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Commercial

Swift Jumps North of Market Street for Latest San Francisco Buy

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Sharon Simonson

San Francisco-based Swift Realty Partners has bought 260 California St., a 55,000-square-foot historic office building in the heart of the city's North Financial District.

Swift paid $308 a foot for the multi-

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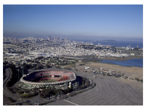

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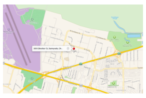

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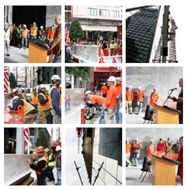

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tenant, 11-story property plus penthouse, or $16.94 million. The building has 5,000-square-foot floor plates, high ceilings and is 90 percent leased. The penthouse suite has a 3,000-square-foot deck, and the upper half of the building has exceptional views.

The tenant roster includes Citicorp Savings on the ground floor, with Resilient Network Systems Inc., Crosspoint Realty Services Inc., Shift Communications, AW Leong Dental Inc., ICON Capital Corp. and the law offices of Douglas Rappaport on upper floors, according to public records. Sakti International Corp. formerly occupied the penthouse but left at the conclusion of the sale. Sakti, a unit of Sakto Corp. of Ottawa, Canada, was also the seller.

Sakto Corp. is a privately owned and operated real estate development, management and investment firm.

Sakti put the property on the market not quite a year ago.

The building appears a perfect mirror of what brokers have dubbed "creative" office space in the San Francisco market based on its attractiveness to start-up technology companies seeking out-of-the-ordinary workplaces perceived as inspirational for workers.

"It's a perfect blend between the creative historical build-out that tenants are looking for [South of Market] and the long storied history of the central business district," said Christopher Peatross, Swift chief executive. "It is arguably the most beautiful historic building in the city, and the fact that it is at the corner of California and Battery [streets] is even better."

Swift picked up the property after a previous buyer, Leonine Capital LLC of West Covina, Calif., an affiliate of Pacific Northern Capital Corp., failed to close over a period of months after first promising to tender all cash then delaying purchase after it disclosed that it would in fact need financing. At least some of the purchase money was to come from China, according to court records.

Leonine ended up forfeiting more than $1.5 million in deposits to Sakti and losing a lawsuit aimed at forcing Sakti to sell it the building, according to court records. Leonine had offered more than $18 million.

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A rent roll prepared by Cushman & Wakefield as of Dec. 12 put monthly rents in excess of $128,000, according to court record. Based on the purchase price paid by Swift, that renders a 9 percent capitalization rate, or yield, going into the investment.

The building does need seismic renovation, Peatross said.

The building has some features in common with 140 Second St., a 38,000-square-foot property that Swift acquired last fall for $12 million. Both are historic and have corner locations.

San Francisco and its technology-driven leasing market is pushing against a national tide characterized by weakening fundamentals and increasing occupier caution, according to new data released by Cushman & Wakefield Research. In contrast to other markets where renewals have accounted for many of the largest leases, in San Francisco the largest leases in the second quarter have been new, and five of the largest eight leases were by well-established firms, said Caroline Green, Cushman research director for Northern California and the Pacific Northwest.

Cushman has originated a “tech index” for San Francisco properties that segregates office buildings with the highest concentration of technology firms in the city. It has then divided that group into “class A tech” and “prime creative tech” to distinguish between traditional office buildings that have been modified to appeal to technology tenants with elements such as exposed ceilings and duct work and historic buildings with exposed brick-and-timber construction that have been upgraded in the last 15 years. Class A tech is illustrated by 370 Third St. owned by Kilroy Realty Corp. while prime creative tech is epitomized by 475 Brannan St. owned by SKS Investments, Green said.

Class A tech buildings are leading rent increases citywide, recording a rental rate rise of 26.5 percent to $52.94 a foot a year from mid-2011 to mid-2012, Cushman said. That compares to office rents citywide growing 24.2 percent, to $46.49. Prime creative tech buildings have seen their rents grow 20 percent in the last year to $47.05 a foot a year.

“Overall the San Francisco market continues at full steam ahead, and the outlook is positive,” Green said.

Still, even in San Francisco and the Bay Area, there is room for caution. The Peninsula office market has lost occupancy in the first half of the year. Occupancy has

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grown in San Francisco by 1.1 million square feet in the first six months of the year, but most of that gain was in the first quarter, with positive net absorption of only 224,045 square feet in the second quarter, according to research from CBRE Inc. At the same time sublease space and availability are creeping up.

Since the CBRE report was prepared, Zynga Inc. and Facebook Inc. both have reported disappointing results, and questions are rising about the social-media phenomenon and its longevity. LinkedIn Corp.'s stock price, however, has seen its stock market rise 130 percent since its initial public offering, according to a July 27 report in The Wall Street Journal.

"… [T]he reevaluation of technology company valuations may be a net positive for the San Francisco office market," CBRE concludes in its first-quarter research report on the San Francisco office market.

"Unlike the dot-com boom, investors, landlords and even users are more cognizant of and sensitive to overly aggressive growth projections. As a result, a slowdown in leasing activity may indicate a more sustainable growth trajectory for the market's technology sector."

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  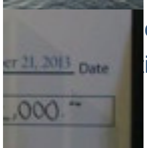

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