

Slack, Stripe and other billion-dollar 'unicorns' on the prowl for office space

Mar 25, 2015, 10:29am PDT UPDATED: Mar 25, 2015, 11:01am PDT
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When new billion-dollar companies known as “unicorns” lap up equity funding, they’re usually on the hunt for big chunks of office space.

So it’s no surprise that San Francisco’s email-slaying startup Slack – which [reportedly](#) got a fresh \$2 billion valuation Monday – is in the market for a sizeable 50,000 to 75,000 square feet of space, market watchers say. [Katie Wattie](#), a spokesperson for Slack, declined to comment to the Business Times but said “we’ll be able to share more information on this in April.” The company now occupies 11,000 square feet at 680 Folsom St.



Slack, created by Stewart Butterfield, is in the market for 50,000 to 75,000 square feet of office space, according to market sources. The \$2 billion "unicorn" company is one of many in San Francisco looking to expand.

David Paul Morris/Bloomberg

More San Francisco unicorns are on the prowl for big blocks of office space, but billions of dollars in equity doesn’t necessarily make life easy in the tight San Francisco market. [Private companies valued at at least \\$1 billion](#) like Pinterest, Instacart, Stripe and Cloudera are all in the market for more space. Uber and DocuSign have already [signed](#) major leases this year.

Dan [Harvey](#), executive vice president at the brokerage Cushman & Wakefield, said a rush of private technology companies have entered the market for space in the last couple of months.

“These companies are coming out of the shadows. They’ve been in 10,000, 20,000 or 30,000 square-foot spaces. Because of the funding and the pressure, there is tremendous pressure for these companies to scale very, very quickly,” said [Harvey](#), who leases space for the public company Salesforce, the tech company in San Francisco with the largest real estate footprint.

[Harvey](#) is also brokering about 215,000 square feet of space that Salesforce will sublease out to new tenants as it expands in 350 Mission. “I’ve never seen anything like it. I lived through the dot-com and I’ve never seen the demand as thick,” he added.

About 1.1 million square feet worth of big-block space is ready for occupancy this year, according to Cushman & Wakefield. But there’s nearly 5 million square feet of office demand and almost all available space is in the North Financial District submarket that trendy startups usually avoid. [Amber Schiada](#), research director for the brokerage JLL, said a heavy flood of lease rollovers won’t hit the market until 2017.

“These companies work on short timelines, so you need space next month or in two months from now. That pipeline is limited,” Schiada said. “Some companies have leasing strategies to secure the space as fast as possible because growth is imperative and securing the right talent to grow the company is imperative, so you need to stay in San Francisco.”

Potential hangups

These expansion decisions have big implications for growing companies. The latest cautionary tale? Reddit’s CEO [stepped down](#) last fall after facing board and employee resistance to his plan to move the company to suburban Daly City. The company ended up signing a 19,000-square-foot lease in the Financial District’s 101 Montgomery this quarter, according to CoStar.

Companies have to also be careful to strike a careful balance with how much they lease. If they don’t lease enough, they could leave their employees sprawled in different parts of the city. If they lease too much, they could be stuck with extra costs if there’s an economic slowdown. “Real estate isn’t liquid on the back side, and when the pendulum switches, real estate gets frozen,” [Harvey](#) said.

Payments company Stripe (worth \$3.5 billion) has been rumored to be in negotiations to take 295,000 square feet in SoMa’s 510 Townsend St., though no deal has been confirmed. [Alexandria Real Estate Equities](#) said on an earnings call last month that it was about to lease that space to a “brand-name technology tenant.” But the deal could be hung up because the building hasn’t gotten approved under the office space cap known as Prop. M yet, brokers have speculated.

And if companies want to go public – just as companies like Uber probably do – then “in a place like San Francisco, securing that space ahead of IPO is important because the market is tight and if you don’t have space to grow that could be a red flag for shareholders,” Schiada added.

Office rents are expected to see double-digit growth again this year in part because of expanding venture capital, according to the brokerage DTZ. The Class A vacancy rate in San Francisco has dipped from 12.7 percent to 8.7 percent in the last four years, according to CoStar. Meanwhile, rents have jumped by about \$10 a square foot – from \$39 to \$49 – during that time period.

Those rents still matter to companies, even if they're swimming in capital. For instance [Eventbrite](#) (worth \$1 billion) co-founder [Julia Hartz](#) told [Business Insider](#) that the high cost of the 100,000 square foot lease she signed 15 months ago at 155 Fifth St. “[made me want to throw up.](#)”

[Jonathan Allen](#), a broker at Avison Young who has represented major tech companies like [Lending Club](#) and Trulia, told the Business Times that those kinds of companies “are looking to achieve strategies to reduce the real estate burden on the balance sheet.”

Mapping out solutions

Allen added that the key for growing companies is to find the buildings where others might be moving out soon. “It’s about finding buildings where there will be a graduated rollover of lease expirations where tenants can go in and fill the space as other companies move out,” he said. So far, no San Francisco unicorns have fled to Oakland or Silicon Valley because of low vacancies or high rents. Slack, for instance, is going to double its headcount this year to about 120 employees, as founder [Stewart Butterfield](#) told Bloomberg. It will likely stay in San Francisco.

Large blocks of office space will come online in other parts of the city like Mission Bay, Central SoMa, Hunter's Point Shipyard and Pier 70 as companies look for new headquarters. There will also be big chunks of new space in Transbay highrises like the Salesforce Tower, 50 Fremont and Park Tower.

Grocery delivery startup Instacart (worth \$2 billion) is looking for at least 100,000 square feet and Pinterest (worth \$11 billion) is looking for another 250,000 square feet even after expanding in SoMa last year, according to brokerage research provided to the Business Times on the condition of anonymity.

DocuSign, the company that affixes job applications with electronic signatures, added 43,000 square feet at 221 Main St. to give them a total of about 83,000 square feet there, according to CoStar. Uber, the city’s richest venture-backed company, recently became the second-largest office tenant in the city when it leased 175,000 square feet at 555 Market St. last week. Other San Francisco-based unicorns like [Airbnb](#), Dropbox and Lyft have also leased large swaths of space in recent years.

“We are in the absolute epicenter of where these worldwide companies are being grown,” said broker [Mike Taquino](#) of Newmark Cornish & Carey at a recent event put on by the the public policy think tank SPUR.