



## BREAKING news

# Jones Lang: San Francisco Is a Global ‘Super City’

POSTED ON JANUARY 31, 2013 BY PUBLISHER IN BREAKING NEWS, COMMERCIAL



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[Boston Properties](#) Inc. is so bullish on the future of San Francisco that it is investing more than twice as much capital in the city's office market as it is in the rest of the country combined.

"It is a thick market with a tremendous labor pool coupled with barriers to entry," said Raymond A. Ritchey, national director of acquisitions and development for the real estate investment trust. "We are betting long.

"Virtually all of our major new investments are coming to San Francisco," he said.

The Boston-based company has owned the iconic Embarcadero Center since 1998, is redeveloping 680 Folsom St., which is leased to [Macys.com](#) and Riverbed Technology, and is building the 1.4 million square foot Transbay Tower with the [Hines](#) company. "We are designing it to appeal not only to technology tenants but also to be equally attractive to law firms at the top. A building that size, you have to expand your base to a large pool of prospective tenants," he said.

Boston Properties owns more than 40 million square feet of offices and a smattering of shop space in five U.S. locations: Boston, New York, Washington, D.C., Princeton, N.J., and San Francisco. Citing a new book from University of California, Berkeley, economist Enrico Moretti, "The New Geography of Jobs," Ritchey said, "Commodity suburban office space is becoming obsolete."

Ritchey was one of seven industry professionals who spoke Jan. 30 in San Francisco at the 2013 [Jones Lang LaSalle](#) commercial property forecast. The strongly upbeat outlook ranked San Francisco among the top seven cities worldwide benefitting from the three forces of "urbanization," "globalization" and "modernization," according to Jones Lang research.

These seven cities—San Francisco, Toronto, Berlin, Stockholm, Sydney, Seoul and Singapore—are "super cities," said Rosemary Feenan, JLL international director of global research.

"We look at the essence of competitiveness [among cities] all of the time. [These cities] aren't reacting to globalization, urbanization and modernization. They are embracing change and creating a different personality for themselves. There is growth and good growth," Feenan said.

San Francisco is the only city in the world where Jones Lang projects rent increases of more than 10 percent, she said. It has more than three times the tech startups as London and four times the number in New York City. The preponderance helps the region overcome with "soft power" one of the city's rare business shortcomings—little political influence on the world stage.

Lauralee Martin, chief executive for the Americas for Jones Lang, described the competition among cities for the most sought-after workers, the "creatives."

"Don't let anyone else get the creatives," she said. To retain the talent, San Francisco should continue to revitalize its downtown, push public transit and create walkability. "San Francisco shortchanges itself when it says it is a tech city. It's not just technology. It's innovation, life science and big data. Tech is too small in that framework as it's thought of internationally," Martin said.

But Kevin Brannan, managing director of JLL's tenant-advisory group speaking as part of a point-counterpoint session with a landlord broker, argued that the market was overly reliant on [Salesforce.com](#) Inc. and less financially creditworthy technology tenants for strength in large-scale leasing. "We looked at the 24 largest leases signed in the last two years in excess of 100,000 square feet. Thirteen of the 24 were tech leases. Five of them don't have credit. Five are Salesforce, and three have credit that aren't Salesforce," he said.

Of the remaining 11 leases completed with nontechnology companies, the only expansion was by the city of San Francisco. "So, it is thin," he said.

At the same time, multiple tech companies including [Airbnb](#) Inc. and [Zynga](#) Inc. have oversubscribed to real estate, Brennan said.

Based on a net increase in occupancy of 3.4 million square feet in the last two years and an allocation of 175 square feet for each employee, San Francisco companies must create not quite 20,000 jobs—excluding the 7,500 jobs that [Salesforce.com](#)'s leasing indicates it expects to create, he said: "I think we are going to see big block subleases."

But the other speakers did not share the grim assessment. Duncan Logan, chief executive of [Rocket Space](#) Inc., a shared workspace company with two locations in San Francisco, said he was inundated with calls from companies worldwide looking to get a window into the San Francisco market. More than ever, the calls come from established enterprises. "We get 25 applications a week from companies all over the world wanting to put small teams here. They feel it is essential they have presence here. These are large multinational companies, and they want an innovation team in San Francisco of 10 to 15 people. They say, 'Things are moving so fast that we have to have someone there.'"

For some, it is fear of being overcome by a competitor in an unexpected and deadly ambush. For others, it's the confidence to capture and exploit emerging change. "It's companies saying, 'If anyone is going to disrupt anything, it is going to be me.' More and more of our people [customers] are backed by corporations."

Logan also questioned the habit of teasing out the technology sector as a separate slice of the economy, somehow disconnected from the rest. "Tech is eating its way up every vertical," he said. Asked if he considered [Macys.com](#) a retail tenant or a technology tenant, Boston's Ritchey said, "I don't care what you call them, as long as they are paying rent."