehouse signed long-term leases. Nick Javaras, President of Terranomics, recalled, "It was one of those cases of being in the right place at the right time. Large promotional retailers were just coming into their own. We had a 31-acre site in a popular market cleared for retail. Luckily, we recognized the trend and changed our marketing plan to reflect it." Indeed, the developer purposefully decided to lease more than 70% of the space to category-killer anchor tenants. Javaras continued, "One day we were all sitting in a room, discussing how all these power retailers leased into the center, when someone started to call the project a 'power' center. The name stuck." (Doocey, May 1991)

Javaras maintained that the lender’s risks were tolerable. "By the time we started looking for financing, our basis in the land was almost zero, and the leased portions of the center were more than 50% committed." The land had initially cost $9.6 million, but after netting $7.9 million from the four anchor pad sales, the developer’s remaining basis was a mere $1.7 million. Also, the leased areas would be occupied by low-risk national/regional anchor and smaller stores. "We had a good track record with Aetna, so they even allowed us to pull some equity out of the deal" with the combination construction/permanent loan. Total development costs excluding land were estimated at $78 per square foot of GLA. A
yield between 13% and 15% was projected on rents ranging from $12 per square foot for anchor tenants, to near $24 per square foot for the smallest stores.

Planning and Design
The site's poor access and visibility were viewed as significant detriments. Construction of Colma Boulevard with tax increment financing, however, greatly improved automobile circulation. Nevertheless, the nearest freeway interchange remained over one-half mile distant. Visibility was an even more difficult problem to solve, since the site was already at an elevation fifty feet below the freeway, and then sloped further downward and away from Junipero Serra Boulevard. Javaras therefore considered tenant placement key. As a result, he hired Bud Johnson, an outside site planning specialist. To draw shoppers to the far end of the center, Johnson positioned Home Depot, the most prominent anchor, "at the bottom of the hole." To reinforce this draw, Nordstrom Rack, New York Fabrics and Marshalls together anchored the far end of the continuous "L-shaped" main building. The Wherehouse, a more impulse-oriented music store, anchored the near end of the "L-shaped" strip, adjacent to the center's main entrance. The corner, or "crotch," of the main building was anchored by Federated Electronics. The leasing plan called for strong, promotion-oriented smaller stores to fill the spaces between Marshalls, Federated, and The Wherehouse. Also, mini-anchors would tenant four highly-visible pads positioned near center entrances along Colma Boulevard. The Six-Screen United Artists Theatre, a strong destination anchor not requiring proximity to the other retailers, was the only merchant Johnson placed on the south side of Colma Boulevard. "We always go through fifteen or twenty site plans," said Javaras. "We learned a lot from [the design process]. At first we had it planned along linear lines, but when we realized just how big the center would be, we changed design so that it would encompass the shopper." (Doocey, May 1991)
To increase visibility from the freeway, a seventy-foot high red pylon sign advertised the center. A large fifty-foot high sign naming the major tenants marked the main entrance,
since the "back" of the center faced Junipero Serra Boulevard. To increase visibility from Colma Boulevard, all the facades on buildings were built 50% higher, and a large orange pylon sign at the far end of the center advertised the partially-hidden Home Depot. Once in the center, discount customers were pleasantly surprised by the unusually refreshing red and white architecture. Terranomics, in fact, had hired a separate design firm specifically to create this sense of excitement. One Wall Street Journal reporter described the project: "The 'L-shaped' center is awash in arches, columns, towers and other post-modern frills, with a kaleidoscope of bright colors and lighted signs above each store." Arcades covered the walkways between anchor tenants, thereby providing a dry and shady environment to stroll from one anchor to another, or windowshop at the smaller stores. To clearly display merchandise, the store windows themselves were unusually tall, stretching twelve to fourteen feet from floor to ceiling. Javaras explained that "merchant focus and clarity of presentation" was the underlying objective. The reporter further observed that "the biggest retailers are prominently in view from any spot, so even stores at the far reaches seem within easy access." To additionally enhance the center's image, the parking lot and site perimeter were extensively landscaped with grass, bushes and trees. Since the center faced inward around the parking area, the blank building walls along Junipero Serra Boulevard also needed to be covered with large bushes and trees. The "backs" of pads were similarly hidden, although "back-side" tenant logos were clearly visible from Colma Boulevard. (Totty, 1988)

Leasing

The center opened 80% leased in November 1985, and was 100% full in a matter of months. Terranomics' leasing philosophy for the smaller stores was identical to that of the large anchor stores: Find tenants which provide a wide selection of merchandise at a discount price within a particular category. Javaras pointed out that the categories became more narrow as store size diminished. Thus, the section between Marshalls and Federated
Electronics was leased to smaller specialty stores such as Men's Wearhouse, Petco, and Jenny Craig Weightloss. The area between Federated Electronics and The Wherehouse included Penguin's Yogurt, Paper Image and Crown Books. Pier 1 Imports leased one pad, and Burger King ground-leased another. Kuppenheimer (men's clothing) and Herman's Sporting Goods shared the third outparcel, and Ortho Mattress & Furniture and The Bedroom combined on the final pad. Lynn Gallagher, the center's marketing director, recalled: "We targeted specific merchants that we wanted, and signed most of them." She observed that food service was the center's weak link, with only Burger King, Penguin's Yogurt, and Jil's Cafe offering hungry shoppers a meal-time break. Aside from several "percentage rent only" clauses, leases were very traditionally structured. (Doocey, May 1991)

Management
As a whole, Javaras considered the center's performance spectacular, with average sales per square foot rising from $241 in 1988 to $300 in 1990. He labeled Nordstrom Rack "a phenomenal success," and boasted that The Home Depot store was the chain's top location nationwide. Some smaller stores, however, had not fared as well. Fred Haney, owner of the Paper Image greeting-card and gift store, noted that his store benefits somewhat from being located between The Wherehouse and Federated. However, most customers who visit Nordstrom Rack, Marshalls and Home Depot, all located on the other side of the center, do not shop at his store. Haney has even had to sell another business to meet expenses. "If I put this store in any of the major malls, I'd be going gangbusters," he said. "This was supposed to the flagship store, but it's sinking." Terranomics has admitted that power centers have their limits. "Generally speaking, it's not a place for mom-and-pops," said Javaras, noting that marginal customer recognition depresses sales and high advertising costs further reduced profits. Nevertheless, he added that tenant
turnover has been minimal, with only 10% of total GLA needing to be re-leased during the center's five-year lifetime. (O'Neill, 1991; Totty, 1988)

In 1989, Federated Electronics was purchased by Atari, which promptly closed the store. Since the anchor owned its pad, Terranomics could not simply evict and replace the merchant. Negotiations dragged on for more than one year – during which time the store remained "dark" – until Terranomics had repurchased the pad and leased it to Kids 'R' Us. Adjacent small stores suffered somewhat during this period, even though Federated Electronics had always been a disappointing traffic generator. In contrast, Kids 'R' Us proved to be a much stronger anchor, drawing Marshalls and Nordstrom Rack customers to its area of the center. During the initial lease negotiations, Kids 'R' Us complained that the original Federated Electronics space was too large for its needs. The fact that a nearby free-standing Toys 'R' Us was that chain's top California location, however, convinced Kids 'R' Us management to absorb rent payments for the additional unused space. (Christman, 1989)

In 1988 Terranomics commissioned Thompson Associates, an independent market research firm, to quantify shopper demographics, canvas public perceptions of the center, and analyze shopping patterns. Consumer research revealed that shoppers were 50% married, 61% female, 63% white, and 71% employed. Most lived within six miles of the center. Age averaged 40 years, and household income averaged $45,000. More than half the shoppers believed nothing was wrong with the center. Its three most desirable attributes, they stated, were discount prices, wide variety of merchandise, and proximity to home. Some interviewees, however, did complain that auto access was difficult, and that walking distance from end to end was too far. Shopping habits revealed interesting patterns. The vast majority of people interviewed on-site drove to the center with the intention of shopping at one of the three major anchors: Nordstrom Rack, Marshalls and Home Depot. However, in shopping these anchors, they were not cross-shopping the center's other stores as frequently as Terranomics had expected. Center manager Elizabeth Coyne noted,
"Little can be done to change the basic layout, but we are addressing the problem of cross-shopping." The developer has installed four new directories throughout the center to help shoppers identify and find the smaller stores. Also, during the pre-Christmas holiday weekends, a motorized cable car was hired to continuously circle the center. One food service tenant – Jil's Cafe – has gone so far as to set up a separate food kiosk at the opposite end of the center outside Home Depot. Lynn Gallagher, the center's marketing director, has encouraged retailers to deduct ten percent from a customer's purchase if that customer brings a receipt from another 280 Metro Center store on the same shopping day. How well has this discount promotion been received by tenants? "Well, ten percent isn't that much [from a retailer's perspective]," responded Gallagher. She pointed to one merchant who traced a significant increase in sales to this promotion, but acknowledged that not all stores participated. Most tenants also contribute between $1.50 and $3.00 per square foot annually to a promotion fund. This money is used for ten center-wide direct mail campaigns, each reaching between 50,000 and 75,000 homes. In addition, all tenants – even the smaller stores – are expected to advertise separately. (O'Neill, 1991)

**Developer Assessment**

280 Metro Center has become the dominant outdoor center in its region of Northern California. Current sales per square foot hover near $300, and the center is 100% occupied. The developer's return as been an astounding 14.5%. In October 1990, Terranomics sold 50% of the center to TCW Realty Advisors for $30 million, which translated into a cap rate of 7.75%.

Looking back on the development effort, what else could have been done to improve the center? Javaras immediately pointed to an often recited lesson: "It taught us to limit small space in power center formats. Smaller retailers just do not do well next to destination retailers." Parking layout was another issue. The wildly successful Home Depot, for example, is surrounded by a much too small parking field. Finally, choosing a low-traffic
high-cost-per-ticket home electronics retailer to occupy the "crotch" position may have been a mistake. As the one anchor location with smaller stores on both sides, this pad should have been tenanted with a high-traffic low-cost-per-ticket merchant such as Marshalls. Nonetheless, a recent commemorative article in *Shopping Centers Today* concluded, "Imitation is the sincerest form of flattery or recognition of success. Since [280 Metro Center], power centers have sprouted all over the United States." (Doocey, May 1991)
## EXHIBIT 1
### 280 METRO CENTER
#### PROJECT SUMMARY

<table>
<thead>
<tr>
<th>TENANT AND SITE DATA</th>
<th>SQUARE FOOTAGE</th>
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<tbody>
<tr>
<td>The Home Depot</td>
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<td>Marshalls</td>
<td>32,000</td>
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<td>Nordstrom Rack</td>
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<td>United Artists Theatre</td>
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<td>Kids 'R' Us</td>
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<td>New York Fabrics</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>351,595</strong></td>
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| Site Area (Acres)   | 31             |

### MARKET DATA

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<th>SEVEN MILE RADIUS</th>
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<tr>
<td>Children As Percentage of Population</td>
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<table>
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<tr>
<th>Daily Automobile Traffic Counts</th>
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### FINANCIAL DATA

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<td>Including Land</td>
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<td>Greater Than 4,000 Square Feet</td>
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<td>Less Than 4,000 Square Feet</td>
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<td>Common Area Maintenance (All Tenants)</td>
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<td>Advertising (Small Tenants Only)</td>
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<tr>
<td><strong>Sales per Square Foot</strong></td>
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<tr>
<td><strong>Developer Yield (Actual)</strong></td>
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</table>
280 METRO CENTER
Colma, CA
ESCONDIDO PROMENADE

Escondido Promenade is located thirty-five miles northeast of San Diego in the rapidly growing City of Escondido, California. Reflecting Southern California's strong economic expansion during the past twenty years, City population has increased almost 200%, rising steadily from 37,000 in 1970 to 108,000 by 1990.

The thirty-two acre site was originally occupied by a public high school athletic field. As the City grew, however, public officials considered the site much more appropriate for retail use, since it was located near the intersection of two heavily-traveled freeways (see site plan on page 64). Consequently, this athletic field and several neighboring properties were designated a City redevelopment zone, and development proposals were solicited. Schurgin Development Companies, one of several responding organizations, was eventually awarded the opportunity to redevelop the site.

This project would be Los Angeles-based Schurgin's second power center redevelopment, joining another in Raleigh, North Carolina. Schurgin was founded in 1977, and originally built and operated neighborhood and community shopping centers in California. In the early 1980s, it began diversifying both geographically (to the Pacific Northwest and Atlantic Southeast) and across product lines (into power centers). By 1991, Schurgin had developed and was managing nearly four million square feet in nineteen retail properties across the United States.

Project Feasibility

Schurgin was attracted to Escondido by its enormous population gains and middle to upper-class income levels. "We build in very high density population bases," explained company president Mark Schurgin. Indeed, population within a seven-mile radius of the site had grown 225% from 61,000 in 1970, to nearly 200,000 by 1990. At the same time, average household income rose to almost $41,000. He added that exploiting existing shopping patterns was also crucial: "We rely on the proximity of regional malls, where
people will drive five to twenty miles or more to shop." North County Fair Mall, the most prestigious fashion mall in northern San Diego County, was less than five minutes away. Access and visibility were additional issues. The project would be located near the most highly-traveled freeway interchange in northern San Diego County: the Escondido Freeway (I-15) and SR-78. The site itself was adjacent to the Escondido Freeway, clearly visible to 124,000 automobile drivers each day. "Best of all," said Schurgin of the Escondido location, "there were no other power centers in the area!" (O'Neill, 1989)

The developer recalled that gaining control of the site, however, was an extremely complicated ordeal. In competing with the other developers for City designation, Schurgin boasted two advantages: credibility gained through successful prior redevelopment efforts, and relationships with major tenants the City was seeking. Since public officials could not risk the embarrassment of a failed project, and the developer had already obtained commitments from highly desirable Target, Mervyn's and Toys 'R' Us, the City Council formally endorsed the Schurgin proposal. This City designation, however, was only the first step; Schurgin now needed to assemble the land. A total of twenty-two separate parcels were owned by the adjoining high school, the California Department of Transportation, the City Redevelopment Agency, and a host of private individuals. In addition, several public streets and numerous utility easements crossed the site. Almost one year passed during this highly complicated site assemblage process. Site access was an additional issue. A major condition of receiving City designation to develop the site was Schurgin's building Auto Park Way and two immediately adjacent freeway interchanges, one at West Valley Parkway and the other at Ninth Avenue. This enormously costly venture was funded through tax increment financing, whereby the City created a special assessment district encompassing the redevelopment area. A combination of subsequent developer contributions and incremental increases in property taxes due to this redevelopment would eventually retire the underlying bonds.
During the initial development competition, Schurgin realized that its tenanting strategy nicely complemented the City's desires. Company president Mark Schurgin explained, "We base our power centers solely on a backbone of fashion. Sign up a major fashion chain, and other tenants seem to fall in line. A second major is hard goods." Following this formula, Schurgin signed first Mervyn's and then Target to letters of intent. Armed with the commitment from these two strong anchors plus Toys 'R' Us, and the developer's designation from the City, Schurgin sought financing. Since Mervyn's and Target planned to purchase their pads, these proceeds would decrease net borrowings. Security Pacific National Bank, Schurgin's traditional lending source, subsequently provided what amounted to 100% construction and permanent financing. The bank received a moderate level of equity participation. (O'Neill, 1989)

Except for Mervyn's, Target, and Carl's Junior (which ground-leased an outparcel), Schurgin financed all construction. Excluding site acquisition costs, development expenses were estimated at $69 per square foot of GLA. Schurgin expected a competitive return, based on annual rental levels of $5 - $8 per square foot for anchor stores, to upwards of $31 per square foot for the smallest tenants. The developer considered anchors loss-leaders who drew the consumer traffic necessary for smaller tenant viability. Thus, Toys 'R' Us, Kids 'R' Us and T.J.Maxx would enjoy below-market rental levels.

Planning and Design

Since the site itself was long and narrow, Schurgin decided to place most tenants in a long uninterrupted building parallel to the freeway. To ensure adequate foot traffic along its entire length, Mervyn's would anchor one end and Target the other. A center area was reserved for Toys 'R' Us and Kids 'R' Us, which together provided a strong children's draw. Once T.J.Maxx agreed to lease space near Target, the area between it and Kids 'R' Us evolved into the fashion section. Similarly, the small-store space between Toys 'R' Us and Mervyn's was reserved for specialty retailers, largely offering merchandise
complimentary to that of Mervyn's. Two restaurant pads were placed adjacent to the heavily travelled West Valley Parkway, and another multi-tenant restaurant building and two service-oriented buildings were aligned along Auto Park Way, near an apartment complex.

Schurgin emphasized tasteful, contemporary exterior design. In fact, the developer noted that many features were borrowed from a highly successful Schurgin community center in Orlando, Florida. From a distance, distinctive red arches prominently highlighted Escondido Promenade's architecture. This theme was reinforced as the consumer entered the parking lot and walked towards the shops: first with color-coordinated flowers at the parking lot entrances, then with curved red canopies extending over shop entrances, and finally with rounded-glass storefronts using red metallic trim. Placing waist-high bushes and "clean, see-through" trees throughout the parking lot appeared to reduce its size to a more comfortable human scale, while not obstructing sight lines or substantially increasing maintenance costs.

The freeway was approximately twenty feet higher than property grade. As a result, delivery areas were conveniently hidden in a service corridor between the long strip building and the freeway retaining wall. Large sixty-foot high pylon signs were anchored in this alley, advertising major tenants to freeway drivers. Schurgin faced a greater challenge "hiding" the back side of its smaller buildings along the perimeter streets. Since the developer decided that all storefronts would face the interior parking lot, drivers initially saw this back side from the street before entering the center. After much debate, public authorities granted approval for tenants in these buildings to also apply their logos to the "rear" street-side wall. These logos, together with black, grey, and red color patterns and a prominent arch unobtrusively covered what might have been an ugly and exposed blank wall. Subsequently, a competing community center across the street requested the same signage variance; a new political administration, however, denied the request.
Leasing

From the beginning, smaller space leased well. The fashion area between T.J.Maxx and Kids 'R' Us, for example, contained merchants such as Strouds Linen Warehouse and Famous Footware. Kinder Foto and Petland capitalized on their locations adjacent to the children's anchors, while Patti's Hallmark and Bridals by Susanti occupied space near Mervyn's. Project manager Karen Kennedy emphasized the "throat stores" as a particularly innovative feature. The developer carved out a space of less than 1,000 square feet on either side of T.J.Maxx's entrance, thereby creating two extremely high-traffic locations for very small tenants Fredericks of Hollywood and Ladies Accent.

Along Auto Park Way, Schurgin created a "mini-food court," by combining Subway, Peking Panda, Creative Croissant, European Cobbler and a bakery under one roof. The other two free-standing buildings, focusing on services for nearby residents, contained merchants such as Carlson Travel, Postal Annex, and Fotomat. Prominent retailer Sam Goody occupied the prime corner space at the intersection of Auto Park Way and West Valley Parkway, and Carl's Junior and El Pollo Loco were visible on separate pads from the northern freeway offramp.

Overall, the center contained 54 spaces of less than 3,000 square feet. Is a lack of consumer cross-shopping hurting these smaller tenants? "There's plenty of foot traffic," responded Kennedy. "If the small shops fail, it's their own [merchandising] fault." She explained that Schurgin's focus on creating a well-balanced tenant mix was directly responsible for this healthy foot traffic.

Management

In Spring 1991, the center was 97% occupied and the developer had begun a waiting list for the more prominent currently-leased spaces. "Ensuring continued strong foot-traffic now is our main concern," explained Kennedy. Thus Schurgin administered the promotional fund, to which most tenants (including some anchors) contributed up to $0.50
per square foot annually. This money was used for events such as a baseball card signing, Fourth of July celebration, or sidewalk sale. The developer was careful to coordinate center-wide sales with anchor tenants. "At our center," Kennedy explained, "the right hand knows what the left hand is doing."

Developer Assessment

"[Since opening in October 1987,] the center has been performing magnificently," exclaimed project manager Kennedy. Historically, both the Target and Mervyn's stores had been first or second in their respective chain's sales rankings. In addition, the sales of all other stores reached $385 per square foot in 1991. Kennedy noted that this figure would be somewhat less if Target and Mervyn's data were included, and therefore cautioned against direct comparison with center-wide sales per square foot of similar projects. Investment yield, however, had been somewhat lower than expected. How could this be, in light of extraordinarily high sales and strong rents? Kennedy pointed to "substantial debt" relating to site acquisition and infrastructure improvements as the culprit. Aside from this higher than expected debt burden, has anything else gone wrong? Kennedy could point to only two design errors. First, the multi-tenant restaurant pad was twenty or more feet above street level. As a result, tenant signage was partially blocked by the steep landscaped incline along Auto Park Way. Second, the two fast-food pads were not initially approved to include drive-thru lanes. Subsequently obtaining this approval from a less sympathetic local administration proved to be an unusually frustrating and costly experience. These minor faults aside, Mark Schurgin has continued to describe his company's Escondido Promenade as a "textbook power center." (O'Neill, 1989)
# Exhibit 3

## Escondido Promenade

### Project Summary

#### Tenant and Site Data

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Square Footage</th>
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<td>Target</td>
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<td>75,004</td>
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<td>Toys 'R' Us</td>
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<td>T.J. Maxx</td>
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<td>Kids 'R' Us</td>
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**Daily Automobile Traffic Counts**

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**Daily Automobile Traffic Counts**

**Daily Automobile Traffic Counts**

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<td><strong>Developer Yield</strong></td>
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EXHIBIT 4
ESCONDIDO PROMENADE
SITE PLAN

For Further Information Contact:
Marc Jacuzzi
Leasing Representative
(213) 572-1300

SUMMARY
LAND AREA: 14.047 SF (32.59 AC.)
GROSS LEASABLE AREA: 413,563 SF
+/-AFIR REQUIRED: 1,066
PARKING PROVIDED: 2,120

LEASE PLAN

LEASING LEGEND

NOTE:

ESCONDIDO
PROMENADE
ESCONDIDO, CALIFORNIA

64
TUSTIN MARKET PLACE

Tustin Market Place is located in the Irvine Company-designed Tustin Ranch planned unit development in the City of Tustin, California. When completed by 2000, this 1,750-acre Tustin Ranch project will increase city population by approximately 45%, adding 19,000 residents housed in 8,500 new dwelling units. Tustin Ranch is only one of several projects developed by the Irvine Company, which controls 65,000 acres in the neighboring Orange County cities of Irvine, Newport Beach, Orange, and Tustin.

Tustin Market Place, specifically, is a joint venture between the Irvine Company as landowner, and Newport Beach-based Donahue Schriber as developer. The Irvine Company contributed land and construction/permanent financing to the deal, and Donahue Schriber provided shopping center development and operations expertise. Although this was Donahue Schriber's first power center project, it has developed and operated community centers and regional malls throughout Southern California since 1967.

Project Feasibility

The 75-acre site, off Jamboree Road at the Santa Ana Freeway (I-5), was designated for retail development during Tustin Ranch-wide General Plan negotiations between the Irvine Company and the City of Tustin (see site plan on pages 73 - 76). The City, striving for an upscale image, had visions of a fashion-oriented regional mall. Donahue Schriber, however, recognized that the market for this product was already fully saturated within a ten-mile radius: Fashion Island in Newport Beach, South Coast Plaza in Costa Mesa, and Laguna Hills Mall in Laguna Hills were established retail meccas, and the planned fashion center in Irvine Spectrum would provide additional competition by 1995. County-wide, over twenty regional malls were fighting for customers. The developer clearly believed something different was warranted.

Thus, Donahue Schriber informally surveyed local retail offerings. "We looked at who was missing in the market area, and then called them up," said Glenn Myers, project
manager for Tustin Market Place. Preparing a formal market study proved unnecessary, he recalled, since Donahue Schriber was already intimately familiar with its local market. The developer knew instinctively that many high-income people lived near the Tustin site, and therefore merely commissioned a compilation of local demographic data for distribution to prospective tenants. Myers quipped, "Nobody does a better market study than a tenant." If tenants believed in the market, he explained, Donahue Schriber's initial "gut feel" to develop a retail property would be confirmed. Indeed, a population of 550,000 with an average household income of $51,000 in a seven-mile radius was reason enough for tenants to seriously express interest. Stør, a successful and growing Scandinavian furniture merchant, was looking to expand from Los Angeles into Orange County. Likewise, Home Depot recognized that the surrounding presence of new homeowners spelled opportunity. Excellent demographics, together with good visibility and easy freeway access, convinced these large space users to anchor Phase I. These commitments, in turn, strengthened the developer's resolve to proceed.

Now that the anchors were known, a hard-goods home furnishing/improvement theme developed. In preparing the leasing plan, Donahue Schriber surmised that synergy with anchor merchants would play an important role in medium-sized and smaller tenant location decisions. Myers noted that Home Express, Krause's Sofa Factory, Shelves and Cabinets Unlimited, and especially the smaller tenants might easily have located in competing centers nearby had Stør and Home Depot not committed to the project first.

Other retailers expressing interest in the project were fashion merchants T.J.Maxx, Ross and Kids 'R' Us, and the large upscale supermarket Vons' Pavilion. The developer believed that these anchors would combine nicely with smaller complementary retailers, and thus designated Phase II as a soft-goods fashion and food theme.

The anchors and smaller tenants in these two phases together provided a wide assortment of practical goods. Donahue Schriber believed, however, that local residents also needed a place to relax, browse, and be entertained. This reasoning underpinned the entertainment
theme of Phase III. A Six-Screen Edwards Cinema, Tower Records, large Book Star, and scores of restaurants were subsequently signed as anchors. Surrounding these anchors would be numerous smaller stores providing additional entertainment or convenience services.

Total development costs, including a market value assumption for site acquisition, were estimated at $110 per square foot of GLA. Donahue Schriber expected a 12% rate of return, based on annual rental levels of $8 - $10 per square foot for anchor stores, to upwards of $36 per square foot for the smallest tenants. Kids 'R' Us would be the only ground lease, with all other anchors being developer-funded build-to-suits. Also, since the Irvine Company's strategy was to control land over the long-term, no pads would be sold.

Planning and Design
Site design was constricted by several existing conditions: The property was bounded by roads along all four edges (including the freeway to the south), and a fifth road (El Camino Real) bisected the site in an east/west direction. Donahue Schriber began by placing the Phase I home furnishing/improvement tenants to the south of El Camino Real. Locating the first phase adjacent to the freeway – in plain view of 205,000 passing motorists daily – was intended to heighten consumer interest in the project. The anchors were each assigned appropriately sized parking fields, and the optimum configuration evolved into a continuous "L-shaped" strip. This process was repeated to the north of El Camino Real for the Phase II fashion and food stores, where again a continuous "L-shaped" strip evolved as the most efficient configuration. "We ended up with a hole in the middle," said project manager Myers, "so that's where the entertainment phase went." Since Phase III was bisected by El Camino Real, the designers were unable to create one uninterrupted pedestrian "place." The community "browsing" area was therefore located on the larger northern side; stand-alone restaurant and entertainment pads were placed to the south.
This entertainment phase contained several innovative power center features, according to Myers. The area between the cinema and bookstore was designed as an outdoor plaza, complete with benches, tables and chairs, a fountain, and extensive landscaping. Outdoor restaurant seating spills into the plaza, and early theatre patrons could relax on the benches and chairs. Although the gazebo-like ticket booth was placed along the plaza perimeter, the cinema itself is on the upper level, reached via outdoor escalator. The smaller stores below the cinema are connected by a series of arcades, each lushly landscaped.

Myers noted that design was a major issue throughout the planning process. Donald Bren, chairman of the Irvine Company, wanted "something special," since this site was one of only three major retail centers on the landowner's property, the other two being Fashion Island and the planned fashion mall in Irvine Spectrum. The City of Tustin, having lost its dream of an upscale mall at the site, nevertheless expected a high-quality retail development. Public officials were especially concerned by the large expanse of unsightly walls inherent with "big box" anchor tenant users. Merchants, on the other hand, demanded an inexpensive "look" to attract value-oriented customers. In an attempt to find common ground, the developer commissioned two well-known designers to create a tasteful but simple exterior texture, signage and color scheme. Internationally renowned architect Ricardo Legoretta – famous for his work with walls – proposed a combination of light and dark terra-cotta materials for the building facades. The firm Sussmann-Prjeda, designers of the highly-acclaimed graphics at the 1984 Los Angeles Olympics, suggested an eye-catching series of vertical signs – one naming each anchor tenant – positioned along the freeway. These unusual ideas generated much debate but were eventually embraced by all parties. To further de-emphasize the building walls, the developer positioned eight- to ten-foot earth berms landscaped with dense trees and bushes along perimeter areas. Of the unusual design, Myers reflected, "The Eifel Tower and Transamerica Pyramid too were controversial when first unveiled."
Leasing

Construction of Phase I began immediately after the City of Tustin approved the project. Concurrently, leasing of the smaller spaces swung into high gear. Donahue Schriber targeted niche merchants, such as Waterbed Gallery and Floormaster Carpets, who would nicely complement the offerings of larger anchor stores. Stør and Home Depot, the largest tenants, anchored either end of the "L-shaped" strip. The medium-sized anchors were evenly distributed between these ends, such that walking distance between any two anchors was minimized. "This encourages foot-traffic past the smaller stores," explained Myers.

The same general tenant mix and placement philosophy was followed in Phase II, with Sweats & Surf and Payless Shoes among the smaller tenants interspersed between the large fashion anchors. Unexpectedly, Vons' Pavilion – the phase's largest anchor – withdrew its commitment, citing a non-expansion policy adopted as a consequence of its management-sponsored leveraged buyout agreement. Donahue Schriber responded by signing Chick's Sporting Goods to replace the supermarket, and thereby dropped the food portion of its fashion and food theme. The space previously allocated to a drug store was instead leased to The Good Guys, a leading home electronics merchant. Aside from the drugstore, the food portion of the strip included eleven smaller tenant spaces, which the developer believed to be a reasonable number considering adjacent ancillary services typically expected by supermarket customers. Donahue Schriber admitted that eleven spaces surrounding a sports clothing store, however, was unreasonably high: Over one year after opening, four spaces remained vacant.

Phase III proved even more difficult to lease. Myers blamed the soft economy for not finding tenants for fourteen of the eighteen small spaces in the plaza building. By early-1991, the three main anchors supported only Postal Annex, Happy Nails, Yogurt America's Cup and No Substitute, in addition to the larger restaurants Rubio's Fish Tacos, Sapori on the Market, and Northwood Pizza. The pads, however, had leased much more successfully, with three fast-food and two sit-down restaurants committed. According to
Myers, the fast-food outlets, located adjacent to the vast Phase I parking fields south of El Camino Real, benefitted from hungry home furnishing/improvement shoppers. The sit-down restaurants, near the cinema and also visible from Jamboree Road, benefitted primarily from movie patrons and non-shopping local residents.

Management

The project itself opened in stages: Phase I in October 1988, Phase II in October 1989, and Phase III in October 1990. "Managing the center has proceeded smoothly so far," said Myers. Leases contractually obligate smaller tenants to annually contribute between $0.50 and $1.00 per square foot to a marketing fund. Anchors, who advertise separately, need not contribute to this fund, although sometimes they do "pitch in a little."

Donahue Schriber, however, did face a re-leasing challenge: anchor Home Express, which sold a wide range of household items, went dark in 1990. According to Myers, the merchant's electronics offerings were overshadowed by The Good Guys, and its furniture department could not compete with neighboring Stør. Toys 'R' Us eventually agreed to replace Home Express, but its GLA requirements were somewhat less than the existing "box." To accommodate the new tenant, Donahue Schriber cut out a 6,000 square foot piece, adding one more small-tenant space between Toys 'R' Us and Stør. Myers admitted that Toys 'R' Us diluted the home furnishing/improvement theme. "But it's still a great traffic generator," he exclaimed.

Developer Assessment

"So far we're slightly under cost and slightly over income," noted Myers. "The 12% rate of return still looks good, but we're not entirely finished yet, so we don't know." Center-wide sales average $250 per square foot. He has been disappointed, however, by the lack of cross-shopping in Phase I. Many Stør customers, for example, are drawn from a distance of more than fifteen miles, and spend an average of two hours shopping inside.
"When they emerge, they head right for the car and go home. I hope at least that they see what else is available, so that they shop some of the other tenants next time." Myers explained that cross-shopping in Phase II has been much stronger. The strip between Ross and T.J.Maxx has seen solid pedestrian activity, he said, noting that most customers live within seven miles. Phase III, Myers admitted, should not have been built at the time. "The Irvine Company wanted to finish the center, even though we told them the market wasn't ready yet."

What would Donahue Schriber do differently next time? "Build fewer small stores!" exclaimed Myers. "Not only fewer stores, but nothing less than 5,000 square feet." He noted that many of the smallest stores at Tustin Market Place have been "mom-and-pops," tenants which are least financially stable. "The ideal in-line store is a national promotional chain which offers a wide selection of merchandise within its category," he believed. "A commitment to advertising is key, as well as the financial strength to weather an economic downturn."

Nonetheless, Myers was proud of his accomplishment. "What you really have here are three separate centers – hard goods, soft goods, and entertainment – each of which could survive on its own. It's only by coincidence that they happen to be together. We are not aware of anything like it in existence today. We feel it's a prototype for the future."
SEXHIBIT 5
TUSTIN MARKET PLACE
PROJECT SUMMARY

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<tr>
<th>TENANT AND SITE DATA</th>
<th>SQUARE FOOTAGE</th>
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<tr>
<td>Star</td>
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<tr>
<td>Home Depot</td>
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<td>Toys &quot;R&quot; Us</td>
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<td>Krause's sofa Factory</td>
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| **Phase II**         |                |
| Chick's Sporting Goods | 49,619       |
| T.J. Maxx            | 25,800         |
| Ross                 | 25,000         |
| Kids "R" Us          | 22,173         |
| The Good Guys        | 18,192         |
| Smaller Tenants - 25 Spaces | 74,216 |
| **Total**            | 215,000        |

| **Phase III**        |                |
| Edwards Cinemas      | 25,000         |
| Book Star            | 10,550         |
| Tower Records and Video | 10,010       |
| Outparcels - 10 Spaces | 50,577       |
| Smaller Tenants - 22 Spaces | 33,863 |
| **Total**            | 130,000        |

| **Total**            | 741,000        |

| Site Area (Acres)    | 75             |

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<td>$5.50</td>
</tr>
<tr>
<td>Advertising (Small Tenants Only)</td>
<td>$0.50 - 1.00</td>
</tr>
<tr>
<td>Sales per Square Foot</td>
<td>$250</td>
</tr>
<tr>
<td>Developer Yield (Projected)</td>
<td>12.0%</td>
</tr>
</tbody>
</table>
EXHIBIT 6
TUSTIN MARKET PLACE
SITE PLAN
(Continued)

NOTE: BUILDING AREAS INDICATED ARE GROSS AND CALCULATED TO CENTERLINES OF DEMISING WALLS AND GLASS AND OUTSIDE FACE OF EXTERIOR WALLS.
WORKS CITED IN CHAPTER 2


CHAPTER 3: ANALYSIS

In Chapter 2, the development stories of three power center projects were presented. The purpose of Chapter 3 is to analyze these case studies using the shopping center-specific framework for understanding new product development proposed in Chapter 1. When discussed with industry leaders, this framework appeared to validate the original three hypothesis. Will the case studies further confirm the soundness of these hypotheses? Answering this question is the focus of Chapter 3, which is organized into three sections, one addressing each hypothesis.

THE POWER CENTER AS NEW PRODUCT

In the first section of Chapter 1, a power center was differentiated from other retail shopping centers by two significant and unique characteristics: category-killer anchors, and anchor dominance. Each is discussed separately below.

Category-Killers

Category-killer anchors were defined as stores greater than 10,000 square feet, which within a specific category of merchandise offered the deepest inventory in the widest selection at the most competitive price. To analyze the three power center case studies in this context, a list of anchor stores for each appears below.

<table>
<thead>
<tr>
<th>280 Metro Center</th>
<th>Escondido Promenade</th>
<th>Tustin Market Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Depot</td>
<td>Target</td>
<td>Star</td>
</tr>
<tr>
<td>Marshalls</td>
<td>Mervyn's</td>
<td>Home Depot</td>
</tr>
<tr>
<td>Nordstrom Rack</td>
<td>Toys 'R' Us</td>
<td>Toys 'R' Us</td>
</tr>
<tr>
<td>United Artists Theatres</td>
<td>T.J.Maxx</td>
<td>Shelves and Cabinets Unlimited</td>
</tr>
<tr>
<td>Kids 'R' Us</td>
<td>Kids 'R' Us</td>
<td>Krause's Sofa Factory</td>
</tr>
<tr>
<td>New York Fabrics</td>
<td>Strouds Linen Warehouse</td>
<td>Chick's Sporting Goods</td>
</tr>
<tr>
<td>The Wherehouse</td>
<td></td>
<td>T.J.Maxx</td>
</tr>
<tr>
<td>Headlines</td>
<td></td>
<td>Ross</td>
</tr>
<tr>
<td>Herman's Sporting Goods</td>
<td></td>
<td>Kids 'R' Us</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Good Guys</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Edwards Cinemas</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Book Star</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tower Records and Video</td>
</tr>
</tbody>
</table>

78
Applying the above definition, each anchor for 280 Metro Center and Tustin Market Place is clearly a category-killer. Escondido Promenade, however, has two non-category-killer discount department stores as its major anchors: Target and Mervyn's. This case study is an illustration of the ongoing controversy relating to whether or not successful non-category-killer merchants dilute the power center concept.

**Anchor Dominance**

Anchor dominance was previously defined as anchor stores occupying 70 - 80% or more of shopping center GLA. The following table illustrates GLA amounts for each case study, to quantify this second differentiating characteristic of power centers.

<table>
<thead>
<tr>
<th></th>
<th>280 Metro Center</th>
<th>Escondido Promenade</th>
<th>Tustin Market Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anchor GLA</td>
<td>258,555</td>
<td>289,463</td>
<td>514,376</td>
</tr>
<tr>
<td>Total GLA</td>
<td>351,595</td>
<td>413,563</td>
<td>741,000</td>
</tr>
<tr>
<td>Anchor Percentage</td>
<td>74%</td>
<td>70%</td>
<td>70%</td>
</tr>
</tbody>
</table>

Each center has at least 70% of GLA occupied by anchor stores, which satisfies the anchor dominance criteria. Interestingly enough, however, the percentage of anchor space has declined slightly over time: from 74% for the first power center, to 70% for the two subsequently completed power centers. This data somewhat contradicts discussions with industry professionals, which indicated that a lack of small-tenant cross-shopping has influenced developers to build an ever increasing percentage of anchor space. The cross-shopping issue is subsequently explored in the "Create Leasing Plan" paragraph of "The Road to Success" section.

This analysis concludes that 280 Metro Center and Tustin Market Place fully satisfy both the category-killer anchor and anchor dominance criteria, and therefore may clearly be defined as power centers. The conclusion, however, with respect to Escondido Promenade — which exhibits characteristics of both an off-price center and a power center — is less
clear. Its two discount department stores and 63 smaller tenants nicely satisfy the off-price center criteria discussed in Chapter 1. Conversely, its three category-killer anchors and high percentage of anchor GLA argue for a power center designation. It appears, therefore, that Escondido Promenade might be labeled an off-price/power center hybrid. In general, however, strong evidence from both Chapter 1 background research and more in-depth case study analysis suggests that a new and distinct shopping center "product" – the power center – did emerge in the mid- to late-1980s.

BIRTH OF THE POWER CENTER

As discussed in the middle section of Chapter 1, eight primary "players" were responsible for the power center's birth. Consumers, merchants, and lenders were collectively termed market stimuli; inventors, designers, regulators, and competing owners were defined as the external environment; and the developer was designated as the internal environment. In the paragraphs below, the case studies are examined in light of these eight primary "players" to determine whether power centers and consumer products indeed were born for similar reasons.

Consumers

In the 1980s, consumers focused on seeking value. Specifically, in the communities near the power center case studies, adult residents were young, well-educated, and many had children. Consumer data for a seven-mile radius around each case study project appears below.

<table>
<thead>
<tr>
<th></th>
<th>280 Metro Center</th>
<th>Escondido Promenade</th>
<th>Tustin Market Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Age</td>
<td>36</td>
<td>37</td>
<td>31</td>
</tr>
<tr>
<td>College Education</td>
<td>45%</td>
<td>43%</td>
<td>48%</td>
</tr>
<tr>
<td>Children</td>
<td>25%</td>
<td>29%</td>
<td>32%</td>
</tr>
</tbody>
</table>

This consumer profile indicates a large number of younger people with children and most likely a new household. Also, one might infer a certain degree of sophistication from the
relatively high percentage of college education. Clearly home furnishings/improvement items, fashion clothing, children's accessories, and entertainment would be in high demand. Carrying the financial burden of children and a new household, these younger consumers would be unwilling to pay full price, but their high level of sophistication would nevertheless demand a wide selection of quality merchandise.

Merchants

The category-killer merchants in the three case study projects satisfy exactly this type of demand. Simply by being category-killers, they provide a wide selection of quality merchandise at a discount price. Interestingly enough, however, the categories themselves parallel the four basic consumer needs identified in the previous paragraph. These relationships are tabulated below.

<table>
<thead>
<tr>
<th></th>
<th>280 Metro Center</th>
<th>Escondido Promenade</th>
<th>Tustin Market Place</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Home</strong></td>
<td>Home Depot</td>
<td>Target</td>
<td>Stør Home Depot</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strouds Linen Warehouse</td>
<td>Shelves and Cabinets Unlimited</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Krause's Sofa Factory</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Good Guys</td>
</tr>
<tr>
<td><strong>Fashion</strong></td>
<td>Marshalls</td>
<td>Mervyn's T.J.Maxx</td>
<td>Chick's Sporting Goods T.J.Maxx</td>
</tr>
<tr>
<td></td>
<td>Nordstrom Rack</td>
<td></td>
<td>Ross</td>
</tr>
<tr>
<td></td>
<td>New York Fabrics</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Headlines</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Herman's Sporting Goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Children</strong></td>
<td>Kids 'R' Us</td>
<td>Toys 'R' Us</td>
<td>Toys 'R' Us</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kids 'R' Us</td>
<td>Kids 'R' Us</td>
</tr>
<tr>
<td><strong>Entertainment</strong></td>
<td>United Artists Theatres</td>
<td>-</td>
<td>Edwards Cinemas</td>
</tr>
<tr>
<td></td>
<td>The Wherehouse</td>
<td></td>
<td>Book Star</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Tower Records and Video</td>
</tr>
</tbody>
</table>

Merchants must have been cleverly observing the baby boomers as this large generation was getting married, settling into a new home, and having children. In response, they
established or expanded category-killers which eventually found their way into anchoring power centers.

One enticement which may have accelerated this trend was the power center's surprisingly low occupancy cost. Based on average sales and rents per square foot, the case study occupancy costs are calculated below.

<table>
<thead>
<tr>
<th></th>
<th>280 Metro Center</th>
<th>Escondido Promenade</th>
<th>Tustin Market Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rents</td>
<td>$16</td>
<td>$20</td>
<td>$18</td>
</tr>
<tr>
<td>Sales</td>
<td>$300</td>
<td>$385</td>
<td>$250</td>
</tr>
<tr>
<td>Occupancy Cost</td>
<td>5%</td>
<td>5%</td>
<td>7%</td>
</tr>
</tbody>
</table>

These occupancy costs of 5% - 7% are significantly lower than the 12% for malls and 13% for strip centers quoted in Chapter 1. Clearly the promise of decreased operating expenditures must have also lured merchants to power centers.

**Lenders**

Against a backdrop of the mid-1980s real estate boom largely financed by traditional lenders, it appears that usually conservative financing sources such as Aetna and Security Pacific National Bank were willing to risk funds on a new shopping center "product." Both Terranomics and Schurgin, however, had an established relationship with their lenders, built on previously successful strip center developments. In addition, a high percentage of GLA in each project had been leased, lowering the risk of default. Obtaining financing was not an issue with Tustin Market Place, since development costs were funded through Irvine Company corporate borrowings.

**Inventors**

Power centers evolved in response to the market stimuli of consumers and merchants. According to Nick Javaras, Terranomics "recognized the [consumer and merchant] trend" and thus invented the power concept with 280 Metro Center. It used post-modern architecture to create a sense of excitement which lured consumers, and then reserved 70%
of center GLA for category-killer anchors which sold them "value." Two years later, Schurgin added a level of tenant placement sophistication which created synergy within its fashion, specialty, and "mini-food-court" areas at Escondido Promenade. Donahue Schriber refined this synergism at Tustin Market Place by designating three physically separate themed areas: home furnishing/improvement, fashion, and entertainment. Not coincidentally, these themes corresponded exactly with the merchandise categories consumers began to demand most in the 1980s. In addition, the developer may have created an upscale "shoppable" prototype. Recognizing the need to blend affluent Orange County lifestyle with discount merchandising, Donahue Schriber invented what appears to be the first power center with a pedestrian plaza and fountains.

Designers

Designers also played a significant role in molding the power center concept, since two of the three case studies were built on previously underutilized sites. The 280 Metro Center was located on vacant land between a cemetery and a dump, and Escondido Promenade replaced a high school athletic field. In addition, these two projects were designed for constrained sites of thirty-one and thirty-two acres respectively, which were too large for a community center but too small for a regional mall. The unusual situation of the Irvine Company's monopoly on local land holdings rendered these design issues irrelevant for Tustin Market Place. Nevertheless, all three case studies used "big box" design, which resulted in low development costs of $78, $69 and $80 per square foot respectively.

Regulators

Regulators positively influenced the design of at least two case studies. City of Escondido public officials strongly favored merchants such as Target, Mervyn's, and Toys 'R' Us; therefore, Schurgin proposed the power center retail format. Several years later, Donahue Schriber improved this format to overcome deep skepticism at Tustin City Hall. Had it not
created a unique upscale project, the Tustin Market Place developer would most likely not have received public approval.

**Competing Owners**

Clearly competing shopping center owners also influenced each developer’s decision to build a power center. With the large Serramonte Mall across the freeway and stand-alone retail down the street, Terranomics needed to differentiate its project. Likewise, Schurgin’s site was near the North County Fair Mall, which precluded another mall. In the zealously competitive Orange County retail market, Donahue Schriber was probably the most influenced by competing owners, since over twenty regional malls and countless community centers already cluttered the surrounding landscape. In this highly saturated market, differentiation was critical just to be noticed!

Although restricted by existing projects, the power center developers were aware of a potential for synergy with their competition. In fact, both 280 Metro Center and Escondido Promenade were located to benefit from the existing shopping patterns created by the Serramonte Mall and North County Fair Mall. Only Tustin Market Place was not located near a prominent mall, perhaps because the developer felt confident that its much larger size would allow it to create an entirely new regional shopping pattern.

**Developer**

Besides being influenced by the market stimuli and external forces described above, the birth of power centers ultimately occurred at the hands of developers themselves. Why did these developers embark on a risky journey to build and operate a new product unknown to their organization? The most plausible answer appears to be a developer’s fundamental desire to build. Schurgin had previously specialized in strip center construction, a product type which was becoming increasingly overbuilt in California during the mid-1980s. Terranomics and Donahue Schriber had specialized in both strip center and mall
construction. Unfortunately, very few economically justifiable mall developments were on
the local horizon as well. Consequently, all three developers saw the power center as a
tremendous opportunity to continue building new retail developments which appeared to
make financial sense.

**********

This analysis concludes that all three case studies were significantly influenced by market
stimuli, external environment and internal environment factors. In fact, each of the eight
"players" in some way nudged the development process of 280 Metro Center, Escondido
Promenade, and Tustin Market Place such that a power center project eventually emerged.
This evidence confirms the statements of industry leaders discussed in Chapter 1, and
therefore strongly suggests that power centers indeed were born for the same reasons that
new consumer products are born.

THE ROAD TO SUCCESS

In the final section of Chapter 1, fifteen tasks were identified which the developer should
perform to be reasonably sure that a new shopping center would become successful. These
tasks were grouped into four categories: Project Feasibility, Planning and Design,
Leasing, and Management. Project Feasibility included analyze market, prepare financial
pro-forma, evaluate site, obtain anchor tenant commitments, create leasing plan, secure
financing, and obtain public approval; Planning and Design consisted of create inviting
exterior features and create pleasant interior features; Leasing encompassed finalize anchor
tenant selection, assemble tenant mix, and determine tenant placement; and Management
focused on coordinate advertising and promotion, and oversee remerchandising. The final
task – coordinate development process – overlapped all four categories. In the paragraphs
which follow, the case studies are analyzed across these fifteen tasks to determine whether
power centers and consumer products are indeed successful for the same reasons.
Analyze Market

When initially deciding whether or not to build a power center near Colma, Escondido or Tustin, each developer first surveyed the market. "How many and what type of consumers are in the vicinity," the developers asked, "and which centers represent the competition?"

When evaluating an area's potential for supporting a power center, they all focused almost exclusively on two critical measures: population and average household income. These figures for a seven-mile radius are tabulated below.

<table>
<thead>
<tr>
<th></th>
<th>280 Metro Center</th>
<th>Escondido Promenade</th>
<th>Tustin Market Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>740,000</td>
<td>197,000</td>
<td>552,000</td>
</tr>
<tr>
<td>Average HH Income</td>
<td>$35,000</td>
<td>$41,000</td>
<td>$51,000</td>
</tr>
</tbody>
</table>

This data indicates that the areas around 280 Metro Center and Tustin Market Place are densely populated, and the area around Escondido Promenade is moderately populated. The comparatively low population near Escondido Promenade suggests that the developer's explicitly stated expectation of future growth was a major factor justifying development. The generally high household income levels imply upper-middle class residents near 280 Metro Center and Escondido Promenade, and upper-class residents around Tustin Market Place. The prototypic power center market, therefore, appears to be a densely populated upper-middle class region. The lack of direct competition further improved each project's viability. Although malls, community centers and stand-alone retailers dotted all three regions, each development was the area's first power center.

Prepare Financial Pro-Forma

Once a promising region had been identified, pro-forma financials needed to be calculated. "What's our financial strategy?" each developer first asked. Interestingly enough, the three developers pursued different strategies. Terranomics followed a short-term strategy by selling four anchor pads at market rates, which reduced its land basis in 280 Metro Center to nearly zero. Schurgin also sold its largest two pads at Escondido Promenade at a profit.
Donahue Schriber, however, benefitted from the Irvine Company's deep pockets. It did not need to sell any pads and thus was able to pursue a more long-term financial strategy. A related question was: "What are our projected development costs and rents, and more importantly, what's our return on investment?" These figures, on a per square foot basis, are tabulated below.

<table>
<thead>
<tr>
<th>Development Cost</th>
<th>280 Metro Center</th>
<th>Escondido Promenade</th>
<th>Tustin Market Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Rent</td>
<td>$12 - $24</td>
<td>$5 - $31</td>
<td>$8 - $36</td>
</tr>
<tr>
<td>Return on Investment</td>
<td>13% - 15%</td>
<td>N/A</td>
<td>12%</td>
</tr>
<tr>
<td>Land</td>
<td>$87</td>
<td>$69 + Land</td>
<td>$110</td>
</tr>
</tbody>
</table>

Terranomics firmly believed that each merchant must be able to survive on its own, therefore even anchor rents were set at market levels. Schurgin, on the other hand, decided to significantly subsidize anchor rents under the assumption that larger stores generated traffic for smaller tenants. Donahue Schriber pursued a middle-course: With Tustin Market Place development costs of $110 and anchor rents of $8 - $10 per square foot, the developer only moderately subsidized anchors.

Interestingly enough, developers' yield expectations fell over time, from 13 - 15% in 1985 for 280 Metro Center, to 12% in 1988 for Tustin Market Place. Whether this trend reflects an increasingly overbuilt retail market or a variety of other reasons is unknown. Nevertheless it appears that a minimum 12% return on investment was required to proceed with construction.

**Evaluate Site**

Another question each developer asked was, "Which site within this particular market should we choose?" Proximity to highly-traveled arteries was key. The 280 Metro Center is adjacent to I-280, Escondido Promenade borders I-15, and Tustin Market Place overlooks I-5. Access from these freeways was also critical. One entrance to Escondido Promenade is directly off a freeway ramp, and the site itself lies between two sequential freeway interchanges. Likewise, the entrance to Tustin Market Place is one intersection.
from the freeway exit. The entrance to 280 Metro Center, however, is over one-half mile from the nearest freeway interchange. Terranomics was aware of this detriment, but nevertheless chose the site for other positive reasons.

Visibility from these arteries was the third requirement. The Tustin Market Place site was highly visible from the freeway, but Escondido Promenade and 280 Metro Center locations were not. These latter sites, in fact, were twenty or more feet below freeway elevation. The developers successfully overcame this problem, however, with tall pylon signs advertising the centers to passing drivers.

The final issue was proximity to a regional mall. Both 280 Metro Center and Escondido Promenade were expected to benefit from existing regional shopping patterns: 280 Metro Center with the Serramonte Mall across the freeway, and Escondido Promenade with North County Fair Mall nearby. Only Tustin Market Place did not rely on existing shopping patterns, perhaps because its much larger size created a separately viable critical mass.

**Obtain Anchor Tenant Commitments**

As sites were being analyzed, developers in all three case studies began asking, "What type of anchors should we choose?" During this early stage of development, 280 Metro Center obtained commitments from seven of its nine anchors and Escondido Promenade signed its two largest merchants. Likewise, most of the anchors at Tustin Market Place were signed before site design for each phase began. Terranomics deliberately limited its search to category-killers. Donahue Schriber also focused on category-killers, but did initially sign a super-supermarket and drugstore to anchor the food portion of Phase II, commitments which were later withdrawn by the anchor. Interestingly enough, Schurgin signed Target and Mervyn's – two non-category-killers – to its largest anchor pads. This departure from category-killer anchors was most likely dictated by the City of Escondido's explicitly stated desire for these specific merchants. Schurgin obliged, since the City had yet to designate it as developer of the site.
Create Leasing Plan

"What type and how many smaller tenants should be in the center?" was another question developers asked themselves. All three developers targeted small specialty merchants which clearly focused on a specific type of merchandise. The number of smaller spaces, however, ranged widely from twenty-two at 280 Metro Center to sixty-two at both Escondido Promenade and Tustin Market Place. Interestingly enough, the first two centers are roughly equally sized, yet Escondido Promenade contains three times as many smaller stores as 280 Metro Center. Also, the last two centers contain exactly the same number of smaller stores, yet Tustin Market Place is twice the size of Escondido Promenade. Clearly Escondido Promenade has far more small stores for its size than the other two centers. Contrary to what one might expect however, it was Terranomics and Donahue Schriber who complained that they had allocated too much GLA to small tenant space, while Schurgin began a waiting list for this type space at Escondido Promenade. What might explain this apparent inconsistency? Further analysis reveals an average small store size of only 1,800 square feet at Escondido Promenade, much smaller than 280 Metro Center's 3,000 square feet and Tustin Marketplace's 2,800 square feet. From the tenant's perspective, these smaller store sizes translate into lower total rent. Could it be that the vast majority of smaller tenants have become more space efficient and thus require only roughly 2,000 square feet? In regional malls, this trend was clearly evident during the 1980s. Another explanation might be consumer perception. At 280 Metro Center and Tustin Market Place, the anchor stores visually dominate the hardly noticeable smaller stores. At Escondido Promenade, however, a greater number of contiguous smaller stores – eighteen in the fashion area and fifteen in the specialty area – provides a rough linear counterbalance to the longer anchor stores. A final possibility might be traditional retail dynamics. The non-category-killer anchors at Escondido Promenade initially attract most shoppers to the center. Since these discount department stores do not strictly offer a wide selection within one merchandise category, however, many shoppers might walk away empty-handed.
Turning to the adjacent smaller specialty stores becomes their next logical alternative. Ironically, Escondido Promenade may have become a stronger overall center by designating general department stores (traditionally considered weaker draws by power center experts) as its two largest anchors. This anchor strategy allowed smaller tenants to thrive by offering merchandise not sold by the department stores. At the other two centers, however, consumers usually found what they were seeking at the anchor stores, and therefore never needed to visit the sometimes struggling smaller stores.

*Secure Financing*

During these early stages, developers began asking the ominous question, "How will we pay for all this?" Surprisingly, each developer quickly found a willing lender. First, however, both Terranomics and Schurgin sold anchor pads, which not only lowered their net land costs, but also allowed them to avoid financing anchor store construction. Their existing relationships with Aetna and Security Pacific National Bank respectively, and high percentage of pre-leased space which lowered the risk of default, convinced the lenders to fund development. For Tustin Market Place, financing was unusually straight-forward, since the Irvine Company development partner funded construction through corporate borrowings.

*Obtain Public Approval*

A final aspect of the project feasibility process was obtaining public approval. "How will we overcome the opposition?" each developer asked. Terranomics and Schurgin followed the same philosophy: offer to pay for public infrastructure, at least indirectly through increased property taxes. Donahue Schriber, on the other hand, needed to convince the City of Tustin not only that a power center was more feasible than a regional mall, but also that ugly "big box" architecture would be minimized. To calm the City's fears, the
developer commissioned an internationally known architect and highly-respected graphics design firm to mold Tustin Market Place into an an attractive upscale shopping center.

*Create Inviting Exterior Features*

Once a project has been deemed feasible, planning and design become the developer's major focus. "What should the center look like to a passing driver?" was the focal question. "Inviting," appears to be the general answer. To create an exciting environment, outside site planners and/or design architects were hired by Terranomics and Donahue Schriber. Schurgin, meanwhile, merely duplicated the architectural features of an already successful Florida community center. All three projects have large entrance signs, nicely landscaped perimeters, well-hidden delivery areas, and exciting architecture. Interestingly enough, both 280 Metro Center and Escondido Promenade faced a common challenge somewhat unique to power centers - hiding the street-side "back" walls. Terranomics used large bushes and trees to cover the wall facing Junipero Serra Boulevard. In addition to heavy landscaping, the developer applied prominent tenant logos to the backs of pads along Colma Boulevard. Schurgin also applied tenant logos to the backs of pads along Auto Park Way, and embellished the white walls with interesting color patterns and a large red arch. The inviting nature of the shopping centers was thus successfully maintained. Adequate and close-in parking is a final issue. To minimize shopper walking distance, all three developers arranged their sites with a central parking lot surrounded by retail buildings.

*Create Pleasant Interior Features*

None of the power center case studies have indoor malls or other typical "interior features" designed to create a pleasant shopping environment. Nevertheless, developers still asked within the context of an outdoor center, "How can we provide a pleasant experience for the shopper?" To provide convenience from the moment customers stepped out of their cars, all case study developers arranged building configurations such that each major anchor was
simultaneously visible from the parking lot. Also, the walking areas along the storefronts were nicely textured and protected with landscaping from the adjacent parking lot. To shield shoppers from unpleasant weather, these walkways were either contained within an arcade, or covered with a colorful canopy. Tustin Market Place, additionally, featured a pedestrian plaza and fountain. This amenity allowed customers to sit and relax, possibly enjoying a cup of coffee or light meal on the outside terrace of an adjacent restaurant.

**Finalize Anchor Tenant Selection**

"Are the anchors really committed?" wondered the developers. Yes, all anchors were firmly committed to 280 Metro Center and Escondido Promenade, but Donahue Schriber was unpleasantly surprised at Tustin Market Place. Vons' Pavilion unexpectedly withdrew its commitment, and the developer scurried to find replacements for the super-supermarket and accompanying drugstore. Fortunately, Donahue Schriber was able to lease the already partially constructed space to Chick's Sporting Goods and The Good Guys. Quick response was critical to maintaining cash flow.

**Assemble Tenant Mix**

As the anchors were committing to the projects, developers also focused their attention on the smaller tenants. "Specifically, what type of specialty stores should we seek?" they wondered. Each developer answered this question in a slightly different manner. Terranomics' primary objective was to sign smaller category-killers, since by definition these category-killers would naturally draw their own customers to the center. The second element of its leasing strategy was variety. So long as tenants had category-killer characteristics, Terranomics would sign them to 280 Metro Center if they would not duplicate, but instead balance the overall center's merchandise offerings. Synergy with anchor merchants appeared to be a very minor issue with Terranomics.
For Schurgin, however, synergy was quite important at Escondido Promenade. It had reserved, for example, the area near Mervyn's specifically for specialty stores which offered complimentary merchandise. In addition, Schurgin did not expect the smaller tenants to be category-killers, who advertised heavily and relied primarily on themselves to draw customers. In fact, the developer required only that smaller tenants provide merchandise generally not available at the discount department stores – a far less formidable criteria.

Donahue Schriber, interestingly enough, required the in-line tenants to be both small category-killers and synergistic with anchor offerings. In the home furnishing/improvement area, for example, Krause's Sofa Factory offered thousands of different sofas, which complemented other furniture sold by the anchor Stør. Krause's Sofa Factory was clearly a mini-anchor category-killer, but at the same time, its offerings were synergistic with those of Stør.

**Determine Tenant Placement**

As both anchor and smaller tenants were being signed, developers asked, "How should we arrange them?" The three case studies illustrate an interesting evolution. For Terranomics, with the nation's first power center, tenant placement was mostly an issue of overcoming site detriments. Placing the strong anchor Home Depot "at the bottom of the hole" created a draw at the far end of the center. For this same reason, Nordstrom Rack, New York Fabrics, and Marshalls – three other strong retailers – anchored the far end of the "L-shaped" strip. Federated Electronics – unfortunately the weakest anchor – was placed in the "crotch" of the strip with the idea of drawing consumers to surrounding smaller stores. These smaller stores were placed without thought to synergy amongst themselves or with the nearby anchors.

This somewhat random and unbalanced approach was not the case at Schurgin's Escondido Promenade, where the two largest retailers anchored either end of the long strip. In fact,
the developers recognized that the unusual length of the center required additional strong anchors in the middle, and thus centrally placed the two children's stores Toys 'R' Us and Kids 'R' Us. The smaller stores were arranged into a synergistic specialty section near Mervyn's, common fashion section between T.J.Maxx and Kids 'R' Us, and "mini-food-court" pad along Auto Park Way. Also, the two throat stores at the entrance to T.J.Maxx benefitted from an enormous amount of synergy.

At Tustin Market Place, tenant placement reached a new level of sophistication with the three physically separate themed areas: home furnishing/improvement, fashion, and entertainment. In each area, Donahue Schriber placed anchors at either end of a long strip. To draw foot-traffic along the strip, the developer spaced additional anchors surrounded by smaller stores between these ends. The smaller stores were specifically chosen to provide maximum synergy with the surrounding anchors, and within the themed area as a whole.

**Coordinate Advertising and Promotion**

Once the projects had begun operations, the developers asked, "What can we do to improve tenant sales?" All three case study projects created a promotion fund, to which generally only smaller tenants contributed. The marketing directors usually coordinated center-wide promotions and developed direct-mail campaigns with this money. Nevertheless, the developers had widely divergent attitudes towards promoting their centers. At Escondido Promenade, a *laissez faire* mentality predominated: "If the small shops fail, it's their own [merchandising] fault." A similar hands-off approach prevailed at Tustin Market Place: "I hope at least that [anchor customers] see what else is available, so that they shop some of the other tenants next time." At 280 Metro Center, however, the developer underwrote a comprehensive consumer research study, and followed-up by adding directories, food kiosks and a holiday internal transportation system which increased tenant sales.
Oversee Remerchandising

"How do we respond when tenants fail or otherwise leave?" wondered developers. In general, the rate of turnover at the three centers has been small. During the five years 280 Metro Center has been open, for example, only 10% of total GLA has needed to be re-leased. Even lower percentages apply to Escondido Promenade and Tustin Market Place. While small tenants typically have relatively uniform space requirements, the larger anchor stores are usually built-to-suit and therefore less easily adaptable to re-tenanting. Both 280 Metro Center and Tustin Market Place faced this more difficult situation of losing an anchor, and approached the situation in somewhat different ways. At 280 Metro Center, Terranomics maintained a "take-it-or-leave-it" attitude towards re-leasing the Federated Electronics space. After one year of being dark, the space was taken by Kids 'R' Us who, because of extraordinarily high sales amounts of a nearby Toys 'R' Us, paid rent for the additional space it did not need. At Tustin Market Place, however, Donahue Schriber physically altered the Home Express pad to conform with Toys 'R' Us wishes. This more flexible approach would clearly also have been necessary at 280 Metro Center had the project not previously enjoyed such tremendous success.

Coordinate Development Process

"Will anyone take responsibility for overseeing this entire process?" asked developers. Clearly, the answer was "Yes." Strong project managers coordinated the development effort of all three case studies: Nick Javaras at 280 Metro Center, Karen Kennedy at Escondido Promenade, and Glenn Myers at Tustin Market Place. These multi-talented individuals solved problems ranging from obtaining financing and public approval at the beginning of the development process, to re-leasing dark anchor space and improving tenant sales once the center has opened.

It is essential to note that the tasks described in this section were usually not performed sequentially. Reality — especially the art of development — is messy. Project managers
typically addressed the same issues many times; each time, however, with new information. As more and more category-killers knocked on Terranomics' door, Nick Javaras realized that combining them at one location could create value. Fortunately these high-calibre tenants would pose a lower risk of default, which the lender appreciated; but at the same time they would create tremendous traffic, which signaled unanticipated negotiations with the community for construction of an access road. The Schurgin project manager faced many similar situations. Just to obtain city designation as developer, for example, Karen Kennedy needed to sign anchor tenants and gain lender commitment. All this before Schurgin had purchased even one of the twenty-two separately-owned parcels on which Escondido Promenade today stands. Even though Tustin Market Place was developed in a more controlled environment, as part of the larger Tustin Ranch masterplanned community, Glenn Myers still needed to address many of the same complex issues. As the initial category-killer tenants were signed, for instance, the idea for a themed center emerged. How would consumers react? What would public officials think? How would this affect the existing leasing strategy? Each project manager's mission, therefore, was not only to proceed with a list of tasks, but also to constantly evaluate the effect of the many changes encountered during development, and redirect course if necessary.

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This analysis concludes that all three case studies seriously addressed project feasibility, planning and design, leasing, and management during the development process and subsequent operations phase. In fact, the developers of 280 Metro Center, Escondido Promenade and Tustin Market Place completed all fifteen tasks necessary for a theoretically successful outcome. Are these centers actually successful? With sales per square foot between $250 and $385, investment yields ranging from 12% to 14.5%, a relatively low 280 Metro Center cap rate of 7.75%, and highly positive personal developer opinions, the answer clearly appears to be "Yes!" This evidence confirms the statements of industry
leaders discussed in Chapter 1, and therefore strongly suggests that power centers indeed are successful for the same reasons that consumer products are successful.
CHAPTER 4: CONCLUSIONS

In Chapter 3, the development stories of three power center case studies were analyzed using the shopping center-specific framework for understanding new product development first proposed in Chapter 1. What purpose has this analysis served? From a practical perspective, it has further validated the three hypotheses heretofore grounded solely in industry expert opinion described in Chapter 1. More importantly, the analysis has confirmed that development dynamics of the power center are strikingly similar to those of clearly unrelated new consumer products. Specifically, therefore, this thesis concludes:

- The power center is a new product.
- The power center was born for the same reasons that new consumer products are born.
- The power center is successful for the same reasons that new consumer products are successful.

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Focusing on the case studies, one might ask, "Which 'players' were essential to the deal, and what characteristics of the center were essential for success?" Some thoughts appear below.

280 Metro Center

When this project was first conceived in the early 1980s, four key "players" – the developer, the lender, merchants, and regulators – all eventually "bought into" the power center concept. Without only one of these four, 280 Metro Center could not have been built. The lender had most money at risk. Since seven of the nine anchor pads were already committed to national tenants, however, Aetna agreed to fund the project, recognizing that the center's leasing and operating risk had been significantly reduced. These anchor tenants, in turn, believed that the surrounding market had a strong consumer
base, which would lower their operating risk. The developer, meanwhile, not only risked very little money, but also anticipated a healthy return. Clearly Terranomics wanted to do the deal. The City of Colma presented a final hurdle. With the promise of additional sales tax revenue and a new road funded by incremental property taxes, however, public officials blessed the project. Thus, 280 Metro Center was built.

What characteristics were essential to its success? Clearly, locating the center in an established retail area surrounded by a large higher-income population was important. Also critical was upgrading site access and visibility, by petitioning the local government to build a connector road, and by constructing large signs which advertise the center. Moreover, Terranomics created an architecturally interesting discount shopping center with category-killer anchors offering a wide range of quality products. This new retail format – the power center – attracted shoppers in droves. Surprisingly, it was inexpensive to develop (with especially low land costs), yet rental levels were higher than traditional strip centers. Small stores, however, struggled in the shadow of category-killer anchors. The developer thus commissioned an independent research study to address this cross-shopping problem, and in response added store directories, provided a motorized cable car during holiday weekends, and focused its marketing campaign on cross-shopping. Since these improvements were completed in 1988, center-wide sales have increased over 20%.

*Escondido Promenade*

The same four key "players" were responsible for Escondido Promenade. Again, the lender financed the entire project, based on solid anchor commitments and its successful collaboration with Schurgin on one other power center deal. Merchants recognized the retail potential of the moderately wealthy and rapidly growing local market. The developer had tasted power center success in Raleigh, and was eager to begin another project. Only the City of Escondido, which had proactively declared the site for retail use, could foil the project. To ensure developer designation, therefore, Schurgin offered to sign the exact
anchor tenants the City desired, and agreed to partially fund expensive infrastructure improvements.

What characteristics have made the center successful? Clearly, locating in a growing upper-middle class market was key. Also, concurrently-constructed adjacent freeway ramps provided excellent site access. Likewise, several large signs positioned along the freeway ensured adequate visibility, and interesting architecture beckoned consumers. Schurgin's tenanting strategy, however, departed from the standard power center mold: The use of two large discount department stores (traditionally considered weak power center anchors) may have significantly reduced the small-store cross-shopping problem, thereby ironically strengthening the center as a whole. From a financial perspective, this higher degree of cross-shopping justified higher rents for small-tenant space. It appears, however, that the developer did make one costly mistake: underestimating the expense of infrastructure improvements. This one miscalculation – interestingly enough not directly related to the power center "product" itself – has significantly lowered Schurgin's return on what otherwise is a highly successful center.

*Tustin Market Place*

Since the developer was also the lender, the support of only three "players" was essential for building Tustin Market Place. The Irvine Company/Donahue Schriber partnership willingly accepted the development risk after most large anchors had committed to the project. These anchors felt highly confident, expecting to thrive in the densely populated upper-class market. The City of Tustin was less easily persuaded, however, since it was expecting a fashionable regional mall. Only after well-respected designers created an upscale power center concept did public officials slowly begin to consider this possibility. These officials eventually agreed that Orange County's first power center would be more attractive than simply another regional mall.
What attributes make the center successful? First, Tustin Market Place benefits greatly from a large high-income population nearby, and a highly visible and easily accessible site. Also important is the long list of desirable category-killer anchor tenants, which draw these customers to the center. Another positive attribute is the clustering of tenants into home furnishing/improvement, fashion and entertainment areas, which has somewhat enhanced cross-shopping. Finally, the unusual architecture and plaza area create a pleasant shopping environment. Nevertheless, center-wide sales have averaged only $250 per square foot, somewhat lower than the other two projects. How might this discrepancy be explained? Two plausible explanations surround small-tenant vacancies and marginal cross-shopping: Fourteen of the eighteen small-tenant spaces in the entertainment area, for example, remain vacant. Also, while cross-shopping has been successful in the fashion area, customers rarely visit small stores in the home furnishing/improvement and entertainment areas. A third possibility is the extremely competitive surrounding retail environment: Tustin Market Place shares Orange County purchasing power with over twenty regional malls, and countless community centers. The pie may be large, but the slices are narrow.

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Synthesizing the comments of industry professionals and observations from the three case studies, one is now ready to answer the most important question: "In general, then, what characteristics are absolutely essential for developing a successful power center?" The final paragraphs of this conclusion attempt to provide some guidance.

Locate in a Dynamic Market

What's a dynamic market? In simple terms: many high-income people nearby. Many people, since discount stores thrive only on large sales volumes; high-income people, since merchandise offered is generally of top quality. More specifically, successful power centers locate within seven miles of at least 200,000 residents. A more comfortable margin
might be 500,000. Average household income should be at least $35,000. Again, a more comfortable figure would be $45,000. Interestingly enough, a power center will be successful even if the region is somewhat over-retailed, as long as no other power centers exist within the trade area.

*Control the Best Site*

What's the best site? Four characteristics are essential: high traffic location, excellent visibility, direct access, and adequate size. Average daily traffic counts along the adjacent major artery should amount to at least 120,000 autos. A more comfortable level would be 170,000. These drivers need to see the center, and also be able to conveniently find the entrance. For enough "big boxes" to fit on the site, it should be at least 30 acres. Again, a more comfortable size would be 70.

*Secure the Best Tenants*

Who are the best tenants? Unequivocally, category-killers. Not only do they draw customers to the center with heavy advertising, but they also provide such a wide variety of quality merchandise at a discount price that a customer will almost always find and buy what he or she is looking for. Category-killers have an innate ability to transform "lookers" into "buyers." How many category-killers usually tenant a successful power center? As many as possible, with at least one to satisfy each of the four basic consumer needs: home, fashion, children, and entertainment. Two or three complementary category-killers addressing each need would be even better. Small tenants, on the other hand, should be minimized.

*Use Great Design*

What's great design? From a (highly subjective) architectural perspective, bright color-coordinated motifs using post-modern or other "unusual" inspirations. The customer
should have "fun" shopping at the center. At the same time, however, this customer must not be frightened by an overly elaborate design implying "pricey" merchandise. Balancing these seemingly divergent perceptions, therefore, is key. From a site design perspective, the power center should be "user friendly." Parking should be as near to most store entrances as possible. Also, all major stores should be visible to a customer from anywhere in the parking lot.

Be Frugal

Exactly how frugal? Fortunately, power centers are not that expensive to build or maintain. Total development costs (except for site acquisition) should not exceed $80 per square foot of GLA. In today's depressed construction environment, a cost of $65 would not be unreasonable. One tremendous caution: Don't overpay for the land. If land costs are unjustifiable high, explore the possibility of a joint venture. After all, the land's value stems from the developer's expertise.

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In the end, if the product is well-conceived, the "Voice's" prediction in screenwriter Phil Robinson's Field of Dreams cannot be denied:

If you build it, [they] will come.
APPENDIX: INTERVIEW QUESTIONS

- How did you decide upon this particular site?
- What obstacles did you encounter in gaining control of the site?
- Was obtaining public approval difficult?
- What criteria did you use when selecting anchor stores? Did they pursue you, or did you pursue them?
- What was your leasing strategy with regard to the smaller stores?
- What reasoning did you use when determining both anchor and small tenant placement?
- What unusual or innovative features did you use in exterior/interior design?
- Was obtaining financing difficult? What were the eventual mortgage terms?
- What is your current rent structure (including CAM and Promotional Fund charges)?
- How does your projected yield compare with your actual yield to date?
- What unusual development or operational issues have you faced that we have not yet discussed?
- Do you consider this center a success?
- If you could begin the development process over again with this center, what would you do differently?