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How the biggest lease in San Francisco's history came together

BLANCA TORRES
San Francisco Business Times

A deal like Salesforce's decision to pump close to \$1 billion investment in the 1.4 million-square-foot Salesforce Tower, would normally take at least a year to put together.

But when talks between Salesforce and developers Boston Properties and Hines got underway last December, both parties kicked in high gear – the chairmen of both sides were involved on a day to day basis – to get the 714,000-square-foot lease done in about five months. Read more here.

“The sense of urgency is if you're Salesforce, this is a once in a millennium opportunity to put your name on a building,” said Tony Natsis, an attorney with Allen Matkins who represented the landlords in the negotiation along with Elizabeth Wilgenburg. “For a non-sports venue, the is the best building to put your name on.”

The negotiation turned out to be a “perfect storm” for a major lease, Natsis said, in that both parties had equal interest and urgency in making the deal happen. The landlords were under pressure to prove that building the tower would be financially viable – not just add a huge, expensive block of vacancy to the San Francisco office market – and chose the right anchor tenant. The 61-story tower, set for completion in 2017, will cost \$1.1 billion to build.

Meanwhile Salesforce, one of San Francisco's largest and fastest-growing companies, wanted to be in a premier building with signage and a great location. The main factors in the negotiation boiled down to the naming rights, the size of the deal and pricing.



A major selling point for Salesforce was the chance to have its name on the tallest building west of Chicago.

“If (the landlords) were going to name the building after somebody, it would have to be a company they believed in and had stature and to have the right pricing because that then drives the rest of the pricing in the building,” Natsis said. “People collaborated a lot instead of pretending they had the upper hand.”

The cloud computing company will pay about \$865 million for rent and operating expenses over the course of its 15.5 year lease along with \$130 million in tenant improvements to build out their space, according to documents filed with the Securities and Exchange Commission. Salesforce didn't disclose specific leasing rates, but the average based on the leasing and operating costs will be around \$78 per square foot for the lease term.

The company will take floors 3 to 30

and the 61st penthouse floor. Industry sources told me that the lowest floors in the building start above \$40 per square foot and go on up through floor 30 whereas the 61st floor fetched about \$90 per square foot base price which turns into about \$110 per square foot with operating costs.

Rents for Class A office space hover near \$60 per square foot, but would likely be much higher in the various new towers under construction in San Francisco and the Salesforce Tower is the most high profile of them all.

“(The Salesforce lease) is definitely a positive for the market,” said Mike Sanford of Kilroy Realty Corp., another office developer that pre-leased a building to Salesforce in late 2012. “It continues to show that strong growing tenants want to locate in San Francisco.”

While San Francisco's office market is as hot as ever, a few submarkets and buildings stand out as hot spots. Read more about the office construction pipeline here.

“(The Salesforce Tower) is going to be unrivaled on so many levels as far as being a trophy tower in San Francisco,” said Julia Georgules, research manager for JLL. “There aren't that many buildings that can achieve rents like that ... This is going to be a new landmark for the city, so there's a premium for that.”

The Salesforce Tower site is already close to San Francisco's major transit hubs and that will only improve once the Transbay Terminal is complete.

“What's driving all of this is the transportation,” Natsis said. “The proximity of this big building to the Transbay Terminal got Salesforce to go there. You certainly don't have enough parking spaces in the building.”