



Mid-Market flooded with new investment

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By Dan Fost



"We will see a meaningful difference here within the next one to two years," says Meg Spriggs of AvalonBay, which is building apartments at 55 Ninth St.

Twitter moved into its grand new headquarters in Market Square this month, and other tech companies like Yammer and One King's Lane are right behind it. Their arrivals herald a turnaround for some of the most deteriorated stretches of Market Street — but others still languish.

The catalyst for much of the new investment in the area was Twitter's decision to move to Market Square and the city's creation of a payroll tax exemption to lure other tech tenants as well. Since April 2011, when Shorenstein Properties finalized the 215,000-square-foot lease with Twitter, investors have spent more than \$500 million in the neighborhood.

The upswing, driven by the impending arrival of tech companies and their workers, also includes the addition of retail projects, an arts scene and nightlife and market-rate residential apartments. The transformation under way is likely to come about in phases along distinct stretches of Market Street.

One area of activity is in a concentrated section of Market Street, north of Seventh Street and running to Tenth. The area around Fifth Street where Cypress Equities and the Carlyle Group plan to build a 260,000-square-foot retail project called CityPlace will also pick up quickly once that project is built. A zone between Sixth and Seventh streets still bears more of a resemblance to the surrounding Tenderloin, and improvement to that area is likely to come more slowly.

North area sees big changes

Meg Spriggs, vice president of development for AvalonBay Communities, which is building a \$125 million, 273-unit project at 55 Ninth St., said "the development of the Mid-Market area will be in phases.

"The first phase will be from 10th down to 11th Streets. We will see a meaningful difference here within the next one to two years. The blocks from Seventh to Fifth will be the second phase ... the five-year-plus plan. Eventually, the Tenderloin will transition as well, likely towards the end of the second phase of Mid-Market development."

Mark Woolway, executive vice president of corporate affairs at Yammer, agreed.

"Gentrification will be a gradual process," said Woolway. But he can see the start of it, right in the building in which Yammer plans to move 400 people by year's end.

"I really think that building is going to be the epicenter of startup activity in the country," Woolway said.

The role of the arts

Twitter and other tech tenants aren't the only catalysts for Mid-Market investment. The influx of arts organizations will also help.

American Conservatory Theater bought the shuttered and dilapidated Strand Theatre at 1127 Market St. between Seventh and Eighth this year, and envisions a campus with schools, offices and performances. That investment builds on its 2011 opening of the Costume Shop, a 49-seat performance space, at 1117 Market St. at Seventh Street.

"We are hoping that if people have more options in terms of proximity to entertainment and shopping and restaurants, then that will help the people who need help. ... As organizations like ACT come in, we hope it will have a positive impact on the Tenderloin," said Ellen Richard, executive director of American Conservatory Theatre.

The Strand will give ACT a 300-seat theater to complement the 1,000-seat Geary, and Richard also hopes to move ACT's offices — now at Geary and Market Streets — into the Strand. Architects are still working on the plans, but it will likely cost upwards of \$15 million, and won't be ready until the fall of 2014, Richard said.

And ACT may still look into buying 950 Market St., which it considered before closing the deal on the Strand in February.

Other arts organizations that recently moved into Mid-Market include

nonprofit SF Camerawork, a fine art photography gallery that opened a 36,000-square-foot space at 1011 Market St. earlier in the year.

24-hour activity

The arts help bring evening activities to the neighborhood — and having more amenities such as restaurants are a key part of that.

One of the restaurants proving that Market Street is ripe for business is Pearl's Deluxe Burgers, which opened last fall at the blighted corner of Sixth and Market streets. The gleaming eatery packs in diners at all hours and is meeting the owners' sales projections.

The problems that husband-and-wife owners Young and Sylvia Yi were warned about have mostly not materialized. "We're happy with our decision to open a Pearl's there," said Sylvia Yi.

The city kicked in money, both from its Central Market Cultural District Loan Fund and the San Francisco Redevelopment Agency, and Urban Solutions, a nonprofit that helps small businesses, also helped.

"Yes it's gritty, and yes, there are definite problems there, but at the same time, I got sold on the idea that this is one of the last areas of San Francisco that can be developed and turned around," Yi said. "... I saw this as an opportunity to give back to my roots and do something positive in that area."

Though stretches of Market Street still feel desolate at times and the range and quality of amenities has a long way to go, the burgeoning nightlife scene will strengthen once new residents move into the area. Crescent Height has 754 rentals and Trinity Properties has 418 rentals under construction, and AvalonBay expects to break ground on 273 units next month. That's 1,400 units within a two-block area by 2014.

"We're going to wake up a couple of years from now and (Mid-Market) will

have a completely new look and feel,” said Chris Roeder, managing director of Jones Lang LaSalle, which represents the owners of One Ninth St., now under development. “Retail will take off. Housing is booming. It’s going to be a new 24-hour live-work area of the city. It’ll be really appealing to the younger worker, the younger generation.”

Office options

While residential and retail projects are important for the area’s vitality, it’s also important that enough office space comes online to meet the demand from tech companies.

DivcoWest and TMG Partners bought One Ninth St., — formerly known by its address of 1275 Market St. — for \$44 million last year from State Comp Insurance, which moved about 850 workers to suburban offices. Jones Lang LaSalle is fixing up the building with plans to show it to large technology tenants this summer. “It’s going to be an unbelievable project with large, 30,000-square-foot floor plates, parking, 12 roof decks, and nice ceiling height, perfect for creative users,” said Roeder. At 350,000 square feet, Roeder said it’s “one of the biggest blocks in the city.” It should be ready for occupancy by September and full within a year.

In addition to activity at One Ninth St. and Market Square, the office space above the Warfield Theater has a new tenant, after the building was recently bought by Taiwanese investors. Venture Capital firm Benchmark Capital is leasing 10,000 square feet to be closer to its portfolio companies, including Twitter and Yelp, and many see this move as a sign of things to come.

All that good news has made Shorenstein even more confident about the area.

Shorenstein has upped its investment beyond the Market Square building and is now fixing up 330,000 square feet in the building behind Twitter’s headquarters, at 875 Stevenson, and has plans to turn the alley between the two into a vibrant outdoor gathering place.

“It was a tremendous opportunity to put all of Shorenstein’s influences — leasing, development, property management — to work on a large project in our backyard,” said Tom McDonnell, vice president of leasing for Shorenstein Realty Services. “The area is transitional. It wasn’t that long ago that Hayes Valley was more rough than tumble. Then the freeway came down at Octavia Street and beautification started. This is an extension of that neighborhood moving right along Market Street.”