

San Francisco Office Highlights Q4 2009

Tenants emerge to take advantage of favorable conditions

The fourth quarter marked a new phase for San Francisco's office market as tenants emerged to take advantage of favorable leasing conditions leading to the completion of several large deals. With hesitation to make long term decisions assuaged, tenants are now ready to make new lease commitments. While this has not resulted in significant net absorption, as many companies either renewed or downsized, some deals did represent new expansion into the office market. Nektar will relocate from the Peninsula into 100,500 square feet and Del Monte will grow into 50,000 square feet of additional space, but Levi's renewal will place 150,000 square feet back on the market.

Though the uptick in large transactions is a positive sign, they have not provided a full recovery in confidence as the capital markets continue to struggle amidst looming loan maturities and conditions in the job market remain strained. Likewise, until a full rebound takes shape construction activity will remain grounded.

Leasing activity

- Levi Strauss & Co. renewed its lease at 1155 Battery Street for 354,797 square feet, downsizing by approximately 150,000 square feet. The new 10-year lease commenced on November 1.
- Del Monte signed a new lease at 1 Maritime Plaza for 152,917 square feet. The company will be moving from The Landmark at 1 Market on April 1, 2011. It will occupy seven floors for a 10-year term.
- Nektar subleased 100,500 square feet from Pfizer at 455 Mission Bay, which is currently under construction. The 10-year lease commences August 1, 2010.
- Medivation signed a new lease at 345 Spear Street, Hills Plaza for 63,817 square feet. The seven-year lease commences on April 1, 2010.

- Credit Suisse renewed its lease at 650 California Street for 10 years, beginning April 1, 2010. The company occupies 62,139 square feet on floors 28, 31, 32, and 33.
- Ropes & Gray signed a new 11-year lease at 3 Embarcadero Center. The company will move from 2 Embarcadero Center into 50,403 square feet on April 15, 2010.
- Cooper, White & Cooper renewed its lease at 201 California Street for seven years and four months. The new term began on October 1, 2009. The company occupies 44,202 square feet on floors 14 through 17.

Tenants in the market

- Deloitte is out in the market for 285,000 square feet, with a target commencement date of August, 2011. The company currently occupies 180,000 square feet at 50 Fremont Street.
- Patelco, a financial services company, is out in the market for 60,000 square feet. The company is currently located at 156 Second Street.
- Yelp, the online business review, is in the market for 40,000 square feet. Yelp is currently located at 706 Market Street and its lease expires in early 2010.

Sales activity

- 550 Terry Francois Street (283,000 square feet, Class A) was sold in November 2009 by Tishman Speyer to GLL Real Estate Partners for \$135.5 million (\$479 per square foot). In November 2005, Tishman Speyer paid \$173.1 million for the building, which is entirely leased to The Gap.
- 188 Spear Street, also known as 120 Howard Street (147,755 square feet, Class A), was purchased by the Shorestein family in November 2009 for \$25 million, or approximately \$170 per square foot. While technically the sale of a mezzanine loan position, the note holder made arrangements that allowed the purchaser to acquire an unencumbered fee simple interest in the property at closing.

Construction activity

- 455 Mission Bay Street is scheduled for delivery in the second quarter of 2010. The 210,000 square foot building is located within UCSF's research campus in Mission Bay and is available for office, laboratory and technology use. 455 Mission Bay is currently 50.0 percent pre-leased to Nektar.
- 1 Kearny Street, a Class A project that has combined 1 Kearny Street and 710 Market Street, is scheduled to be delivered in January 2010. The 112,410 square foot building will consist of a brand new lobby and street-level retail.