



**Developers
are betting
big on
Oakland
office
towers**

SPENCER BROWN

HIGH HOPES: Tom Hart (right) and John Dolby of Shorenstein are building an office tower with no tenants lined up. **6**

601 CITY CENTER

FROM THE EDITOR

Despite downturn, Oakland has bright future

Oakland is looking to the horizon. After years of massive investment in the form of new office towers and condo projects, as well as strong job growth, the business community is taking the long view as some companies reverse growth plans and development projects stall.

But the city that saw a big boom of development during the last economic cycle is still poised for long-term growth. A number of smart investors are willing to bet on Oakland. Over the last year or so, the CIM Group has poured \$500 million into the city, snapping up two hotels and a portfolio of office buildings. Shorenstein Properties feels confident enough that the economic climate will improve to break ground on its speculative office tower, hoping to line up tenants for its 23 floors before it opens in a few years (see story, Page 6).

Meanwhile, Ellis Properties and its partners are finishing up the office and high-end food market at Jack London Square — Oakland's answer to the Ferry Building — expected to be 1.2 million square feet when every phase is built out. They, like Shorenstein, are struggling to find tenants (see story, Page 21).

Housing developers are also looking to fill their projects. Condo developers are converting some projects to rentals, unable to find buyers in the credit crunch (see story, Page 14). Forest City's major apartment complex, Uptown — originally conceived of as condos — recently opened, creating more competition for those converting condos to apartments.

Developers in established neighborhoods are having a tough enough time filling units, but those in transitional neighborhoods, such as West Oakland, where warehouses sit next to old Victorians and new condos, are feeling the downturn perhaps more sharply (see story, Page 10). One sign of the times is that the Oakland Structures' residential pipeline is much smaller than in last year's publication (see Pages 12-13).

On the economic development front, Oakland is also looking at its long-term prospects. The Oakland Chamber is partnering with local officials to expand the city's job base to include more biotech, digital media, food companies and a greater retail

presence — a strategy that will take several years to develop. One of the highest-growth sectors is arts and food. Oakland has seen 50 new restaurants and cafés open in the past eight years, as well as 15 new nightspots (see story, Page 4).

A new informal partner in the city's economic development plan is the East Bay Community Foundation, which is narrowing its focus to job growth and education. It's beginning to partner with the business community on how to create high-paying, quality positions (see story, Page 16).

Oakland certainly has its hands full solving its immediate problems. While facing questions about his leadership, Mayor Ron Dellums is wrestling with a huge budget crisis, waves of crime, a sinking housing market and political intrigue.

But long-term, city officials and the business community are laying the foundation for strong growth. As soon as the recession recedes and the credit crunch eases, Oakland will likely be ready to benefit from the next big investment cycle — whenever that may be.

Acknowledgments

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On Dec. 5, the Business Times will host a Building Oakland breakfast at the Oakland Marriott City Center with speakers who include Mayor Ron Dellums. For more information, contact Clarence Steele at (415) 288-4922, or clarencesteel@bizjournals.com.

— Emily Fancher ■

Developers place long-term bet on office towers

CIM Group joins Shorenstein, SKS with big investment

BY BLANCA TORRES
San Francisco Business Times

For eight years, CIM Group waited patiently on the sidelines while Oakland underwent a massive building and capital investment boom.

Shorenstein Properties added office towers to its City Center complex. Developers moved ahead with plans for 1.2 million square feet of office and retail at Jack London Square. San Francisco-based SKS Investments announced plans to cross the Bay for the first time and build an 11-story office tower on Broadway. On top of all that, residential builders added thousands of units to the city's core.

All the while, CIM took notes. The Los Angeles-based developer, founded in 1994, specializes in redeveloping urban sites, and Oakland seemed like an ideal fit, but the firm was cautious about making a move while other developers seemed more than eager.

The firm has now invested close to half a billion dollars to buy 1.7 million square feet of office space downtown and around Lake Merritt and two downtown hotels, with plans to snap up other sites in the future.

"We didn't come here only to buy office buildings," said John Given, principal with CIM. "What we really like is the opportunity to be active in Oakland at this moment in time when Oakland is ready to go to another level."



"We see cities as having multiple economies ... that protect the investment," says Given (right) with Stafford, of CIM Group.

SPENCER BROWN

601 CITY CENTER

Growing trend

CIM's investment follows that of other well-heeled investors convinced Oakland's office market is no longer simply a cheap alternative to San Francisco. Despite its reputation for high crime rates and political gridlock, companies and tenants are drawn to Oakland's educated workforce, new housing, central location within the Bay Area, temperate climate and access to public and regional transportation.

"The Oakland proposition is a sound one," said Paul Stein, a partner with SKS. "Our interest in Oakland is really based on growth and planning trends."

SKS continues to shop for an anchor tenant before it builds 1100 Broadway, which received entitlements in February.

Another San Francisco developer with long-term interest in Oakland is Swig Co., which is seeking permission to add 1.3 million square feet of new office space to the Kaiser Center, replacing two buildings with a pair of towers.

Shorenstein Properties, a San Francisco-based developer, is moving swiftly. Shorenstein started construction in October on a 23-story office tower at 601 City Center with no tenants in hand.

"You're better off to start a building in a bad market and open it in a good market than trying to start a building at the top of the market," said John Dolby, who handles leasing for Shorenstein. "You have to create a quality product that in a bad market does well, and in a good market does extremely well."

The site is across the street from

another Class A Shorenstein property, 555 City Center, that was built in 2002 — at the tail end of the dot-com bust — and attracted major companies, including Ask.com and Matson.

Tom Hart, executive vice president of Shorenstein, said about half of the tenants came from outside of Oakland and were looking for high-quality space at a reasonable price. He expects the same to happen with 601 City Center when it hits the market in 2010.

"We've seen (fewer) swings both up and down in Oakland, it's more of a steady market," Hart said. "Our economy really is a Bay Area economy, not a San Francisco economy or an Oakland economy. Being the hole in the doughnut, Oakland is positioned well geographically."

CIM group agrees. Its first move was the purchase of the 484-room City Center Marriott and 162-room Courtyard by Marriott hotels for \$66 million in June of 2007. A year later, the firm bought five office buildings from Brandywine Realty Trust's Oakland portfolio for \$412.5 million. The deal included the Ordway Building at One Kaiser Plaza, 1901 Harrison St., 1333 Broadway, 2101 Webster St. and 2100 Franklin St., the last of which encompasses 215,000 square feet of vacant LEED gold-certified space.

"If you're going to have vacancy in a portfolio, brand-new construction, LEED gold-certified, is where you want it," said Scott Stafford, who heads CIM's San Francisco office. "For a tenant that values LEED certification, we're the one office product in Oakland that offers it."

Vacancy rates vary

Class A office space in Oakland had a vacancy rate of about 12.6 percent during the third quarter, according to a report from Cornish & Carey Commercial. The overall vacancy rate for office space in the Interstate 80/880 corridor was 16.4 percent for the same period, down slightly from 17.9 percent in the second quarter and about the same compared with the same period last year.

Even though real estate activity is down, Class A space is often tight in Oakland and the new buildings will help meet that demand once the market improves, said Larry Westland, senior vice president with TRI Commercial in Oakland.

"Oakland continues to mature as a city, and that makes it more attractive to tenants from the outside," he said. "(Office developers) are marketing to a much broader market than Oakland itself. One big tenant can equal 10 small ones."

Uncertainty about the economy persists, but leaders from CIM remain focused on the future.

"We're long-term investors," Stafford said. "We look at things on a 10-year horizon. There are always going to be cycles, and our business model doesn't at all revolve on being able to come in and out of properties quickly."

The firm has done most of its work in areas undergoing transitions such as Los Angeles or Washington, D.C., and views Oakland in the same vein.

"We see cities as having multiple econ-

omies and multiple interest groups that protect the investment," said Given.

Given said CIM looked at numerous opportunities to invest over the years, including the Fox Theater and the site where Forest City built its Uptown mixed-use housing development, but nothing came together.

Geography counts

The timing of the firm's recent investment may prove opportune, despite the recent economic downturn.

"We understand that commerce and lifestyle in cities is going to continue to reinforce a certain amount of compression in geography," Given said.

In the years to come, he said, employers and employees will place a higher value on living close to work and public transportation, which will give Oakland an advantage because of its proximity to freeways, BART and Am-trak.

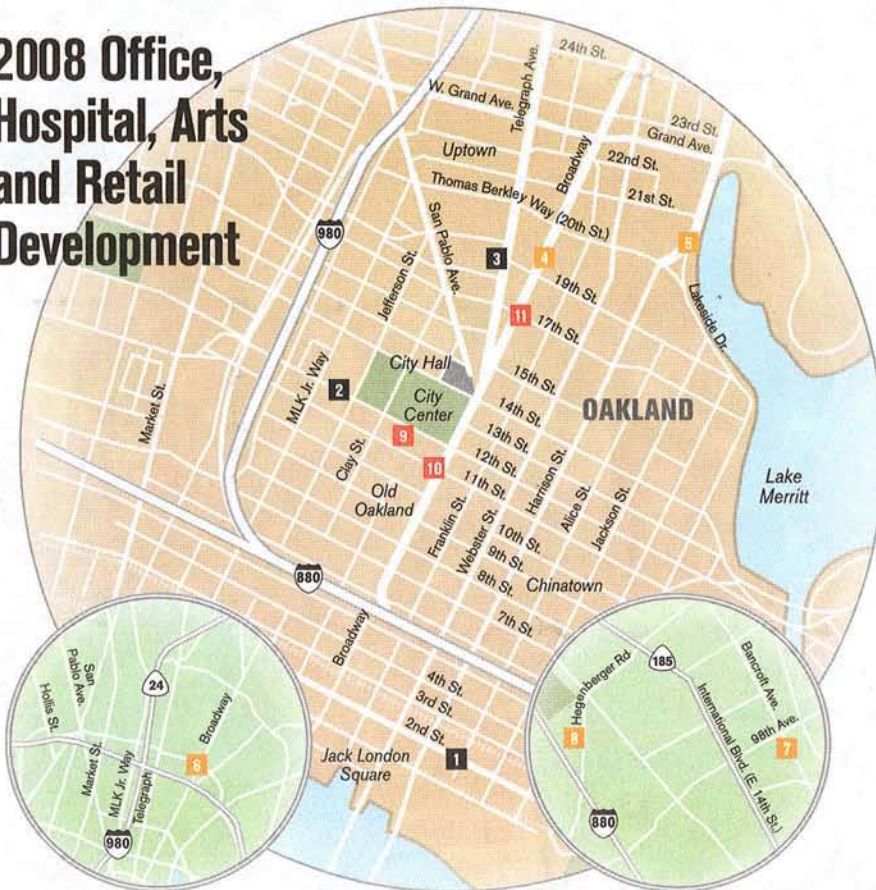
Another benefit is the number of capital projects that have poured into Oakland in recent years, especially in the Uptown and Lake Merritt neighborhoods.

"It's incredibly encouraging to look out the window and see a world-class building like the cathedral and see thousands of residential units that are either finished or soon to be finished and high-end San Francisco restaurants coming in a block away," Stafford said. "It's very encouraging to see that level of investment and to see it as far along as it is."

btorres@bizjournals.com / (415) 288-4960 ■

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2008 Office, Hospital, Arts and Retail Development



PROJECT NAME	MAP CODE	DEVELOPER, LOCATION; DESCRIPTION
UNDER CONSTRUCTION		
Jack London Square Redevelopment	1	Jack London Square Partners Eight development areas within Jack London Square bounded by Alice, Second and Harrison Streets and Embarcadero.; 1.2 million s.f. of mixed-use retail, commercial and office, 1,700 seat movie theater, 250-room hotel, supermarkets, restaurants and offices
City Center T12	2	Shorenstein Realty Investors; 601 12th St.; 600,000 s.f. office
Fox Theater	3	City of Oakland Redevelopment Agency 1807-1829 Telegraph Ave.; Rehabilitation of the historic theater, 20,000 s.f. addition
IN PLANNING		
1930 Broadway	4	Encinal Jackson LLC 1930 Broadway; 829,00 s.f. office space, 85,000 s.f. retail, 220 housing units, 384 parking spots in a 56-story new tower and rehabilitation of the Tapscott building
Kaiser Center	5	The Swig Co.; 300 Lakeside Drive; 780,000 s.f. office in 42-story tower, 565,000 s.f. office in 34-story tower, 22,000 s.f. retail
Kaiser Permanente	6	Kaiser Permanente; Broadway and MacArthur Boulevard; 349-bed hospital, two medical office buildings, parking structure
Foothill Square Redevelopment Project	7	Jay-Phares Corp. 10700 MacArthur Blvd.; Redevelopment of a 13.8-acre commercial shopping center
Coliseum Center	8	Dinesh Maniar 633 Hegenberger Road; Commercial shopping center of 167,000 s.f.
APPROVED		
City Center T5/T6	9	Shorenstein Realty Investors Bounded by 11th, 12th and Clay Streets and Broadway; 600,000 s.f. office, 7,500 s.f. commercial
1100 Broadway	10	SKS Investments; 1100 Broadway; 310,285 s.f. office, 9,810 s.f. retail
1640 Broadway	11	1640 Broadway Associates 1640 Broadway; 177,600 s.f. office, 4,710 s.f. retail