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### **Looking Up Again in San Francisco;**

*The financial district is bustling once more and office space is higher priced and harder to find as the dot-com bust fades into memory.*

BYLINE: Roger Vincent, Times Staff Writer

Five years after being laid low by the spectacular flameout of the dot-com boom, San Francisco's corporate office market is rising again.

With the local economy improving and the technology industry dusting itself off, big offices with views of the bay are getting hard to find and rents are climbing fast.

Commercial property prices have doubled in the last few years, and investors are preparing to erect the first speculative office building downtown since the late 1990s. Some builders are shifting their focus from residential to commercial real estate.

"There is a very high level of excitement here for our new space and the area," said Laura Hansen, a spokeswoman for FibroGen Inc. Last month the biotechnology company agreed to more than double the size of its offices in a move from industrial South San Francisco to the new Mission Bay development near the AT&T Park baseball stadium.

On weekday mornings in the city's financial district, fog-dampened streets are again flush with smartly dressed office workers juggling cellphones and cups from the coffeehouses that seem to be on every block. A five-year condominium boom enabled many of them to live within walking distance of their jobs.

The improving health of the office market signals San Francisco's recovery from the economic gloom that followed the tech meltdown of 2000, said Keitaro Matsuda, senior economist at Union Bank of California.

"The Bay Area was the epicenter of the dot-com bust in our state, and that is what really softened the market," he said. "The area is coming out of recession and starting to have more normal growth."

San Francisco real estate's rapid ascent in the late 1990s and even faster collapse after 2000 were dramatic even by the standards of a notoriously cyclical industry. Asking rents for good-quality office space rose from an average of \$29.12 per square foot per year in 1996, when the market was fairly tight with a 6.6% vacancy rate, to \$77.88 per foot at the 2000 peak, when vacancy was barely over 2%.

Cash-rich tech start-up companies competed for space throughout the Bay Area along with an expanding cadre of professional support services such as lawyers, accountants and bankers. Tenants who balked at paying as much as \$100 per square foot for offices with the best views on the best blocks were quickly elbowed aside by tenants who would.

"It was a lot of fun, but it never felt healthy," said Cushman & Wakefield broker Peter Victor.

Indeed, trouble was on the way. The Bay Area went from adding jobs at a speedy pace in the late 1990s to losing them even faster as hundreds of tech companies went belly up and service firms pared back. Asking rents were cut in half between 2000 and 2001 and fell to a low of \$28.68 in 2003, when vacancy surpassed 20%, according to Cushman & Wakefield.

The business exodus continued until 2005, when moderate job growth finally resumed and demand for office space revved up. By the third quarter of this year, overall vacancy in the central business district was 11.5%, and average asking rents for good-quality space hit \$39.36, new data from Cushman & Wakefield indicate.

"San Francisco remains one of the most desirable and attractive business communities in the country, and compared to financial centers like New York or London, it's cheap," said broker David Churton of Jones Lang LaSalle.

It's not cheap, however, compared with other West Coast markets. Third-quarter annual asking rents in Los Angeles and Orange counties averaged about \$27 per square foot. Seattle topped \$28, and Portland was below \$24.

Fueling San Francisco's office comeback is the organic growth of small professional service firms, supplemented by resurgent techies. Silicon Valley is still the unchallenged mecca of their industry, but many young tech hotshots prefer to live in San Francisco, Victor said. Many companies, including Sunnyvale-based Yahoo Inc., find it necessary to have an outpost in "the City" to keep them happy.

Shorenstein Cos., one of the region's oldest and largest landlords, is building the new office quarters FibroGen will rent. Leasing director Charlie Malet expects to see more development around town as builders try to get in on the steady rent increases he predicts will come over the next three years.

Boston-based Beacon Capital Partners plans to build a speculative office high-rise on a Mission Street site previously designated for condos.

"They're so bullish on San Francisco, they are not interested in pre-leasing the building" before they start construction, Victor said.

The rising tide, however, has yet to lift less desirable space in low-rise buildings that lack bay views, said landlord Jeanne Meyerson, chief executive of Swig Co.

"There is a bigger gap between top-quality 'view' space and less

prestigious space than I have seen in years," she said.

That's because demand is still far short of the frenzy of the dot-com years, said broker Churton. He estimates that tenants were hunting for as much as 5 million square feet a year during the boom, but current demand may be little more than half that. Prospective tenants still have many options, but it's tough at top-flight addresses.

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