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Market Square



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QUICK FACTS

Location

San Francisco, California

Project type

Mixed use—two uses

Site size

3.06 acres

Land uses

Office, retail, fitness center, grocery, restaurants, parking

Keywords/special features

Renovation, historic preservation, adaptive use, LEED Gold certified, large floor plates, high-density layouts, seismic retrofit, resilient design, tech-oriented tenants, transit-oriented development, plaza, atrium, healthy place features

Website

Marketsquaresf.com

Project address

1355 Market Street and 1 Tenth Street
San Francisco, California 94104

Developer/owner

Shorenstein Properties LLC
235 Montgomery Street, 16th floor
San Francisco, California 94104
shorenstein.com

Architect (core and shell)

RMW architecture & interiors
San Francisco, California
rmw.com

Architect (retail/public space)

BCV Architects
San Francisco, California
bcvarch.com

Architect (historic)

Page & Turnbull
San Francisco, California
page-turnbull.com

The development of Market Square involved the renovation of a historic building and the recladding and redevelopment of a 1974 building. The lead tenant in the project is Twitter.

PROJECT SUMMARY

Market Square is an office and retail project consisting of two buildings—one with 11 stories and 749,831 square feet and the second with ten stories and 338,280 square feet, including ground-level retail. The development effort involved historic renovation and adaptive use of the larger historic building and a complete renovation and recladding of the smaller building. The entire complex is located on a one-block site in the Mid-Market area of downtown San Francisco, a recently emerged location for tech tenants and new multifamily development. A large percentage of the 982,267 square feet of office space has been leased to Twitter for its corporate headquarters. The project also contains 85,435 square feet of retail and restaurant space, including a 22,040-square-foot food market, three restaurants, a pharmacy, and a fitness center. It is Gold certified under the Leadership in Energy and Environmental Design (LEED) program.

What makes for a great office building in San Francisco today? That depends on the kind of tenant being targeted, but if the tenant profile involves tech or media tenants, then an office with unique, unusual, even edgy qualities is often the preferred office environment, and it may well

be located in a transitional neighborhood. Such was the case with the development of Market Square in the Mid-Market area of San Francisco, now the world headquarters for one of the most dynamic and well-known tech firms on the planet, Twitter.

Market Square features a number of unusual qualities, including a historic building, beautiful and spacious interior public spaces, an innovative food market with a bar in the middle, an outdoor plaza and social gathering area, and the creative repurposing of existing wood and other materials to reshape an old trade mart into a special place that Twitter and several other tenants now call home. In addition to the food market, the property includes three restaurants and a fitness center, and these elements together serve a larger neighborhood of residents and workers in other nearby buildings, making Market Square a hub of social activity that goes beyond the office space.

The project consists of two buildings joined by a landscaped plaza and features 1,002,676 rentable square feet of Class A office space and 85,435 square feet of retail space. The complex is now a major anchor and destination for this part of town and has served as a catalyst in the revitalization of this important neighborhood, which had suffered from blight and decay for many years.

The Site

Located on Market Street in an area known as Mid-Market in downtown San Francisco, the 3.06-acre Market Square site is within several blocks of the Civic Center, UN Plaza, City Hall, Davies Symphony Hall, War Memorial Opera House, the Asian Art Museum, the San Francisco Public Library, Hayes Valley's restaurants and shops, and numerous other attractions.

However, despite its proximity to these many important attractions and landmarks, the immediate neighborhood was for many years known to be unsavory and unsafe, with little new development activity and considerable disinvestment. More recently, with its edgy reputation—but also convenient location—the area has emerged as a desirable location for tech tenants seeking to move operations into the city, where many of their employees live, from Silicon Valley and elsewhere. Some 4,500 new or planned high-end residential units are also in the immediate neighborhood. The site offers easy access to transit, including a short walk to the Civic Center BART station on Market Street, as well as streetcars that run regularly along Market Street. A new bike lane serves well over 2,500 cyclists a day commuting to the project and points downtown.



The buildings before (top) and after renovation, highlighting the new roof deck and the new glass curtain wall for the 1 Tenth building.

The site is bounded by Market Street, Ninth Street, Jessie Street, and Tenth Street. When acquired, the property consisted of two existing buildings, separated by an alley/plaza that occupied the entire block. One of the buildings—1355 Market Street—was historic and faced onto Market Street, Ninth Street, and Tenth Street. The second building—1 Tenth—was located behind the 1355 building, with frontage on Tenth Street and an entrance off the alley between the buildings. One of the key features of the site was the large 80,000-square-foot floor plates of the 1355 Market Street building. This unusual and

hard-to-replicate feature was attractive to many tech tenants because it is well suited to their collaborative working styles. The buildings were largely unoccupied at the time of acquisition.

Development Background

The two buildings were originally built to house the Western Furniture Exchange and Merchandise Mart. Constructed in 1937, the original building is a San Francisco art deco icon and had been designated a historic landmark by the city; it was not designated a state or national historic landmark, but the city used the same

standards regarding restoration of the building. The second building was added in 1974 and included an unattractive facade with small windows, suitable for a furniture mart but not for modern office space.

The site had been owned and operated since 1968 as a mart by ADCO, a New York real estate firm, but the mart concept became increasingly obsolete as newer facilities were developed in Las Vegas in the late 1990s. ADCO began making plans to redevelop the buildings as early as 1999; it hired an architect, rebranded the project as Market Square, and began redevelopment activities for the property, including replacing many of the windows in the historic building and acquiring the alley from the city. These plans were put on hold during the 2007–2010 recession, but ADCO eventually revisited its plans and entered discussions with Twitter regarding a lease in the building.

Shorenstein Properties LLC was interested in the building, and Doug Shorenstein had a long-standing relationship with ADCO's owner, Alvin Dworman. Shorenstein saw the redevelopment potential of the building and was especially drawn to the historic character of the main building and the large floor plates it offered. Notes Paul Grafft, Shorenstein's senior vice president for asset management, "We had the capital to buy a project like this and start the renovation without a tenant in hand."

Shorenstein Properties is one of the country's oldest real estate organizations active nationally in the ownership and operation of high-quality office properties. More recently, Shorenstein has made selective investments in multi-family rental properties. The company is privately owned and is headquartered in San Francisco. Currently, Shorenstein owns and manages 26.2 million square feet of office properties.

Shorenstein and ADCO entered into discussions regarding the property, and in the end, ADCO chose to sell the property to Shorenstein, in an off-market transaction, rather than undertake a challenging redevelopment effort; according to ADCO's website, however, it did retain "a continuing economic interest in the venture." Shorenstein was well positioned to take on this project because of its extensive experience and on-the-ground development expertise in San Francisco. Notes Tom McDonell, "Our [ability] to execute on this project made a huge difference."

Shorenstein acquired the property for \$124,600,000 in March 2011 and then contin-

ued to discuss a possible lease with Twitter. The property was about 70 percent vacant when acquired and had been for six or seven years. Shorenstein was prepared to begin construction without a lease in place.

At the same time, the city was considering a proposal to create a zone in the Mid-Market area that would suspend the city's payroll tax on the salaries of new employees hired by tenants in the area. Other nearby jurisdictions did not have payroll taxes, so this tax was a serious consideration for employers when choosing a location. This proposal to suspend the tax passed in spring 2011, and this legislation was instrumental in sealing the lease deal with Twitter, which was signed several days after the payroll tax legislation was passed, in April 2011.

Development and Approval Process

The approval process for the redevelopment involved numerous agencies, and the process had to be undertaken in increments to avoid delays. Because the development needed to be fast-tracked to meet Twitter's deadline for moving in, the approvals and the construction process were phased, and a critical-path approach had to be used to complete the work on time.

Shorenstein retained the same architect—RMW architecture & interiors—that ADCO had been working with in its preliminary planning. RMW had been brought in by ADCO in 2007–2008 as the tenant improvement architect to

develop a plan for improvements in the proposed conversion to office space. Shorenstein had retained RMW for other work in the past and knew the firm well. However, this was the first time they had worked together on a development project, because most of the previous work was related to tenant improvements in finished buildings.

Notes Terry Kwik, principal with RMW, "We had to be very strategic about our permitting. Anything that we thought would involve a longer approval process we broke out into separate packages. This way the contractor always had something to do. There were over 50 permits on this project. That is how we were able to meet our schedules. We were also designing at the same time. This is definitely one of the most complicated projects that I have done in my career."

The first phase of the redevelopment involved readying the initial Twitter space for occupancy—essentially three floors, including new restrooms and other building systems to serve these floors, restoration of the historic lobby area, and readying the parking garage for use. Twitter signed a lease in April 2011 and moved into the building in June 2012, even as work was continuing on various aspects of the renovation.

After these initial efforts, the developers moved to create a new lobby near the Ninth Street side of the building and a great hall in the interior that would connect the two lobbies. Subsequent phases prepared additional floors for occupancy as needed for Twitter expansions and for other



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The original art deco lobby was restored.

tenants, and later phases focused on the retail areas, which are just now being finished. Construction on 1 Tenth, located behind the main building, was the final phase and began in April 2013; the interior, tenant space of this building will be completed in November 2015.

Development Finance

The site was acquired in spring 2011 by one of Shorenstein's investment funds—Shorenstein Realty Investors Nine L.P., which was formed in 2007 with \$2.062 billion of committed capital, including \$154 million committed by Shorenstein. Additional funding was provided from a line of credit from First Republic Bank. Investors in the fund included pension funds, foundations, endowments, and high-net-worth individuals; many of these investors have been investing with Shorenstein for many years through many funds.

A construction loan was later arranged with Wells Fargo in the spring of 2011 to fund the considerable renovation and redevelopment expenses, which totaled over \$200 million. Because Twitter occupied its space in June 2012 during the development phase, the property did start to generate cash flow well before the development was completed, a plus for the project financials. Once the primary development phase was complete and the property was stabilized, a take-out loan was obtained from MetLife in summer 2014.

The renovation costs exceeded what was originally underwritten for the project. Notes

Paul Grafft, "Given that the original building had been built in three phases over an extended period of time, there were a number of uncertainties [in the renovation process]. [In addition,] as the project progressed, we saw rental rates rising in the market and revised the original plans to increase the quality of the asset. A major increase to the budget was the decision to completely re-skin 1 Tenth Street." Since the achieved rents have been higher than anticipated, the property has outperformed the initial pro forma. Notes Grafft, "We initially thought we might get a \$26 full-service gross rent in the 1 Tenth building; we could lease the building today at \$60 to \$70 industrial gross."

Planning and Design

As noted previously, the original building complex consisted of two buildings—one historic, facing onto Market Street, and one not historic, facing onto Tenth Street. The latter is located behind the historic building, and the two buildings were originally separated by an alley. Each of the two buildings presented a different design challenge. The signature historic 1355 Market Street building was a gem, offered considerable retail potential with lots of frontage on both Market and Ninth Streets, and included very large floor plates—80,000 square feet—in an L-shaped configuration. The building and its historic features, however, needed a lot of restoration and upgrades to make it suitable for modern tenants, especially as it related to the

building facade, the lobby and internal public areas, and new building systems.

The second building, now known as 1 Tenth, was built in 1974 as a furniture mart and included a concrete facade with small windows, not a suitable design framework for a modern office building. The entrance to this building had always been off the alley, because it was used as an adjunct to the 1355 building. The design challenge here was primarily to make the building more physically attractive, to modernize its interior space and building systems, and to better connect the building to the signature 1355 Market Street.

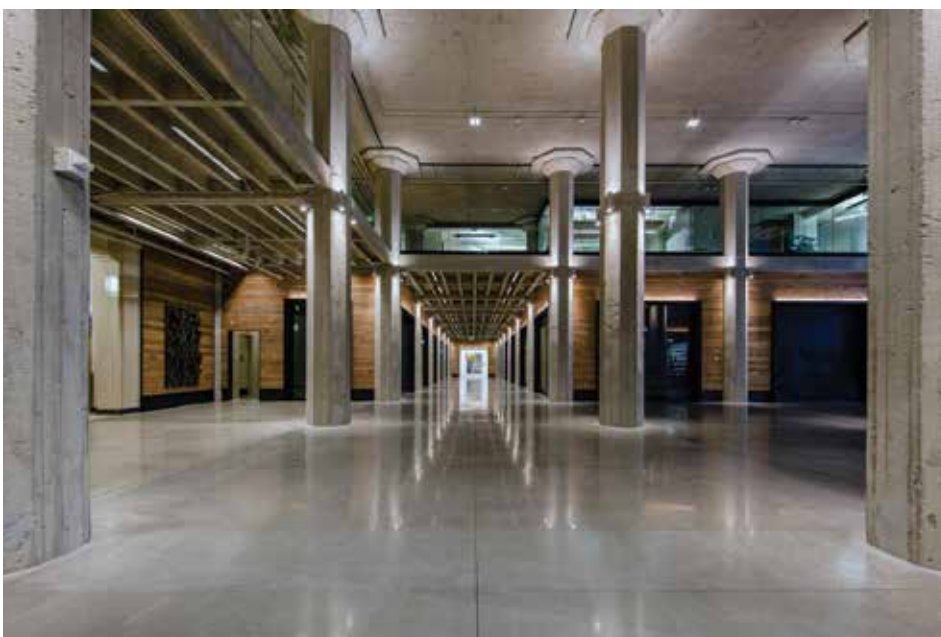
The goal of the overall plan was to knit the two buildings together to create a multi-building office complex with compelling ground-level public and retail spaces. As a mart facility, the original buildings were accessible only by mart customers and thus were somewhat fortresslike; one objective was to make the ground floors more permeable, accessible, and public in nature.

The overall design and plan for the core and shell of the office building was guided by RMW architecture & interiors, while BCV Architects handled the retail and public areas, and Page & Turnbull provided historic architectural services.

1355 Market Street. Fundamental to the overall repositioning plan was the reconfiguration of the ground level of the 1355 building. The original configuration included a main lobby area near Tenth Street that led to a small, two-level circular atrium at the center of the building, which in turn connected to a rear entrance that provided access to the alley and the second building behind. This entire public area was reconfigured and opened up, thereby creating a compelling interior space that offers better views to the back building and the new plaza.

The original lobby was restored, and the circular atrium was transformed into a more open square atrium; the entrance to this atrium from the alley was opened up by removing four second-level bays, creating the feeling of a much larger atrium space than existed before. Most important, by opening this space, the designers were able to create a visual connection from the front lobby through the 1355 building to the plaza and the 1 Tenth building.

The historic parts of 1355 Market Street were art deco in style, and interior areas of historic significance, such as the original lobby, were restored. Observes Terry Kwik, "There had been

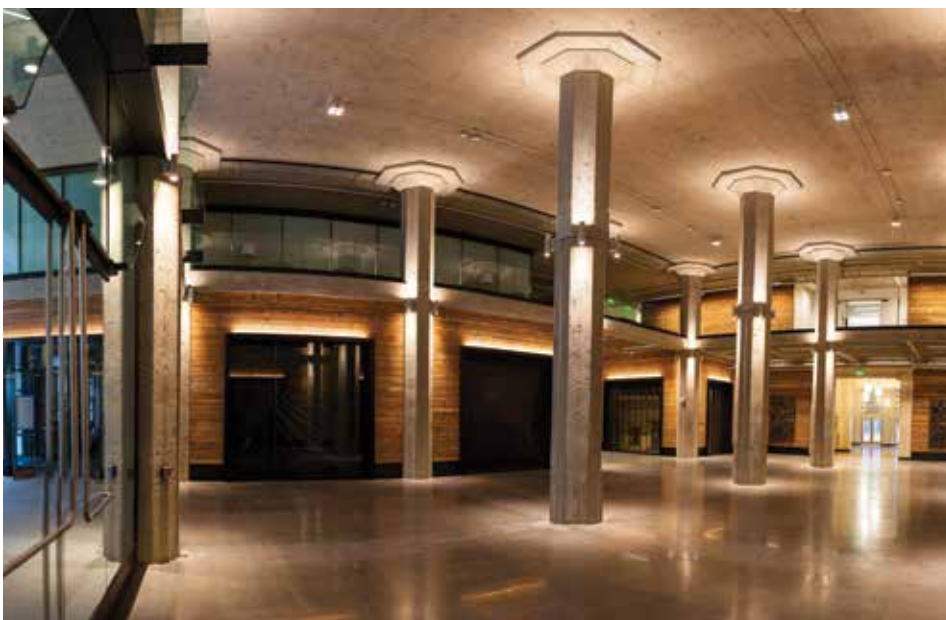


The atrium connects to a concourse that has restaurants on both sides.

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The ground-level site and floor plan.



The interior atrium of the building was expanded and redesigned. The original lobby is in the background.

very early on a temptation to extend that art deco identity throughout the building, and we realized that would just be a mistake. What would be best would be to contrast that against the underlying bones of the building, a raw look of the original framing concrete.” Thus, the art deco theme on the interior ends with the original lobby.

A second entrance, lobby, and core were added to the building near the Ninth Street side, including six new passenger elevators; this lobby is connected to a new interior concourse that in turn connects to the historic lobby, forming a U shape. When combined with the atrium reaching toward the plaza, this entire public area forms a reverse *h* shape. The new

lobby area was converted from a former parking entrance that had been closed and reconfigured at an earlier time. This second lobby area features extensive use of old and repurposed wood found in another part of the building. During World War II, a 20,000-square-foot wood warehouse was added to the roof of the building; shortage of steel during the war was the reason for the use of wood. This wood structure was no longer useful or code compliant, but the designers and developers decided to reuse the wood in the new lobby, which now features a beautiful arrangement of this Douglas fir, creating a very distinctive and unusual lobby cladding material.

Numerous other elements from the original building were reused in the lobbies and atrium. Post office boxes from the former mailroom located in the building were repurposed as artwork in the building. Brass on the original columns was repurposed as artwork in the new lobby. Observes Grafft, “Everywhere we made a choice, we made a qualitative choice and not a dollar cost-savings choice, and I think that is reflected in [the quality of the building and] the quality of tenants in the building.”

In addition, on the right side of the atrium as one enters from the historic lobby is the new Market on Market, an unusual food market that occupies 22,000 square feet facing onto both Market Street and Tenth Street. This market includes large open entrances off the atrium, further enhancing the open feeling of the public area. To the left side of the atrium is a long and wide, two-story concourse that connects to the second lobby and core of the building. Space on either side of this concourse has been leased to two restaurants—Bon Marché and Dirty Water—which will have either glass frontage along the concourse or will open onto it.

The objective of the redevelopment also involved upgrading all the internal infrastructure and building systems so they would work for a high-density tenant layout. Six new elevators were added, new electrical systems were installed, and restroom space was doubled in size. A new, high-efficiency heating, ventilating, and air-conditioning system was installed.

A green roof was also an important addition. The building at 1355 Market Street was originally constructed in several phases, and thus different portions of the building have different heights, ranging from nine stories on the Tenth Street side to 11 stories on the Ninth Street side. As a result, Shorenstein was able to create a green roof and roof deck on the ninth floor, at the corner of Market and Tenth Streets, that provides an attractive and unique amenity for Twitter and its employees.

The building was seismically retrofitted as well, including new shear walls around the elevators and stairwells (including new footings) and the addition of a second concrete core that runs from the basement to the 11th floor, which added mass to stabilize the building. The result exceeded seismic code requirements, and the buildings now meet the requirements for hous-



The new Ninth Street lobby, converted from a former parking entrance, features repurposed Douglas fir that was found in a wooden structure on the roof of the building.



The entrance to the new lobby near Ninth Street

ing state and federal employees, which was an important standard to achieve. The developers also strengthened the structural connections between the long arm of the building along Ninth Street and the structure facing Market Street, adding to the lateral stability of the building.

A key feature of the final design was that the large floor plates offered tenants a variety of configurations while affording easy collaboration across one large floor for many workers, a much sought-after feature for many tech tenants. Leasing materials laid out a test fit for one of the 80,000-square-foot floors that featured 36 offices, 666 workstations, and numerous conference and break rooms. Slab-to-slab floor heights in the building are typically in a range from ten feet, eight inches, to ten feet, 11 inches. Column spacing is generally on a 20-foot square for both buildings.

Most of the windows were replaced by ADCO during its ownership, but Shorenstein did replace all of the windows on the tenth and 11th floors that had not yet been replaced. The building has operable windows throughout. Shorenstein also put in all new storefronts and storefront windows, which had been largely boarded up for years. In addition, some repointing and waterproofing was required for the exterior terra cotta as well as some areas of concrete and stucco.

The Commons. To better integrate the two buildings and elevate the status of the 1 Tenth building, the alley between the buildings was transformed into a pedestrian plaza. This space was envisioned as the means by which to transform the entire project into a kind of urban campus, where the two buildings would function together as one. The two buildings are visually and functionally connected across the plaza space by their lobby entrances, which face each other. The 1 Tenth building has no street entrances from any of the nearby streets, only from the plaza.

Originally named Stevenson Street, but essentially an alley that separated the two buildings, the pedestrian plaza now serves as an important centerpiece for the project. The plaza forms a natural gathering place with outdoor seating, a fire pit, special lighting, and alfresco dining. The plaza retail—including Market on Market and the Dirty Water restaurant—is designed with operable doors that open to accommodate four-season indoor/outdoor dining.

1 Tenth. The 1 Tenth building had little visibility or personality before the redevelopment and presented a building facade that was a liability rather than an asset; the building presented an entirely different design challenge than was found at 1355 Market. The building itself needed a complete new look to be marketable; it offered

good structural elements, with slab-to-slab heights of 11 feet, four inches, and a fairly large 34,950-square-foot floor plate, but the concrete facade was unsightly and out of date, including its very small windows. Thus, the redevelopment strategy for this building involved replacing the facade as well as almost everything else except the structure itself. A modern, blue-glass curtain wall facade was chosen. A new lobby features polished concrete floors and exposed columns, distressed leather wall panels, and repurposed marble wall cladding. This lobby is adjacent to the Fitness SF space entrance, which wraps around the lobby on the first floor. All new building systems were added internally as well.

A test fit plan for a typical floor in this building featured four offices, three meeting rooms, four conference rooms, and 261 benching stations. Parking for the entire complex is accessed through this building off Jessie Street in the back, with the parking egress from the garage on Tenth Street. The entire garage includes parking for 350 cars and 300 bicycles.

Green features. Market Square features a variety of green and sustainability features, including the following:

- Green roof with building occupant access;
- Energy management system for energy savings;



A former alley has been converted into an outdoor pedestrian plaza. The 1 TENth building lobby entrance is on the left.



The plaza features a fire pit, outdoor seating, and alfresco dining.

- Variable frequency drives on mechanical equipment for energy savings;
- Advanced lighting control system with occupancy sensors for energy savings;
- LED lighting in exterior, lobbies, and tenant spaces for energy savings;
- Individual metering of tenant electricity consumption;
- Low-flow fixtures in restrooms for water savings;
- Drought-tolerant landscaping;
- LEED-compliant cleaning procedures and cleaning supplies;
- Three-stream waste diversion program that includes recycling, compost, and landfill;
- Electronics recycling program;
- Annual waste audit to ensure effectiveness of recycling program;
- Construction standards that require use of low volatile organic compound products and recycling of demolished materials;
- Annual Earth Hour and Earth Day events;

- Bike parking in garage;
- Electric vehicle charging availability;
- Energy Star training for all property managers; and
- Bimonthly “Green Tips” for tenants.

These features, together with the inherent sustainability benefits involved in the restoration of an existing building and the walkable and transit-oriented location, allowed the building to be certified LEED Gold by the U.S. Green Building Council.

Leasing and Management

The leasing strategy began with the office space, then moved to the retail and restaurant space.

Office leasing. As noted earlier, the leasing began with Twitter, which had already expressed a strong interest in the property through the previous owner. The lease with Twitter began with roughly 150,000 square feet in the 1355 Market building, but this lease was soon amended to include three expansions and eventually a second lease in the 1 TENth building, expanding the total space leased to over 800,000 square feet. Twitter now leases the top seven floors of 1355 Market Street and all the nonretail space in 1 TENth, which is still being built out internally, with completion scheduled for November 2015.

Twitter’s expansion into additional space as it continued to grow worked well for Shorenstein, because it was able to incrementally deliver and lease renovated space floor by floor. Notes Paul Grafft, “Twitter liked the open floor plan. They liked the size of the floor plate.” These features allowed flexibility in the arrangement of its work areas and work flows, key factors in Twitter’s office operation.

Several other tech and media tenants also occupy space in the building, including Yammer Microsoft with 80,000 square feet on the third floor, technology company incubator Runway with 25,000 square feet, Viz Media with 20,000 square feet, and Sosh Offline Labs with about 8,000 square feet. Also in the building is the Golden Gate Regional Center, a state-funded nonprofit organization serving individuals with devel-



The lobby of the 1 Tenth building.

AARON TEIXEIRA

opmental disabilities, which occupies 34,000 square feet in 1355 Market Street. One Kings Lane signed an early lease but subsequently moved out of the building, and this space was taken over by Twitter.

Retail leasing. The retail leasing moved more slowly, because priority was placed on leasing and finishing the office space, which in turn would shape the market for retail. The first major retail tenant to be added—Market on Market—opened its doors in February 2015 in 22,000 square feet at the corner of Market and Tenth Streets. This unique grocery and prepared-food concept offers a wide variety of local and made-on-the-premises food options and several specialty subtenants; the market includes a bakery, a butcher, a cheese store, an oyster/sushi bar, a taco bar, a tapas bar, fresh produce and fish, a chocolatier, a wine shop, specialty fruit drinks, and pastries. The store also features a bar at the center, and visitors are welcome to purchase prepared foods from the store and bring them to the bar and communal seating area to eat. The store can be accessed from Market Street, from the plaza, and from the internal atrium.

This space was originally proposed as a 3,000-square-foot market by the market owner, but Shorenstein wanted something bigger, at least an 8,000-square-foot market, which was soon increased to 12,000 square feet, then 18,000 square feet, and finally 22,000 square feet. The market owners brought in several subtenants who collectively occupy about 2,000 square feet. Notes Chris Foley, principal with Polaris Pacific and one of the market owners, “We brought in these other tenants to manage our risk and also make it more interesting, so every time you turn a corner there is something new and different.” The market filled a need in the rapidly developing neighborhood; the nearest groceries are both Whole Foods, each approximately a mile away.

In addition, three restaurants have leased space in the 1355 building, including the Cadillac, Bon Marché, and Dirty Water. The Cadillac is an 8,000-square-foot Mexican restaurant located on Ninth Street, the reincarnation of a neighborhood restaurant, the Cadillac Bar & Grill, that closed in 1993 because of the Moscone Center expansion. Bon Marché (with 7,000 square feet) faces onto Market Street and the interior concourse; it will offer a raw bar, craft cocktails, and



Market on Market is an innovative food store that features a variety of interesting foods and food purveyors. Food can be purchased and consumed in the store; the store includes a bar offering a variety of wines and beers.

ALEJANDRO VELARDE

microbrewed beer. Dirty Water (with 6,300 square feet) faces onto the interior concourse and the plazas, with alfresco dining facing the plaza; it offers a microbrewery, custom cocktails, and an extensive wine list.

In addition, Fitness SF occupies 22,000 square feet at the base of the 1 TENth building, with access off the plaza adjacent to the lobby entrance. A Walgreens pharmacy, which occupied space in the building prior to acquisition, continues to operate at the corner of Market and Ninth streets with 12,000 square feet. First Republic Bank occupies 4,200 square feet, located on Ninth Street between Walgreens and Cadillac. One 3,610-square-foot retail space located in the back corner of the plaza remains available as of August 2015.

Observations and Lessons Learned

Historic buildings offer unique qualities and unique challenges for developers. For Market Square, the historic facade and character, the large floor plates, and the found wood on the property were all important features of the project that would be difficult or impossible to offer in a new building. These features are especially appealing to tech tenants, who often employ young people who are looking for a less formal, more edgy design for their workspace. But working with existing assets does place constraints on the design and usually offers a few surprises that can be costly.

Shorenstein ended up spending more on the redevelopment than it anticipated, in part because of decisions it made over time to reach for a higher building standard than originally envisioned. Observes Todd Sklar, senior vice president and head of the Development Group at Shorenstein, “We started out imagining a rougher project than we ended up delivering. During the course of development, we recognized specific opportunities to go further in our vision of what this place could and should be.” One of the most important of these opportunities was to go with a much more developed retail treatment for the ground floor than had initially been conceived. Another was the all-glass, full reskin of 1 TENth. The additional cost decisions were supported by a changing market and rising rents in the area, exceeding the investment return objectives even with higher development costs.

Unexpected conditions also came into play. Notes Sklar, “It’s not just having the discretion to increase scope and quality. With this sort of historic renovation you are always going to have to deal with the unexpected. That is why an adequate contingency is so important.” For example, Shorenstein found that some of the concrete in the base of the building was porous, with holes all over, and it chose to pour a thin topping slab across 60,000 square feet of the ground floor to address this problem.

Regarding the office space, Sklar notes, “Two other important things we did to the building from a marketing perspective were to increase the restroom capacity on every floor (with showers in the ground floor of the 1 TENth building), and the addition of bicycle parking. Tenants always wanted to know about our bicycle parking policy.” The expanded bathrooms were critical for the high-occupancy tenants that were attracted to the building. And for bicycle commuters, a 300-stall locked room in the parking garage (including video camera security) was added, and tenants can bring bikes up the freight elevator to their space.

Shorenstein had to make some adjustments along the way as it learned more about what tenants were looking for. Originally, Shorenstein underwrote the delivery conditions of the building as a cold shell, almost as an “as is” space. That didn’t turn out to be what the market wanted, so it had to adjust the delivery conditions with the leases over time.

The provision of adequate parking, often a primary tenant and public sector concern in years past, was not a real issue for tenants in this location, even though the parking ratio is only about one space per 3,500 rentable square feet of office space. This is actually generous for a San Francisco office building. Shorenstein never thought seriously about adding more parking, and the regulations stipulate a maximum number of parking spaces, not a minimum. The proximity to numerous forms of transit, a walkable environment, lots of nearby residences, and ample bicycle parking have allowed the building to thrive with 350-car on-site parking spaces. The parking is a big amenity for the project’s retail/restaurant tenants and customers.

With older buildings, sometimes showing off the bones of the building can be a real selling point. With the young demographic of employees in many urban locations, a

OTHER PARTICIPANTS

General contractor

BNBuilders
San Francisco, California

Structural engineer

Murphy Burr Curry
San Francisco, California

Mechanical engineer

ACCO
San Leandro, California

Civil engineer

CSW/Stuber-Stroeh Engineering Group
Novato, California

Landscape architect

CMG Landscape Architecture
San Francisco, California

Interviewees

Paul Grafft, senior vice president, asset management, Shorenstein Properties LLC

Tom McDonnell, senior vice president, leasing, Shorenstein Properties LLC

Todd Sklar, senior vice president, head of development group, Shorenstein Properties LLC

Chris Foley, principal, Polaris Pacific

Terry Kwik, principal, RMW architecture & interiors



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The entrance to the market from the atrium.

more edgy design aesthetic often works best. The development and design team realized that, as they stripped away some of the older unattractive features of the interior, they did not need to “cover up everything again” in the design of the building. After taking off layers, they decided to feature some of the structural elements of the building and “let it be what it is.” They also reused many assets in different and creative ways, retaining authentic features of the building but in a reimagined form.

New creative retail concepts can really make a place. Notes Sklar, “We ended up with destination-quality food service, and it has really made a difference.” The Market on Market grocery and prepared-food store is a compelling new store concept that has attracted a lot of attention to the building and serves to knit the neighborhood together, drawing office workers, nearby residents, and tourists to the building. The three restaurants will also serve to make the building a strong destination.

A symbiotic relationship has emerged in the neighborhood among the various uses. Observes Tom McDonnell, “What was most

exciting about this was the revitalization of the neighborhood.” The renovation of the building and the addition of prominent new tech tenants drew attention to the area, and this stimulated the development of many new residential units in the neighborhood. This, in turn, greatly improved the market for additional retail, which further strengthened the location for office tenants and residents alike. All of these uses together are helping diversify the use patterns and safety of the neighborhood, resulting in the emergence of a cool new district in the heart of San Francisco.

PROJECT INFORMATION

Development timeline

Historic 1355 Market building opened	1937
Original 1 Tenth structure built	1974
Site purchased by Shorenstein	March 2011
Construction loan arranged	Spring 2011
Construction started	Spring 2011
Central Market/Tenderloin payroll tax exclusion passed	March 2011
Twitter lease signed	April 2011
Twitter moved in	June 2012
Construction started on 1 Tenth	April 2013
Phase I completed	April 2014
Project completed (except tenant finish work)	September 2014
Opening of 1 Tenth building and restaurants	Summer 2015

Building net rentable area

	Sq ft
1355 Market building	749,831
Office	689,613
Retail	60,218
1 Tenth building	338,280
Office	313,063
Retail	25,217
Total	1,088,111
Auto parking	350 spaces
Bicycle storage	300 spaces

Land use plan

	Site area (acres)
Buildings	2.87
Landscaping/open space/loading area	0.19
Total	3.06

Office information

Office net rentable area (NRA)	1,002,676 sq ft
Typical floor size 1355 Market Building	80,000 sq ft
Typical floor size 1 Tenth Building	35,000 sq ft
Percentage of NRA leased	100%
Number of office tenants	6

Office tenants	NRA (sq ft)
Twitter	800,000
Yammer Microsoft	80,000
Golden Gate Regional Center	34,000
Runway	25,000
Viz Media	20,000
Sosh Offline Labs	8,000
Management office	3,200

Retail information

Retail net rentable area	85,435 sq ft
Percentage of retail GLA occupied	95.7%
Number of retail tenants	7

Retail tenants	Retail type	GLA (sq ft)
Market on Market	Specialty foods and groceries	22,000
Fitness SF	Gym	22,000
Walgreens	Pharmacy	12,000
The Cadillac	Bar and restaurant	8,000
Bon Marché	Bar and restaurant	7,000
Dirty Water	Bar and restaurant	6,200
First Republic Bank	Bank	4,200

Financing sources

Construction loan	Wells Fargo
Term loan after stabilization	MetLife
Development equity capital	Shorenstein Realty Investors Nine LP



About the Urban Land Institute

The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

Established in 1936, the Institute today has more than 35,000 members, representing the entire spectrum of land use and development disciplines. Professionals represented include developers, builders, property owners, investors, architects, planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, academics, and students.

ULI is committed to

- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanisation, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both the built and natural environment;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Patrick L. Phillips, Global Chief Executive Officer

The development of this case study was generously underwritten by the law firm Allen Matkins.



About Allen Matkins

Allen Matkins is a California-based law firm specializing in serving the real estate industry. The firm has more than 200 attorneys in four major metropolitan areas of California: Los Angeles, Orange County, San Diego, and San Francisco. Its core specialties include real estate, real estate and commercial finance, bankruptcy and creditors' rights, construction, land use, natural resources, environmental, corporate and securities, intellectual property, joint ventures, taxation, employment and labor law, and dispute resolution and litigation in all these matters.

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Funding for this case study was provided by the ULI Foundation.

ULI CASE STUDIES

The ULI Case Studies program highlights and showcases innovative approaches and best practices in real estate and urban development. Each case study provides detailed information regarding the ideas, plans, process, performance, and lessons learned for the development project. Each also includes project facts, timelines, financial data, site plans, photos, location maps, and online videos. The new ULI Case Studies program is the revitalization of a program begun in 1971. For more information, visit the ULI Case Studies website at www.uli.org/casestudies.

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