

Lincoln set to build after record buy

Shorenstein partnership sells downtown parcels for \$60M

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by [J.K. Dineen](#)

Paying a record price for land in downtown San Francisco, Lincoln Property Co. has acquired office building sites at 350 Bush St. and 500 Pine St. for more than \$60 million and plans to start driving piles as soon as next spring on a speculative basis.

The seller was a partnership of Shorenstein Properties, the Swig Co., and Weiler & Arnow Management Co. The three family-owned real estate corporations had assembled the sites over the course of four decades and received approvals for the projects six years ago.

The price, more than \$150 per buildable square foot, reflects both the difficulty of entitling office projects in downtown and the fact that the parcels are the only two office building sites remaining in the north financial district.

Lincoln Property Executive Vice President John Herr said his company would start construction "as soon as possible" on the two buildings, a 19-story, 350,000-square-foot tower at 350 Bush St. and a five-story, 50,000-square-foot structure at 500 Pine St. The two buildings would cost about \$250 million to develop, based on current construction costs.

"We believe the San Francisco office market is and will remain one of the strongest office markets in the country," said Herr. "It has proven itself with the level of investment sales over the last 18 to 24 months. The opportunity to build institutional quality, class-A office buildings in a premier location amidst strong demand and limited competition we found to be very compelling."

Lincoln, which owns 601 California St. and Waterfront Plaza, has hired Bill Cumberlich of the CAC Group to lease the new buildings. Lincoln's financial partner on the deal is ASB Capital, a union pension fund adviser based in Bethesda, Md.

The decision to sell was motivated by the fact that the three family-owned companies are each busy on other projects and were not in a position to "co-develop," particularly on speculative basis, according to Shorenstein Executive Vice President Tom Hart and Swig CEO Jeanne Myerson.

Hart said that the unloading of 350 Bush St. should not be seen as a signal that Shorenstein is not committed to San Francisco. Shorenstein and SKS Development are building a 450,000-square-foot biotech campus for FibroGen in San Francisco's Mission Bay, and the firm is negotiating with the Port of San Francisco to build a recreation complex with office space and a ferry terminal at Piers 27-31. Shorenstein started out as a San Francisco developer and has evolved into a national real estate fund sponsor.

"Everyone's first reaction is Shorenstein is pulling out of the city," said Hart. "This was an old, longtime partnership of more than 40 years, and each of us has migrated to other platforms and business plans. It was better to sell than co-develop something."

The Swig and Shorenstein companies still jointly own the Russ Building at 235 Montgomery St., which Shorenstein is moving to from 555 California St.

Myerson said it was hard to part with the sites, which took more than three years to take through an excruciating, complex approval process. But it was important to find a developer willing to break ground without a tenant in hand.

"Lincoln is going to do a very good job, and we are thrilled they are going to move ahead on a spec basis, which is what you need to do with a property like that," she said.

HellerManus designed both buildings. The Bush Street design incorporates the historic terra cotta façade, pediment and columns of the Mining Exchange building on the site and includes outdoor balconies and a 120-car garage. The 500 Pine St. project includes a rooftop garden connected to St. Mary's Park. Under the city approvals, the two buildings must be developed simultaneously as the developers agreed to expand the green space at 500 Pine St. as mitigation for shadows 350 Bush St. will cast on St. Mary's Park.

Herr said the design would not change.

"Our intention is to build the building that was approved by the Planning Commission with no material modifications," said Herr. "We think it's a high-quality design and will be well-received in the marketplace when completed."

There is one speculative highrise under construction downtown, Tishman Speyer's 555 Mission St., scheduled for completion in late 2008. Along with Beacon Capital Partners' 535 Mission St., approved last month, 350 Bush is the lone office highrise likely to be delivered in 2009. Other major proposed office projects -- 181 Fremont St., 350 Mission St., 222 Second St., 50 First St. -- are unlikely to be completed before 2010 or 2011.

While the California Street canyon still represents the spine of San Francisco's business community, the south financial district has been gaining ground in recent years. The two most well-regarded office towers constructed in the past decade -- 560 Mission St. and 101 Second St. -- are both along South of Market's dynamic and rapidly developing Mission Street, as is Millennium Partners new condo tower and Daniel Libeskind's Jewish Contemporary Museum, with its blue metal cube popping out of an old brick power station.

The new Transbay Terminal and Tower, which could add as much as 1.5 million square feet of office space by 2012, will further solidify Mission Street as the center of the city's economic engine.

But HellerManus Principal Jeffrey Heller said the traditional northern financial district still has an allure. The Bush Street building will be next to Belden Place's outside dining and offer views of nearby Union Square and Nob Hill.

"I think 350 Bush really completes that area around the BofA and that hopefully it'll be a gemstone," said Heller.

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