

In San Francisco, Dot-Coms Liven Up Finance District

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SAN FRANCISCO, CA - As men and women in business suits scurried to work in the Financial District on a recent morning, a small group, clad mainly in jeans, huddled outside one of the many office towers, engrossed in an intense session of "hacky sack," a game of passing a little ball from foot to foot.

There, at a glimpse, is the new look of the Financial District.

As the Internet industry expands rapidly here, in a city that limits the construction of new office buildings, it is quickly overflowing its first home in the warehouses of the South-of-Market-Street area, or Soma -- which is becoming crowded and expensive -- and moving north into the Financial District.

"We're finally getting a critical mass of young, start-up companies in the downtown area that can feed off each other," says Bill Benton, a real-estate broker in San Francisco for Los Angeles-based CB Richard Ellis Inc., who focuses on finding space for technology companies.

So many Internet-related companies are prowling for new space, in fact, that Daniel Cressman, managing director of the San Francisco office of Grubb & Ellis Co., Northbrook, Ill., estimates they make up nearly 80% of the demand for about 6.3 million square feet of space in and around the Financial District.

Mr. Cressman says rents in Soma have nearly doubled during the past few years to \$50 to \$60 a square foot a year. He believes that by June those rents may hit \$70 a square foot. At the same time, he says, rents in the more expensive Financial District have also been climbing, to between \$55 and \$65 a square foot a year, up from the mid-to-high \$40 range just last year.

As multimedia staffs leave funky lofts in Soma, they are hardly joining the Financial District's suit-and-tie culture. Instead, they are changing it.

"They're not only affecting the tenancy mix, but how to behave and dress," says Paul Lee, managing director of Sonnenblick-Goldman Co., a real-estate brokerage firm in the Financial District that occupies the same office tower as a Web-design company. Nowadays, fearing a dot-com hipster will be in the elevator, "I often keep my tie in my pocket," he says.

To cater to the Financial District's newcomers, ATC Partners LLC, a commercial-property owner in San Francisco, last year bought and renovated an eight-story building in the Financial District that had been occupied by a bank. Michael Halper, the firm's managing associate, says the renovation was aimed at making a "creative space" that would appeal to dot-coms. "I'm seeing this happen more," he says.

ATC took down the dropped ceilings and cubicles, ripped up the carpeting, and built an open-plan office with high concrete ceilings, exposed steel joists and hardwood floors. The company is also creating an area for employees' bicycles.

The building, Mr. Halper says, was quickly leased to four Internet tenants -- AllBusiness.com Inc., a provider of online small-business services; buzzsaw.com Inc., a construction-industry business site; the online unit of the San Francisco clothing retailer Gap Inc.; and pogo.com Inc., a provider of online games -- along with a laser eye-surgery center.

Last November, Fort Point Partners Inc., an Internet-services firm, moved from a loft-style office in Soma to the top three floors of an office building in the Financial District (with views of San Francisco Bay), for which it pays an annual rent of about \$46 a square foot. The move, says James Roche, the company's chief executive, "mirrors the trend" of the Internet itself as it moves to the center of commerce from the fringes.

Fort Point's new space, which retains the mahogany doors of the previous tenant and blends them with the new-media look of exposed concrete, satisfied Fort Point's "dual needs," says Mr. Roche. On one hand, the hip, renovated office, which is close to public transportation, will help attract and keep employees. On the other hand, the new address also moves the three-year-old firm closer to its lawyers and conveys "the look of a successful company" to potential clients, says Mr. Roche.

The Internet industry's move into the Financial District, however, doesn't delight everyone. As the dot-coms snap up space in the city's highest-rent district, some worry about the stability of the real-estate market and whether the start-ups can handle such heavy overhead.

"Landlords are focusing on new-economy tenants because they can get top-dollar rents and stock options, but not all of them will survive," says Denise Conley, a principal at Keyser Marston Associates Inc., a real-estate advisory firm in San Francisco. "When these companies begin to fold or merge, or when they have to start paying attention to the bottom line, what will happen to their real-estate needs?"

Dick Robinson, a senior director at the real-estate firm of Cushman & Wakefield of California Inc., a unit of New York-based Cushman & Wakefield Inc., says the situation is creating two troubling trends. "I see a lot of landlords intoxicated by the [rent] offers being thrown at them, and the rates are being bid up so high that I wonder if some of these multimedia companies can survive it," he says. "In some respects, landlords are weakening the chances of the company surviving."

Moreover, Mr. Robinson notes, a two-tiered real-estate market is developing, with landlords offering lower rents to established companies with long credit histories, while requiring heftier deposits and higher rents from young companies. "People are going to have a difficult time establishing real-estate values because they're increasingly dependent on who might be interested in the space," he says.

The situation has Jonathon Fishman feeling more than a little anxious. The founder of Eight Cylinders Inc. moved the two-year-old software company, with about 15 employees, to a 4,000-square-foot loft-style space in South of Market from Santa Monica last September "to tap into the multimedia culture, technology and talent" in the area. But now, with his short-term sublease set to expire in a few months and expectations of hiring upward of 100 new employees during the next year, Mr. Fishman is on the hunt for new digs in the city -- about 22,000 square feet worth.

"We're offering stock warrants and lots of money [to assist the space search] because we're competing against Fortune-500 companies," says Mr. Fishman, who has looked at about 30 properties in South of Market, the Financial District and even the Tenderloin, a neighborhood that's home to many of the city's homeless shelters and low-rent hotels. "That's frightening for a young company to think about that kind of [financial] liability."

Despite San Francisco's tough real-estate market, Mr. Fishman fears that if he moves to a cheaper, nearby city such as Oakland -- as a few high-tech companies have done -- he might lose current employees, most of whom live in San Francisco, and also lose recruiting ability.

MyEvents.com Inc.'s chief executive, Patrick Connolly, says his company, a provider of online events-planning, may not be able to afford to stay in San Francisco. The 32 people who work at the nearly two-year-old dot-com are currently crammed into 4,000 square feet of office space just a few blocks north of the Financial District in an area that's home to several advertising agencies.

Mr. Connolly, who has plans to hire 10 more people during the next three weeks, has reluctantly expanded his search for space outside city limits to Marin County and the East Bay. The inability to find real estate "is going to hinder the growth of dot-com companies like us," he says.

by Sheila Muto - from The Wall Street Journal / California