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# S.F.'s historic Giftcenter repackaged

## Revamp: Offices and retail

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Some 18 months after buying SoMa's Giftcenter and Jewelmart for \$94 million, a private equity firm is repositioning the historic property this year, with 275,000 square feet of new office space and ground-floor retail.

The shift in focus is being driven by the recent rezoning of San Francisco's eastern neighborhoods, which changed the zoning of the Brannan Street building from PDR — production, distribution and repair — to a much more flexible "urban mixed-use" designation. Under the old zoning, the Portland-based owners, ScanlonKamperBard, would have needed Planning Commission approval to expand to uses beyond the current business-to-business wholesale gift and jewelry use; under the new zoning, up to 275,000 square feet can be office.

SBK President Todd Gooding stressed that the wholesale jewelry business would remain an important part of the 388,000-square-foot building and would continue to account for at least 100,000 square feet. Many of the Giftcenter tenants have moved elsewhere in recent years, some of them relocating to Las Vegas. Over 125 tenants still sell jewelry and accessories, including fine custom jewelry, gemstones, watches, costume jewelry, bridge jewelry, leather goods and children's apparel. The building is currently about 60 percent vacant.

"We are committed to the jewelry folks. We have done an active and aggressive campaign to attract more," Gooding said.

About \$10 million is being pumped into the building to prepare it for the new uses, including a new lobby, atrium, roof and HVAC systems.

Under the new program, the complex will change its name to 888 Brannan St. and SKB hopes to draw the creative tech, digital arts and gaming companies that have flourished in SoMa over the past decade. With 14-foot ceilings and huge windows, the 1912 former National Carbon Co. building has many of the attributes that young tech workers covet, said Bill Cumbelich, principal of the CAC Group, which is handling leasing and management for SKB. Office tenants could take occupancy by the end of this year once a lease is in place.

"The architecture of the building is a huge asset — it's probably one of the best, most authentic conversions of a former industrial building in the entire South of Market area," said Cumbelich.

## Priced to move

The new chunk of creative space in deep SoMa comes online at a time when the commercial leasing market is hurting. The central business district lost 1.3 million square feet of occupied space in the fourth quarter and a gush of new sublease space made available by downsizing tenants is pushing rents downward. Gooding said the lousy market conditions would be addressed with rents that are competitive — from the mid-\$20s to the low \$30s. At the end of the year, average asking rates in SoMa were \$42 for Class A space and \$31 for Class B, according to Grubb & Ellis, although actual taking rates are far below that.

“The first couple of deals are going to get done in the high \$20s,” he said. “We can offer a Class A environment with brand-new buildouts for a Class C price.”

A new Colliers International research report shows SoMa vacancy at 23 percent — more than half of which is in five recently rehabbed or built structures: 370 Third St., 500 Terry Francois, 185 Berry St., 650 Townsend St. and 1355 Market St.

Colliers International SoMa specialist Mike McCarthy said 888 Brannan would need to compete with those buildings. He said the typical tenant looking for 2,000 to 20,000 square feet would probably not be a candidate for the building.

“There are some very good quality buildings available south of Market for large tenants,” said McCarthy. “The problem is not oversupply. It’s lack of demand.”

### **Area gaining traction**

SBK’s Gooding said the firm has “plenty of runway with our lender so we have a long-term approach.”

“When we bought the property, we knew this (eastern neighborhoods plan) was imminent. Given the unique architectural aspects of the building, our thought process was to provide Class A creative space and be able to do it at a market-leading cost.”

While it is not as accessible to public transit as South of Market Second Street corridor, Cumbelich said the deep SoMa West neighborhood was gaining traction with 1 million square feet of tech tenants, including Nokia, Avant, Dolby and Adobe.

“It’s a little bit of a sleeper — people don’t realize the volume of tech already in the area,” said Cumbelich.

The owners are aiming for 20,000 square feet of retail, but that number could grow if there is the demand, said Julie Taylor of Cornish & Carey, who is handling retail leasing. The neighborhood is already home to Room & Board, REI, Trader Joe’s, Costco and an array of niche home furnishing retailers.

“We have a half billion (dollars) in retail sales in the immediate area,” said Taylor. “Outside of Union Square, it is the most productive retail district in the city. If you start adding it up, it’s insane.”