

650 Townsend St. Changes Hands for \$131M-Plus

By Brian K. Miller of GlobeSt.com

Friday, September 08, 2006 - SAN FRANCISCO-Locally based TMG Partners has acquired 650 Townsend St. for slightly less than \$200 per sf, according to local industry sources. The low-rise, 672,000-sf office property in the South of Market area is 50% leased.

Located South of Market between Seventh and Eighth streets, 650 Townsend is one of the nicer office buildings in the SOMA area. The largest tenant is Sega of America, which leases 160,000 sf. The newest tenant is Twin Capital Mortgage, which leased about 17,000 sf in June. Other tenants include Nokia and Harmonics Communications Corp. The building has on-site rooftop parking.

TMG Partners chief executive Michael Covarrubias tells GlobeSt.com that the first order of business will be to cut in another entrance and add a new bank of elevators to improve access to and through the massive building. The plans also include activating the now quiet atrium area with a coffee shop and maybe a fitness center.

"The building has strange ingress and egress," he says. "You enter on one end of the building and it takes a map and a lunch to get to the elevators at the other end. Then you get to your floor and have to circle the whole atrium again to get back to the other end of the building."

The new entrance will be on Townsend and will take people right into the Atrium area. The new elevator bank will be at the east end of the building; the current bank of elevators is at the west end of the building. The company's all-in cost is expected to come in below \$250 per sf, which compares to a replacement cost of closer to \$450 per sf.

The building was developed about 16 years ago by John Portman. It was originally intended to be a fashion design center. The seller, Zoro LLC, acquired the building out of bankruptcy in the mid 1990s and did well with it during the dot-com boom, according to local sources. Reached by email in Australia, Martin Zankel, a member of Zoro, tells GlobeSt.com "We have had a very good run for nearly 10 years with this investment. It was time to move on."

The leasing broker, Bruce Wilson of CAC Group, tells GlobeSt.com that the last of the significant sublease availabilities in the building have been absorbed. The leasing plan calls for attracting large tenants to the building. Currently, the building has 116,000 sf of contiguous availability on the fourth and fifth floors. The full-service asking rate for space in the building is in the mid-\$20s per sf, Wilson says.

In addition to the improvements, which should increase interest in the building, the area around the building is changing as well. A new Whole Foods grocery store is under construction down the street, and across the street there's a new apartment building with four new restaurants.

"We recognize the property's potential as this area continues to improve with new buildings, businesses and services cropping up all around this core of SOMA," Covarrubias says. "We foresee offering tenants an efficient lower-cost option as rates are now rising and vacancies are tightening."