

Office construction on the rebound

Vacancy rates keep falling, but not everyone's sure that S.F. needs new wave of offices

San Francisco Business Times - June 23, 2006

by [J.K. Dineen](#)

In a virtual deep freeze for most of this decade, San Francisco office development is starting to thaw out.

The next generation of office construction is beginning to move off drawing boards and onto sites. [Tishman Speyer](#) has begun pile testing on its 555 Mission St. building, a 33-story office tower between First and Second streets. [Shorenstein Properties](#) is out shopping tenants for its two entitled financial district office projects, 350 Bush St. and 500 Pine St. [Equity Office Properties](#) is already at work on a new home for Barclays Global Investors at Foundry Square.

Meanwhile, with some luxury housing developers spooked by climbing interest rates and slowing sales, owners are suddenly reassessing their options and looking at office. [Beacon Capital Partners](#) recently swooped in and grabbed 535 Mission St. for \$19.2 million and will file an application to change the entitlements on that property from condos to office.

"You could make the argument that an office site is worth more than a residential site in today's market," said developer Robert Birmingham, who has had his site at 201 Second St. entitled for both housing and office.

Tishman jumps first

The first highrise to break ground since the dot-com bubble burst will almost certainly be 555 Mission St. Tishman Speyer's tower will add 555,000 square feet of space to the market. The building, expected to be finished in late 2008, is -- so far -- the lone new building being built on spec. Architect Jeffrey Heller, whose firm [HellerManus](#) designed 555 Mission along with Kohn Pederson Fox, said "as far as I know Tishman is going ahead."

"In Tishman's case they are looking around and seeing nobody else is building and they are the next one up," said Heller. "For them, it's a pretty safe bet."

While few observers are betting against Tishman, the brokers responsible for filling the city's 48 million square feet of downtown Class A space differ as to how much new construction can be absorbed, and whether rents are high enough to pay for it.

Conventional wisdom has it that with construction costs inching above \$500 a square foot, rents need to be at \$60 per square foot for development to make sense. Rents have risen sharply since 2003 and deals on view space -- the upper floors of the best buildings -- regularly top \$60. But average rents for all Class A space in the financial district were \$41.20 a square foot in the last quarter, according to [Colliers International](#). That's a long way from \$60, but many developers and brokers expect lease rates to rise as demand tightens.

Sven Pole, managing director of Northern California for [Trammell Crow Co.](#), said it's getting tougher to find blocks of view space of more than 10,000 square feet.