

Housing agency finds a tenant

Family Justice Center to move in

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STAFF WRITER

Three years after moving into a new downtown office building it purchased for \$26 million, the San Diego Housing Commission has finally found a tenant to occupy one of its five floors.

The city-run Family Justice Center, now housed in offices at Seventh Avenue and Broadway, is proposing to relocate to the Smart Corner office building, where the housing agency occupies three floors. The commission has been trying to fill its vacant office space since moving there in January 2007, but a requirement that the tenant be a nonprofit or governmental entity, compounded by a depressed commercial real estate market, stalled the leasing effort.

The proposed 10-year rental agreement, which is subject to City Council approval, calls for the Justice Center to pay \$1.70 a square foot, or \$453,206 annually, with the lease payments increasing by 6 percent every two years.

In turn, the commission would be responsible for spending up to \$1.5 million on interior building improvements and moving costs, which translates into a one-time charge of \$67 a square foot. The Housing Commission board has recommended approval for the proposal.

The terms are a reflection of just how far commercial rental rates have fallen since late 2006, when the commission was anticipating getting \$2.45 a square foot for its space, said its broker, Craig Kristofferson of CB Richard Ellis.

Rent at that level over a two-year period would have brought the commission more than \$1.3 million, in addition to parking fees from its underground garage, and lease payments from street-level retail uses it has been collecting.

At the time the office building at 11th and Broadway was first conceived, it was forecast that the parking and lease revenue would be nearly enough to cover the agency's annual \$1.7 million mortgage payments. Instead, it has had to dip into a \$2 million

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TENANT

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Center helps victims of abuse with services

reserve to help finance the building.

Commission CEO Rick Gentry stresses that the reserve, which relies in part on administrative fees built into federal housing grants the agency receives, has not taken funding away from affordable housing programs.

"Our operating budget is about \$300 million annually, so although the failure to lease the building has been an economic drain, it's one we've been able to cover with reserves, and it hasn't caused any poor performance in any of our program activities," Gentry said.

"This building was first planned back in 2003, and from 2003 to 2006 there was a perception there was only an upside to be gained. But as we learned, real estate can have a downside as well. I think it was courageous on the part of this agency to take the risk, and with the Family Justice Center coming in, it will be a win-win situation."

Overseen by the San Diego Police Department, the center serves as a clearinghouse where victims of domestic violence can access law enforcement and legal- and social-services personnel who specialize in abuse cases.

The center's current lease is expiring, and operating out of one large, single floor would be more cost-effective than the multiple floors it occupies in its Broadway building, said Tim Moore, of San Diego's real estate assets department.

The city, he said, looked at several options and concluded that the Smart Corner space made the best sense economically.

"This puts them on just one floor, which reduces the need for multiple reception areas, multiple conference rooms, break rooms," Moore said. "It also puts them closer to the police department, and the trolley station is right there in front of the building, which is a big factor because the clients can use public transportation.

"You also have to consider how much is being paid by the landlord for tenant improvements. We have about \$70 a square foot, which means we won't be out-of-pocket to move because it also covers moving costs."

San Diego commercial broker Jason Hughes of Irving Hughes said that while the proposed lease appears reasonable, the Family Justice Center could have secured a less expensive rate where they are now. The tenant-improvement allowance also seems high, he said.

"You can build nice office space for under \$50 a square foot, so why is the commission giving them \$67 a square foot?" Hughes said.

"In my mind, the Housing Commission is giving too much for improvements, and why is the city building out such nice space (for the Justice Center) at high rates when they could renew for a lot cheaper?"

Downtown office broker Frank Wright of Cassidy Turley BRE commercial pointed out that there are several considerations besides the actual lease rate that factor into the final deal.

"It's within market conditions, although one would think there would be about six months free rent involved," Wright said. "(Smart Corner) offers some conveniences, it's new, there's public transportation, so there are other subjective things that would make this reasonable other than pure economics."

Located across from City College on the eastern fringe of downtown, the Housing Commission offices are part of an ambitious mixed-use project that includes a 19-story condominium tower on a parcel that is bisected by the San Diego Trolley.

In addition to filling its second-floor office space, the commission is also proposing to lease out more than 11,000 square feet of its ground-floor retail space to its own Economic Development Academy and the nonprofit Housing Opportunities Collaborative.

The agency plans to spend up to \$1.8 million to improve the space, which normally would be reserved for retail outlets paying \$2.50 a square foot.