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Google invades San Francisco

San Francisco Business Times - by [J.K. Dineen](#)

Search engine giant **Google** has agreed to lease 210,000 square feet at San Francisco's Hills Plaza, a deal that could potentially draw more than 800 of the high-flying company's workers to the South of Market waterfront.

Under the terms of the blockbuster agreement, Google would sublease three lower floors at 345 Spear St. from **Gap Inc.** for about \$35 a square foot.

In establishing a beachhead in San Francisco, Google would instantly become the cornerstone of an downtown economic recovery that has been largely driven by technology companies. In the past 12 months, Google rivals **Microsoft** and Yahoo have expanded in the city, and 125 other firms, a mix of so-called web 2.0 startups and battle-scarred dot-com survivors, have filled more than 1.5 million square feet. The massive Google deal will only increase the velocity of the tech explosion and, just five years after the dot-com crash, is a testament to the strength of the market.

A three-year deal

The sublease on the second, third, and fourth floors at 345 Spear, worth about \$21 million over three years, would expire in 2010. The relatively short commitment is meant to give Google an immediate foothold in the city while allowing it the flexibility to explore long-term opportunities, including becoming an anchor tenant in one of several new office buildings slated to sprout up in the south financial district and Mission Bay over the next few years.

A real estate source familiar with Google's needs said the company's long-term San Francisco requirement may be closer to 300,000 square feet, the amount of office space it recently took on at 811 Eighth Ave. in Manhattan's meatpacking district.

While the deal was confirmed by six sources with knowledge of the negotiations, spokesmen for the Gap and Google declined to comment.

The sublease is being hammered out directly between the Gap and Google, which is being represented by Cornish & Carey Commercial. Jones Lang LaSalle Managing Director Wes Powell, who leases Hills Plaza for owner **Morgan Stanley**, declined to comment because the landlord is not involved in the deal. Powell said he recently brought the building up to 100 percent occupancy and called it "a world class asset." The space Google will be occupying, which features 70,000 square foot floorplates and bay views, was largely occupied by workers from Gap's Old Navy division, who recently moved to Mission Bay.

The 3.2-acre Hills complex comprises two buildings: the modern 16-story 345 Spear St. and the seven-story 2 Harrison St, the landmark brick Hills Brothers Coffee Plant. In addition to the Gap, tenants at the two-building complex include **Gensler**, **Babcock & Brown**, and **Sharper Image**, which has its headquarters there.

Representatives for two other buildings Google was considering -- 303 Second St. and 650 Townsend St. -- have been told that the company has agreed to terms elsewhere.

Ties that bind

Google already has deep ties to San Francisco. Hundreds of employees live in the city, including founders Larry Page and Sergey Brin, who socialize with Mayor Gavin Newsom. More than 500 of these employees are carted off to Mountain View each morning in free Google shuttles. On Jan. 8, Newsom announced a long-anticipated deal where Google would provide free wireless Internet access throughout the city at relatively low transmission speeds, while EarthLink charges \$21.95 month for a premium version of the service.

The Mountain View-based company employs 9,400 and is hiring 1,300, including 690 at its headquarters and 132 in New York City, according to the company's web site. Since the company went public in August 2004, 900 employees have become millionaires by cashing in stock options. Google receives 3,000 job applications a week.

"We spend so much time in San Francisco focusing on what is wrong, let's take a moment to feel good about some things we're doing right, that are making this city a great place to live and to work," said Gabriel Metcalf, executive director of the urban think tank San Francisco Planning and Urban Research Association. "Google isn't being lured by tax breaks. They are coming because it makes sense to them as a business decision on its own, which is very gratifying."

San Francisco Center for Economic Development Director Dennis Conaghan said the deal would "further strengthen the importance of San Francisco as a place for cutting edge technology" and lure other users looking to be near Google.

"There is the shopping center effect," he said. "When you have a major anchor like Google, other people follow, or at a minimum they take a serious look. Lucas has had that impact in the Presidio."

Colin Yasukochi, **Grubb and Ellis** director of research, said the sublease will also put Google in close proximity to dozens of web 2.0 startups that could both feed talent to Google and be candidates for acquisition. He described the deal as a "foothold" and said he expects a larger commitment down the road.

"If they really want to make a splash here in San Francisco, they will be willing to spend some money on real estate," he said.

Heading downtown

The move into the city may also signal an increasing desire to move closer to the transit-rich urban centers. After looking at a deal to put 1,000 workers in Bellevue, Wash., Google has reportedly dropped that idea and has shifted focus to downtown Seattle.

"I think you're seeing a shift where these companies want to be closer to the fun -- the restaurants, the bars, and the ballparks," said Jeffrey Lyons, chairman and CEO of **Kidder Mathews**, the largest brokerage in Washington state, which recently opened an office in San Francisco.

In Seattle, Google is in the backyard of Microsoft, its biggest rival for talent. In San Francisco, Google may also been motivated by the fact that Microsoft recently became the anchor office tenant in the \$460 million Westfield Shopping Centre.

"Google is growing so fast that the question becomes where are you going to get the best employees," said Lyons. "It's very costly and very difficult to transport employees. So if you have a concentration of well-trained employees, you take the company to the workforce."

At a **Citigroup**-sponsored global technology conference last year, Alan Eustace, Google's vice president of engineering, suggested the company is focused on creating a more geographically diverse workforce.

"Can you build global products with a workforce that is only in Mountain View, California?" Eustace asked. "The answer is, no you can't. The technical talent that we need to solve the next generation of problems in search does not all live in Mountain View, California."

Metcalf said Google's intent to have a city campus is the latest example that the Bay Area economy is increasingly regional.

"It shows the continued merging of the South Bay and San Francisco economies," he said. "I think the pattern we're seeing is that big companies are not deciding where to locate as a whole, but where to locate individual pieces so they are able to attract top talent in cities all over the planet."

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