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FILLMORE STREET HITS NEW FASHION HEIGHTS

National
boutiques
shop, local
stores drop

BY RENEÉ FROJO
San Francisco Business Times

A wave of independent, high-end clothing boutiques is washing over Pacific Heights' slice of Fillmore Street, putting San Francisco on the map as the next destination after Los Angeles and New York for fast-growing national and international brands. But this makeover is coming at a price. With limited

space and high demand, increasing competition is leading to quickly rising rents and premiums in the form of key money, putting the fate of smaller, local retailers in question.

"Somehow, word is out now," said Pamela Mendelsohn of Colliers International, who has brokered deals on Fillmore for over 15 years. "There's a lot of interest from



"Securing a space isn't easy," says retail pro David Fishbein.

FILLMORE: New wave of retailers rolls onto street

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out-of-town brokers and tenants that are excited to get on the street."

New York-based boutique Alice + Olivia, international retailer Roberta Freymann, Los Angeles-based Curve and steadily expanding Kansas-based Peruvian Connection have all opened on the street within the past few months. And at least four other deals for new shops are in the works.

"For a lot of brands, Fillmore is the only street in Northern California that they see themselves being on, so there's this intense pressure to find a space," said David Fishbein, president of Innovative Retail Partners, who has represented several tenants in recent deals on the street's upper end. "And securing a space isn't easy."

In the past year, only a handful of vacancies for commercial retail spaces on Fillmore were advertised on the market. "Spaces are so hot, that they go before a sign goes up," said Ben Lazzareschi, vice president of retail leasing and management at CB Richard Ellis.

Therefore, retailers and brokers must reach out to tenants and owners directly "to be the first in line when a space becomes available."

As a result, he added, landlords are gaining leverage in the deals. And on the 10 tree-lined blocks north of Geary Boulevard that define Upper Fillmore, they seem to be favoring a higher caliber of tenants.

Nevena Borissova, owner of multi-line clothing boutique Curve, said she secured her lease on the corner of Washington and Fillmore streets seven months before the former tenant, cosmetics store Kieh'l's, left last fall. While it's unclear whether she was the first in line, there's no question that she was the most desirable tenant.

"There were five other offers on the space, but the brokers wouldn't entertain any of them," Borissova said. "They didn't want an electronics store or a local business, they wanted a nationally expanding brand."

While Borissova didn't originally plan to open in San Francisco, she knew she had to get in quick. With stores in Los Angeles, New York and Miami — and near future plans for international expansion — Borissova didn't want to fall victim to the city's formula retail law, which



"There's this intense pressure to find a space," says Innovative Retail Partners' David Fishbein, at Curve.

requires retail chains with 11 or more outlets in San Francisco to obtain a special use permit to open in a neighborhood commercial district.

Designer Roberta Freymann, who just opened her ninth store at 2055 Fillmore last week, and Steven Alan, expected to open in the former Ruby Living space at 1919 Fillmore, are also sneaking in right under the formula retail limit. And now that word is out, even high-profile international retailers — such as Parisian brands Maje, Sandro and Iro — are including San Francisco in their aggressive expansion strategies. And they're eyeing Fillmore to open their next locations after New York, according to Borissova.

"I knew San Francisco was the ideal home for our next boutique," Freymann said. "While Fillmore may be considered a premium street, it was important that we

be located in a neighborhood that's not only a shopping destination, but also has great restaurants and small, local tradesmen."

But as these hip, new boutiques flood the market, those very locals might have a hard time competing.

"Rents are going up like crazy," said Borissova, who said that she pays around \$110 per square foot. Other retailers that signed leases shortly after her last year are paying closer to \$140 per square foot, she added.

While her rent is likely higher than what she would have paid on another popular San Francisco street, Borissova is content with her deal. "I think my rent is right," she said. "It justifies my volume."

The growing hype, coupled with limited availability of space, also is driving the increasing use of key money by businesses to pay existing tenants to hand over their lease. While common among restaurants, key money is rarely paid by other retailers.

Fishbein, who works with specialty brands all over the country, said Fillmore is one of the only places he's seeing non-restaurant retailers paying key money. In fact, two pending deals he's currently working on involve it.

But many times, independent retailers that had trouble competing in the bad economy are the ones relying on key money to recoup their losses. Mendelsohn, for one, said the trend is "bailout money, and not key money."

Still, the types of retailers willing and able to pay key money likely have other stores in the pipeline, Fishbein said. Location and the number of years left on a lease determine how much key money can be demanded; non-restaurant retailers usually pay from \$100,000 to \$150,000.

Smaller retailers that are unable to cough up \$100,000 in key money can't open on Fillmore and those that can't keep up with increasing rents struggle to stay open. Some types of mom-and-pops — especially thrift shops and furniture stores — that were once common have given way to new boutiques. Local clothing and accessory stores Blu, Her and Mrs. Dewson's Hats either closed or moved to another location.

However, there are still plenty of small landlords on the street who want local businesses as tenants, Mendelsohn said.

"Fillmore is a local merchant street, and we do not want that to change."

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