



Office of Economic Development

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To: Michael J. Caplan, Economic Development Manager
From: ^{DF} David Fogarty, Economic Development Project Coordinator
Subject: Rents in the Telegraph-Channing Mall

The purpose of this report is to review the question of "market rents" in the Telegraph-Channing Mall (TCM) and to determine how rental rates at TCM compare with those similarly situated commercial spaces.

Site Comparability

By general agreement, as well as the geographic proximity and similarity of function, the closest comparable commercial space to the Telegraph-Channing Mall is the "Sather Lane Shops." (SLS). The SLS are aligned adjacent to and/or along a walkway between Durant and Bancroft Way that runs through an 18,680 square foot building at 2433 Durant just to the north of TCM. The building is owned by Rue-Ell Enterprises, the largest property owner in the Telegraph area, and Rue-Ell has its office headquarters upstairs in the same building. Rue-Ell's leasing agent provided me with the rent-roll for the shops on condition that I not publicly disclose the rents but use them only for the purpose of evaluating rent levels in TCM.

Both TCM and SLS are in the Telegraph District but "off Telegraph". Since the interior building walkways through the TCM and SLS are in alignment and there is a marked crosswalk across Durant to link them, together they create a continuous mid-block pedestrian corridor between Channing Way and the UC Berkeley Campus. For someone who parks in the City-owned Telegraph-Channing Garage and whose destination is on the UC Campus, the most direct route is to walk through the Mall to Durant Way, cross the street and then walk through SLS to emerge at Bancroft Way where there is another marked crosswalk across Bancroft to Lower Sproul Plaza. The building at SLS was planned in the late 1960s and built in the early 1970s to take advantage of the foot traffic created by the newly-constructed Telegraph-Channing Garage and in an effort to create a secondary "off-Telegraph" route to campus. (Sather Lane was so named because the garage at the time was named "Sather Gate Garage.")

Unfortunately, the logic of this secondary route to campus is currently disrupted at the campus end by the construction closure caused by UC's Lower Sproul project. Pedestrians must now either walk up Bancroft to the main south campus entry at Telegraph or walk down Bancroft to enter campus at Dana. As a result, the foot traffic in Sather Lane Shops has dropped and, at the time of our visit, several of the stores had signs in their windows appealing to patrons for support despite the construction closure.

Both the Mall and the SLS contain spaces that are visible from the public street and spaces that are visible only from the interior walkway. For the Mall, Framer's Workshop, Framer's Outlet and University Copy are visible from Channing Way while Michelle's Yogurt and Moe's Flowers are visible from Durant. The street visible space comprises 5,868 or 36% of the total 16,187 rentable square feet in the Mall. For the Shops, Dot Island Grill, Yogurt Park and Cupcakin Cake's are visible from Durant for 2007 or 24% of 8,495 square feet of space.

The Real Estate Economics of the Two Properties

Factors that affect commercial rental rates include the overall economic condition of the Telegraph area; the relative location of commercial buildings within it; and the particular visibility, foot traffic, and amenities associated with individual spaces.

As is well-known, the retail strength of the Telegraph area has declined due to the loss of business at bookstores and CD/music stores and competitive pressure from other districts. In addition, other retail sectors that have traditionally been strong on Telegraph, such as copy shops, are now challenged by changes in technology. The restaurant sector, however, has held steady or increased, although turnover in the restaurant sector is very high. Under current conditions in the Telegraph area, this means that restaurant spaces often command higher rents than ordinary retail space.

Average Rent per Square Foot Comparison

The average rent per square foot of occupied space in SLS is \$3.72 as compared to \$1.77 for TCM and SLS. The table below provides break-down of type of tenancies and rent levels at TCM. Note that in the table for TCM, the rentals to the Library and Friends of the Library have been characterized as "other-determined" rather than "market rate" because these rentals to a City agency and a Library-related nonprofit (Friends of the Library) were made at a below-market rate of slightly less than 50 cents per square foot.¹ The rental that is in process to Sodoi Coffee is included in the table at the proposed base rent of \$1.50 per square foot. Sodoi is characterized as "Retail" not "Food Services" because the sale of brewed coffee is only an ancillary part of its main business, sale of coffee beans.

TELEGRAPH-CHANNING MALL: RENTABLE SPACE						
Type of Business	Food (sandwiches, ice cream)	Services (postal, copy, shoe repair)	Retail (clothing, books, coffee, flowers, frames)	Other-Determined (Library & Friends)	Vacant	TOTAL
Square Feet	1,100 sf	3,191 sf	7,398 sf	3,523 sf	975 sf	16,187 sf
% of Total Rentable Space	6.8%	19.7%	45.7%	21.8%	6.0%	100%
Average rent per s f rentable ²	\$2.57	\$2.04	\$1.54	\$0.47	0.00	\$1.38
Average rent per sf of occupied space = \$1.47						
Average rent per square foot of occupied space rented at a market rate = \$1.77						

¹ The Friends of the Library operate a used book store. If we characterize the 2,023 square feet of the Friends of the Library space as bookstore/retail, it increases the retail square footage to 9,421 square feet or 58.2% of the total.

² Includes 940 sf of vacant space for which the City does not receive any rent.

SATER GATE SHOPS: RENTABLE SPACE					
Type of Business	Food (restaurants (3), yogurt & cupcakes)	Services (copy & 3 hair salons)	Retail (flowers)	Vacant	TOTAL
Square Feet	4,352 sf	2,937 sf	266 sf	940 sf	8,495 sf
% of Total Rentable Space	51.2%	34.6%	3.1%	11.1%	100%
Average rent per s f rentable	confidential	confidential	confidential	0.00	\$3.31
Average rent per sf of occupied space = \$3.72					

The Sather Lane Shops at \$3.72 has a much higher average rent per square foot of occupied space. One of the factors may be the advantage of a location closer to campus ordinarily brings a high level of foot traffic plus building improvements or "amenities" that permit a high proportion of space (51.2%) to be devoted to restaurants or "food Uses" that command higher rents than Services or Retail. Over the years, prospective restaurant owners have considered the feasibility of building restaurants in the TCM and concluded that it would be prohibitively expensive because of the need to vent grills by running ductwork to the exterior as well as the lack of plumbing to add kitchens and bathrooms. However, the fact that the average "market" rent for occupied space in TCM is only 47% of the rate for occupied space in SLS (i.e., \$1.77 vs. \$3.72) strongly suggests that the "across-the-board" rent reduction requested by some Mall merchants is not justified.

In addition, several businesses located in the TCM have a declining market for their products. Under those circumstances, the City should meet with individual tenants and assess whether the owners have a plan to reverse the decline of their businesses. If they do have a desire to continue in business and a plan to reverse their decline, the city can work with the tenant as appropriate -- particularly if they commit to investments that will help them stay in business. The City should also be willing to make investments in the mall to improve conditions, particularly in the context of marketing plans and new investment by the businesses themselves. There would be little value for the Telegraph area market or the City to renegotiate rents with businesses that are likely to fail because the market for their product is declining and they have no plan to reverse their situation.