

# Office Highlights

San Francisco | Q2 2014



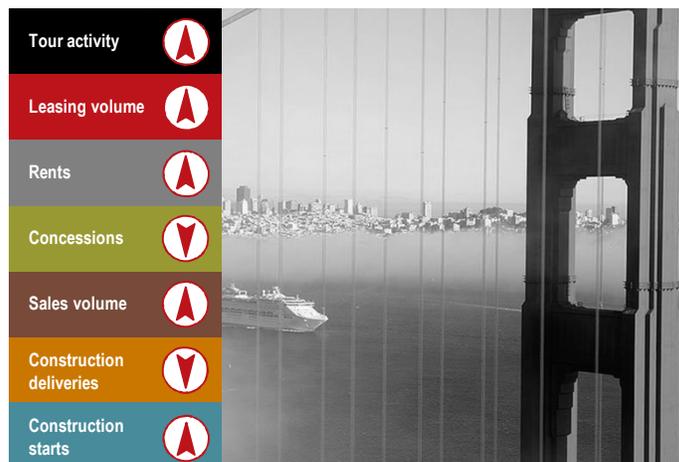
## Robust leasing activity defines the second quarter

Four expansionary deals were executed for more than 100,000 square feet apiece, including the blockbuster 714,000-square-foot Salesforce.com lease at 415 Mission Street. The number of 100,000-square-foot deals this year is set to surpass not only the previous peak in 2008, but the dot-com boom as well, which saw nine deals completed for more than 2.5 million square feet. While only 35.0 percent of total demand represents relocation or expansion, the pipeline continues to replenish itself with new tenants from within and outside of the city; spurred by sustained job growth and a record-low unemployment rate of 4.4 percent.

Despite more than 3.6 million square feet of construction underway, 65.0 percent of it has been preleased as expansion space. With 7.5 million square feet of demand and 15 tenants in the market for over 100,000 square feet, the planned supply will fall drastically short of the current need for space, given pre-leasing activity and the relative lack of large blocks. Supply constraints such as Prop M may pose further challenges to tenants and owners alike seeking additional growth opportunities.

### Leasing activity

- Salesforce.com, a cloud computing company, completed the single-largest lease transaction in San Francisco history with a 714,000-square-foot deal at the iconic and newly-dubbed “Salesforce Tower” in the South Financial District. The 15-year, six-month lease will commence in the first quarter of 2017 when the tower is slated to deliver. Salesforce has leased more than 2.6 million square feet in the city and will likely consolidate from other office locations including 123 Mission Street, One California Street, and One Market Plaza.
- LinkedIn, a professional network company, preleased the entirety of Tishman Speyer’s speculative 450,000-square-foot office development at 222 Second Street in the South Financial District. The 11-year expansionary lease will commence in early 2016, but LinkedIn will occupy the space in several phases through 2018.
- Splunk, a data mining company, preleased the entirety of 270 Brannan Street, a joint-venture 182,000-square-foot office development between SKS Partners and Mitsui Fudosan America, in South of Market. The eight-year lease will commence in early 2016 when Splunk will expand from its current 95,000-square-foot premises at the nearby Gallo Building at 250 Brannan Street.
- Uber Technologies, a transportation network company, expanded its premises at 1455 Market Street in Mid-Market by 131,000 square feet. Uber has now leased close to 220,000 square feet in the building and anchors the property with mobile-payments company Square, which occupies more than 330,000 square feet.



Arrows represent change from prior quarter

### Tenants in the market

- JP Morgan is in the market for 220,000 to 640,000 square feet.
- Lending Club is in the market for 300,000 to 400,000 square feet.
- Pinterest is in the market for 100,000 to 250,000 square feet.
- First Republic is in the market for 100,000 to 150,000 square feet.
- Cooley is in the market for 100,000 to 150,000 square feet.

### Sales activity

- In April, TIAA-CREF purchased 55 Second Street from Hines for \$275.0 million, or \$725 per square foot. Built in 2002, the Class A, 380,000-square-foot property located in the South Financial District is one of the few office towers built after 2000. The 26-story, LEED Gold Certified asset is anchored by KPMG and Paul Hastings, and has averaged 95.0 percent occupancy since its completion.
- In April, Columbia Property Trust purchased 221 Main Street from Beacon Capital Partners for \$228.8 million, or \$590 per square foot. The LEED Platinum, 388,000-square-foot, Class A property located in the South Financial District includes a roof terrace on the fourth floor, subterranean parking, and has recently undergone a redesign of the main lobby and exterior plaza renovation. The property was 89.0 percent occupied at the time of sale.
- In April, Alexandria Real Estate Equities purchased the 1.2-acre parcel of land at 500 Townsend Street in South of Market from the Guerin Family for \$50.1 million, or \$170 per square foot. The parcel is not yet entitled, but can accommodate a proposed 295,000-square-foot office building with 35,000-square-foot floor plates.
- In May, Beacon Capital Partners purchased 888 Brannan Street from SKS Investments and Vantage Property Investors for \$187.0 million, or \$461 per square foot. The five-story, 405,000-square-foot office property located in Showplace Square is anchored by Airbnb and recently underwent an extensive \$35.0 million renovation. The redesign included a complete interior and exterior overhaul as well as an upgrade to modern building systems.

### Sales activity (cont'd)

- In an off-market transaction in May, SEB Immobilien sold its entire stake in 225 Bush Street to Chinese investor Kylii for \$350.0 million, or \$602 per square foot. Flynn Properties maintained a minority share in the Class B, 593,000-square-foot property located in the North Financial District. The former Standard Oil building was last purchased for \$212.0 million in 2012 and was 68.0 percent occupied at the time of sale. The asset was subsequently repositioned to appeal to creative technology users and was 99.0 percent occupied at the most recent time of sale.
- In June, Kilroy Realty purchased the 3.1-acre parcel of land in Mission Bay at 1800 Owens Street, also known as Block 40, from Farallon Capital Management for \$95.0 million, or \$140 per square foot. Kilroy plans to build a 12-story, 680,000-square-foot office property catering to biotech and life science users. The project is slated to break ground later this year.
- In June, Cornerstone Real Estate Advisors, in a joint-venture with Hines, purchased 33 New Montgomery Street from Equity Office Properties and Blackstone for \$148.8 million, or \$620 per square foot. The 240,000-square-foot, Class A property located in the South Financial District was 95.0 percent occupied at the time of sale.
- Boston Properties, in joint-venture with Hines, began construction on 415 Mission Street in the South Financial District after having secured Salesforce.com as its anchor tenant. The Class A, 61-story, 1.4 million-square-foot tower, now known as "Salesforce Tower," will be the tallest on the West Coast and the focal point of the planned Transbay Transit Center. Salesforce.com has preleased 714,000 square feet and will begin to occupy the space in phases once the building is completed in early 2017.
- Breevast has initiated construction on its five-story, 117,000-square-foot asset located in South of Market. The project will include off-street parking, a roof deck, and other creative finishes. Dropbox has preleased the entire building and will begin to occupy the space once construction is completed in mid-2015.

### Construction activity

- Boston Properties continued construction of its ground-up development at 535 Mission Street. The Class A, 307,000-square-foot office tower, located in the South Financial District, will be one of the first LEED Core & Shell Gold pre-certified buildings in the city. The real estate search engine Trulia has preleased nearly 80,000 square feet in the lower bank of the building and will relocate from its current space at 101 New Montgomery Street when construction is completed later this year.
- Kilroy Realty Corporation continued construction at 350 Mission Street in the South Financial District. The new development will be a Class A, 451,000-square-foot office tower, which has been 100.0 percent preleased to Salesforce.com. The 27-story building will be designated LEED Platinum and is expected to deliver in the first quarter of 2015.
- Tishman Speyer continued construction of its development at 222 Second Street in the South Financial District. The Class A, 456,000-square-foot office tower is LEED-registered and is expected to contain retail space, parking, and an area for public space. The building is now 100.0 percent preleased to professional networking site LinkedIn and is projected to deliver in late 2015.
- Jay Paul Company continued construction of its 700-foot tall, steel-and-glass tower at 181 Fremont Street in the South Financial District. The speculative project will be a Class A, 54-story, 420,000-square-foot office and residential tower. The building will be LEED Gold certified and is expected to deliver in the second half of 2015.
- Kilroy Realty continued construction on its 180,000-square-foot asset at 333 Brannan Street in South of Market. The six-story, LEED Platinum, brick and concrete office property has been 100.0 percent preleased to cloud-storage company Dropbox and is expected to deliver in the first quarter of 2015.

