



## Mercy Housing Commercial Leasing Profiles

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DATE: April 14, 2005

TO: Nonprofit Developers of Mixed-Use Properties

FROM: Nancy Conover Commercial Developer (415) 553-6395

SUBJECT: Leasing Commercial Space without a Broker: Examples of Leasing Strategies

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### **Dudley**

Project Type: Mixed-use Rehab—5 floors of 75 residential apartments over commercial  
Location: 172 Sixth Street, between Natoma and Howard  
Sq. Footage: 3,200 sq. ft., including 1,350 sq. ft. of space fronting Sixth Street and 1,800 sq. ft. of space fronting Natoma

Background: The commercial marketing plan was based on Mercy's experience leasing up commercial space at the Rose (125 Sixth Street), as well as in other hard-to-lease locations. Small commercial spaces in economically distressed areas get short shrift from brokers. Retail brokers hang their sign in the window and list the space, but it's not worth it for them to pound the pavement unless they're handling a lot of other property for you. The shortcomings of brokers are magnified in a commercial area as depressed as Sixth Street. Mercy used two different brokers to market its retail space at the Rose from 1997 to early 2000, with no success. Mercy then contracted with a consultant (myself) for grassroots marketing—door-to-door soliciting of small businesses in SOMA and similar neighborhoods like the Tenderloin. The search for tenants was helped by market timing, as some greedy SOMA landlords were raising rents and putting the squeeze on local businesses. A nearby pizza business had just seen his rent doubled, and was attracted to long-term space he could improve and control. Mercy's ability to sign on a strong business owner (Chico's) who completely financed his own tenant improvements is not likely to be duplicated at the Dudley, at least not during this recessionary period. Two brokers of 3 vacant commercial space on Sixth Street (138 Sixth, the Pontiac Hotel, and 1000 Howard) reported little or no bites in the last 2 years. With business down all over the City, and a full 27 commercial vacancies on Sixth Street between Market and Howard, we would have to actively recruit tenants for the ground floor of the Dudley. Our approach:

1. Strategize about "best uses" given location, street frontage, zoning and former uses, height, local political will, and specific ground floor build-out required to serve residential above (community room, property management and resident services space).  
**Best Uses: Attract retail tenant for the Sixth Street storefront, local arts group for Natoma St. space. If infeasible for arts, attract light assembly or other tenant.**
2. Canvass local businesses on Sixth, nearby in SOMA, Tenderloin, similar neighborhoods. Solicit local chains as appropriate, e.g. Muddy Waters, Buffalo Exchange. **Phone calls to various businesses generated walk-throughs, but no interest from local chains.**
3. Talk up space to economic development boosters—e.g., Urban Solutions, SFRA, SOMPAC, MEDA—and local nonprofit intermediaries—Nonprofit Finance Fund, LISC, Art House, Theatre Bay Area.



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4. Conduct walk-throughs of the space: **10 prospects from Feb-June 2002: coffee, donuts, flowers, sandwich or produce market, laundrymat, 4 theater groups, visual arts group.**
5. Look at feasibility of arts space --Can we remove or reduce columns? Accessibility improvements needed? Apply to Arts Commission for Creative Space grant to fund engineer for feasibility of 49-seat theater use (March 15<sup>th</sup>). **Application not funded.**
6. With project architect, get accurate measure of space, and better answers to some of zoning, accessibility issues. Send out announcement and RFP with floor plan, asking for brief proposals. Mail RFP to nearby businesses, other interested businesses, Urban Solutions, SOMPAC, SOMA nonprofits, Art House, Theatre Bay Area, individual small theater companies, Supervisor Daly.  
**Three responses: laundrymat, flower business, theater company.**
7. Review proposals with Mercy team and SFRA. Identify and analyze top prospects. Give tenants time for their due diligence--is there enough power? flue? access? financing for TI?  
**Laundrymat operator couldn't make layout fit with necessary corridor on ground floor. Flower assembly/retail business selected as top prospect. Initially decided to lease entire space. Due to changing economy and insufficient funds for TI, this prospective tenant decided to sign lease proposal for rear Natoma space, only.**
8. Execute lease after negotiating terms in lease proposal.  
**Lease drafted for 1,789 sq.ft. rear space.**
9. Continue marketing Sixth Street space, using flyer and direct calls. Special attention to:
  - a) Neighboring businesses: **2 new prospects**
  - b) Target business sectors: **Cold calls to businesses in the following categories:**
    - Thrift or vintage stores
    - Costume stores
    - Hobby shops
    - 99 cent stores
    - Pet shops?



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### Derek Silva

Project Type: Mixed-use Rehab—5 floors of 70 apartments for residents with special needs  
Location: 1594 Market Street, between Van Ness and Franklin  
Sq. Footage: 6,528 sq. ft., including 2 occupied commercial spaces, and 3 new spaces to be occupied after rehabilitation completed in January 2004

Unlike the complete economic distress of Sixth Street, the Derek Silva is located in a more “transitional” retail market area. Although adjacent to the western edge of Civic Center, this block of Market between Van Ness and Franklin is frequented by petty crack dealers and users, who congregate in front of the boarded up building next door. However, the property is located on the eastern edge of the City’s “antique district”, and has a thriving French Bistro as the anchor tenant. Furthermore, 2 of the existing businesses will stay open during rehab, which will make leasing up the other 3 storefronts easier. Leasing Strategy:

1. Talk to existing business owners, including one who may be interested in expanding.
2. Hang Mercy’s commercial leasing sign in the windows of the vacant spaces.
3. Identify and recruit from target business sectors: complementary businesses to antique furniture and upholstery, shoe repair, coffee shop.
4. Develop marketing flyer. Distribute marketing materials to current business tenants, Mid-Market PAC, SFRA, Chambers, NAF, SF Renaissance, WISE.
5. If no lease proposals have been signed within 4 months of construction completion (January 2004), sign on retail broker.



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