

Hines reaches for sky with Transbay offer

By J.K. Dineen

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With its \$350 million roll of the dice on the Transbay tower, Hines is set to redefine not only the San Francisco skyline but shatter conventional wisdom on what land is worth in downtown San Francisco.

Hines shocked its competitors, many veteran real estate players -- and no doubt delighted the cash-hungry Transbay Joint Powers Authority -- by offering to pay \$350 million for the Transbay land to develop an all-office, 80-story building

The generous cash payment was the key reason why the special Transbay jury selected Hines and architect Pelli Clarke Pelli, according to the jury report released Sept. 10.

Richard Rogers Partnership and Forest City Enterprises offered \$145 million, while the third team -- Skidmore, Owings & Merrill and Rockefeller Group -- was prepared to shell out \$118 million for the land.

While Hines still needs the OK from the Transbay Joint Powers Authority board, the sheer numbers will make the offer politically hard to reject, according to observers. The \$3.4 billion rail and bus terminal is about 40 percent funded and an infusion of \$350 million would bring to \$1.8 billion the amount that has been set aside.

But the bid raised questions whether Hines overpaid for Transbay. One experienced housing and office developer called the total price "strange.

"I'm puzzled, and I don't know anyone in my business who is reacting differently," he said. "I've never seen a gap in values that large."

Hines' offer amounts to about \$230 per square foot of leasable office space. That is \$80 to \$100 more than has been paid downtown recently for raw office land, according to multiple developers. The fully entitled highrise site at 350 Bush St. is in contract to sell for close to \$175 per buildable square foot, itself a record.

"It is such an incredibly high price that if the city can really get a guarantee today on that price, they should take it," said real estate consultant Lynn Sedway of the Sedway Group, a subsidiary of CB Richard Ellis. "They need the money -- it's very important this project be funded."

But Sedway, who did consulting work for Forest City, said "questions remain.

"I don't see the financial feasibility," she said. "Maybe I'm missing something."

A simple, understated obelisk-shaped tower, the Hines design lacked the pizzazz of the other two proposals, which both included hotels, condos and extensive cultural uses. On the other hand, Hines proposal includes a 5.4-acre "CityPark" on top of the terminal itself. The park would cost \$52 million to build, according to Hines' proposal, a cost that is included in the \$350 million figure.

"The office tower with a retail base presents the soundest opportunity for the TJPA," Hines stated, according to the jury report, which added: "Hines indicated that it had run very sophisticated pro forma models and was comfortable in offering its purchase price without qualification."

Cushman & Wakefield Managing Director Dick Robinson said the lofty offer doesn't give the developer much flexibility as the highly political negotiations begin: "The question is, where is the wiggle room in that deal."

Development sources say Hines' willingness to go 100 percent office was largely responsible for their aggressive offer. Land for offices is worth more than land for housing or hotels, and by building offices, the developer will not have to build the mandated 17 percent affordable units housing developers must include.

Forest City team declined to comment but released a statement saying the "Transbay project is an outstanding opportunity and it is our hope that the TJPA carefully considers the economic viability of their final selection."

Keith Brown, a principal at CMA, a real estate consultant group that worked on the Rockefeller/SOM proposal, suggested that the 100 percent office development didn't jibe with the TJPA's long-standing statement that the project should be a hub of diverse, 24-hour activity.

"We did feel that the competition was encouraging mixed-use occupancy that would generate around-the-clock vitality and activity in the neighborhood. We programmed a building that achieved that at the highest level," said Brown.

Gabe Metcalf, executive director of SPUR, an urban policy think tank, said he is not bothered by the lack of housing.

"Transit-oriented development applies to office as much as it does to housing," he said. "The world needs the Bay Area to concentrate jobs in areas where people don't need to drive."

Real estate observers said the developer would probably need rents to average more than \$100 per square foot on lower floors, and as high as \$130 on upper ones, for the project to be financially feasible.

"Until San Francisco becomes world headquarters, like London or New York or Shanghai, which it is not, there just aren't that many companies with the ability to pay the rents to justify these costs," said Studley broker Kevin Brennan, who represents tenants. "I cannot fathom a scenario by which a building of that size gets absorbed at those rates."

Dan Fusalo, managing director of Real Capital Analytics, called the deal, "truly the most aggressive pricing we have seen for an office site on the West Coast," but suggested it's justified.

"At the end of the day, the uniqueness of the site and its potential as a hub of business and transportation is unmatched on the West Coast," he said. "It's Main and Main."