

Major Commercial Tenant Leaves Downtown for Sorrento Mesa

REAL ESTATE: American Specialty Health Relocates, Becomes Second Midsized Employer to Move North

■ By LOU HIRSH

Health services provider **American Specialty Health Inc.** is leaving the downtown building it's called home for the past decade, as it moves its headquarters and 750 employees to Sorrento Mesa in October.

The company has signed a 10-year lease for a total of 189,000 square feet of space at Wateridge Plaza, 10221 and 10241 Wateridge Circle. The building's landlord is 10201 Wateridge Circle Corp., a unit of Centerline Capital Group.



Jason Hughes

Financial terms were not disclosed, but the lease is the largest in several months for the Sorrento Mesa area, according to Jason Hughes, a principal at **Irving Hughes Inc.**, who represented American Specialty in its site search.

"It was a fraction of the expense at the end of the day," Hughes said of the company's leasing and related costs at the new location. "They're growing their space by roughly a third."

The health services firm's location search spanned the last two-and-half years, and the company considered sites throughout San Diego County, he said.

Officials of American Specialty Health

said the company had outgrown the space at 777 Front St., where it will vacate all 156,000 square feet once planned improvements are completed at the new site.

Significant Savings at New Location

"We're excited to relocate to an attractive building complex, have room to grow and significantly improve the economics of our building lease," ASH Chairman, CEO and founder George DeVries said in a statement. "The Wateridge space will make the company more efficient — and our employees will enjoy many new and unique amenities at our new building."

Hughes said those amenities include access to free parking. DeVries said by phone that ASH will see "significant savings" in overall operating costs at its new campus-like facilities, though the company is not disclosing numbers.

The health service provider's current home was formerly known as The Paladion, which operated as a high-end downtown shopping mall across from Horton Plaza before it was converted to commercial office space.

American Specialty Health provides administrative, fitness and other programs to health plans, insurance carriers and employer groups. The firm was founded in 1987 and had approximately \$147 million in 2009 revenue.

Hughes, whose firm represents tenants solely, said American Specialty was able to take advantage of what has become a buyer's market for companies seeking office space. It is his firm's second recent client to relocate from downtown, following the recently announced move of the law



Photo courtesy of CoStar

American Specialty Health will be moving its headquarters to Wateridge Plaza in October.

firm Knobbe Martens Olson & Bear LLP to Del Mar Heights, planned for August.

Negative Absorption Downtown

According to the commercial real estate firm Cassidy Turley/BRE Commercial, the San Diego County office market is slowly recovering from the effects of a weak employment climate that has suppressed demand for space. Vacancy rates have generally been rising since the fourth quarter of 2005 — from 8 percent to the current 17.4 percent — though the fourth quarter of 2009 marked the first time since then that the rate declined slightly.

Sorrento Mesa's latest office vacancy rate was 15.9 percent, with an average asking rent of \$2.13 per square foot. The downtown vacancy rate was 15.1 percent, with an average asking rent of \$2.47 per square foot, Cassidy Turley reported.

Its data indicate that while the latest quarter saw Sorrento Mesa absorb 154,720 square feet, with no new space under construction, the downtown area had negative absorption of 16,830 square feet, with another 40,000 square feet under construction.

Representatives of downtown business development organizations said they were disappointed by recent announced departures, but predicted those would not hamper the downtown's long-term prospects.

Quality of Life

Derek Danziger, vice president of the city-created Centre City Development Corp., said studies indicate downtown leasing rates are comparable with regions to the north. The city has taken steps over the years to add downtown parking structures and create discount parking permit programs geared to businesses.

He pointed to studies by the San Diego Association of Governments, the regional joint-powers planning authority, indicating downtown is on track to have 90,000 residents and 165,000 workers by 2030.

"It's really a quality of life twthing," Danziger said. "We've been focused on keeping jobs closer to the core downtown and getting people off the freeways."

Shirley Horton, president of the Downtown San Diego Partnership, said many of ASH's employees live downtown and will still be patronizing local businesses.

She noted that other downtown mainstays, such as the law firm **Procopio, Cory, Hargreaves & Savitch LLP**, have chosen to relocate within downtown, and the area remains the hub of San Diego County's government and legal community.

"I don't think what we're seeing is an exodus from downtown," Horton said. "Especially as the economy recovers, you'll see that the downtown will do better because it still has more life and activities than most of those other areas."