

SAN FRANCISCO Business Times

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OAKLAND
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GALLERY EXODUS ■ 10

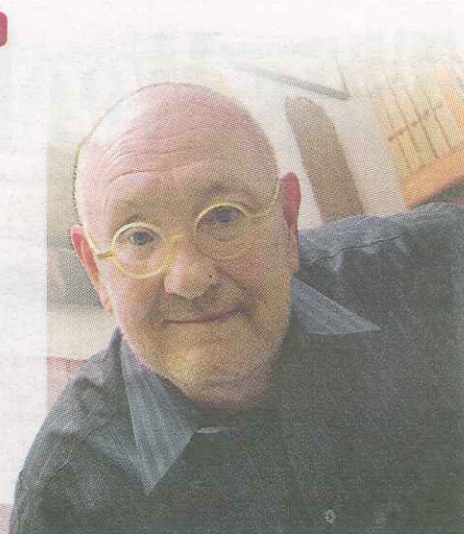
Don Soker's art business heads for cheaper digs.

RAMPING UP RETAIL ■ 5

Kohl's boosts Alameda, with more in store.

BANKING ON LAWYERS ■ 7

Union Bank takes aim at lucrative legal clientele.



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"It's a real mess," says Murtagh of EAH Housing. "We're all treading water."

Affordable housing slammed

Bay Area developers put projects on hold

BY BLANCA TORRES
San Francisco Business Times

For months, affordable housing developers kept construction sites rolling while market-rate developers dropped projects or went belly up. That is about to change

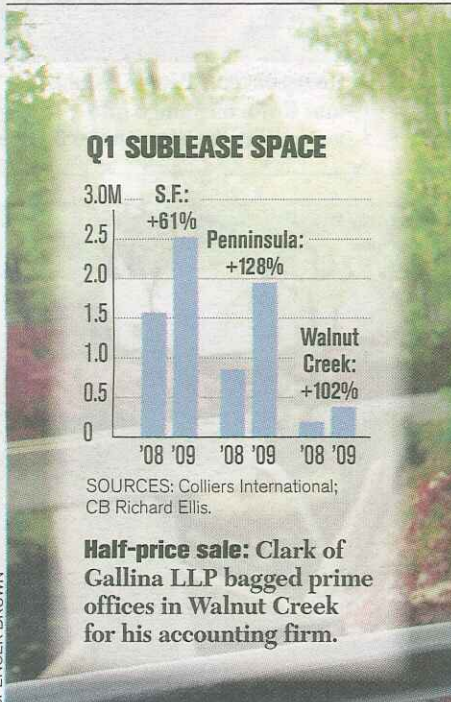
as affordable developers' oasis dries up. Financing for affordable developments pulls money from several sources such as state funding, which is drying up, and tax credit sales to businesses, which no longer need them.

"This was going to be a terrible year even without the recession," said Mary Murtagh, president with San Rafael-based EAH Housing. "It's a real mess. There is all this opportunity to get projects done ... and we can't do anything. We're all tread-

ing water." EAH has 12 projects in its development pipeline, half of which could end up in funding limbo.

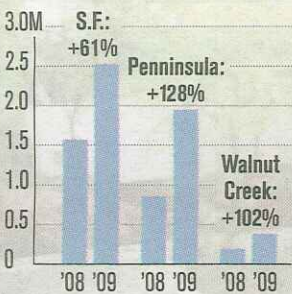
Most affordable developments that have started construction have financing in place, but developers now fear that lack of financing will delay or kill projects that were ready to start construction this year. Another concern is that developers will

SEE SLAMMED, 46



SPENCER BROWN

Q1 SUBLEASE SPACE



SOURCES: Colliers International; CB Richard Ellis.

Half-price sale: Clark of Gallina LLP bagged prime offices in Walnut Creek for his accounting firm.

Office steals: How low can they go?

Sublease glut pushes rates down

BY BLANCA TORRES AND J.K. DINEEN
San Francisco Business Times

Bill Clark's accounting firm just signed for 8,000 square feet at one of the most visible corners of Walnut Creek. The price: \$18 per square foot, half the average asking rate for the building, and with furniture included.

"We always wanted to be downtown,"

Clark said of Gallina LLP's new sublease space at 1331 N. California Blvd. "In the past, we couldn't find the right space or it was too expensive."

Not any more, and not just for Clark. Across the Bay Area, prices for sublease space are plunging as companies dump hundreds of thousands of square feet onto the market and try to recoup what

SEE STEALS, 47

TAKEOVER, CONTINUED FROM PAGE 46

\$850 million from the combined companies' costs, critics of the deal fear it will endanger that culture of innovation.

Roche doesn't have a track record of easy integration. It bought 3,000-employee Syntex Corp. in Palo Alto in 1994. That facility will close after some 280 move from Palo Alto to South San Francisco and another 180 positions move from Palo Alto to New Jersey.

Another 500 jobs will disappear when the facility closes.

Genentech employees, who collectively reaped hundreds of millions of dollars when Roche bought their stock, are another question mark. They are set to receive half of \$371 million in cash retention bonuses — the other half coming in a year — and many could start their own biotech companies, advise other biotech or venture capital firms or simply retire.

Humer appears committed to keeping the status quo. He told Levinson as early as last September that it would be critical to devise management and governance structures to maintain Genentech's research and early development independence.

"I've known Franz for a long time. He means what he says, and he'll do it," Sanders said.

The worry, Sanders said, is what happens after 62-year-old Humer steps down. Humer ceded Roche's CEO job in March 2008 to Severin Schwab.

"Humer wants it to work in the way he's described, and I think it can work that way," Sanders said. "Will it work like that after Dr. Humer is gone?"

STEALS: Million-dollar views at bargain-basement prices**CONTINUED FROM PAGE 1**

they can. Even some of the region's choicest office space in its best-known buildings and lushest office parks is now available for a fraction of the price paid by the original tenant.

"That's what it takes to make a deal. The way the sublessors look at it, getting half is better than getting zero," said Jeff Weil, a broker at Collier International who represented Gallina. "People don't like to talk about it, but a lot of sublease space just sits on the market."

S.F.'s nicest digs?

At San Francisco's newest office tower, Tishman Speyer's 555 Mission St., tenant Sequoia Capital is seeking to sublet the building's 34th floor penthouse. The 14,500-square-foot space was rented at \$80 a square foot and then built out with some of the most expensive and sophisticated systems in the city. Sequoia is seeking a deal in the \$50s for the space.

Meanwhile, on the 42nd floor of 101 California St., at space that would have carried an asking rate of well over \$85 a square foot in 2007, a subtenant is seeking just \$25 a square foot for 7,000 square feet.

Citigroup is about to put the 19th floor of One Sansome St. on the market.

The executive suites of the Charles Schwab Co's headquarters on the 29th and 30th floor are available for the high \$20s to low \$30s depending on the terms.

On the 23rd floor of Boston Properties' trophy 4 Embarcadero Center, Stockbridge is looking for a subtenant to take 22,000 on the 23rd floor for \$32 a square foot.

The 18th floor of 650 California St. is

available for \$25 a square foot.

"This space is absolutely unbelievable, it has touches unlike anything I have ever seen," said one broker looking at the space with a client. "The only thing the subtenant is going to have to buy is a wastebasket."

Downsides of subleases

Sublease space is increasing rapidly throughout the Bay Area.

In San Francisco, another 775,000 of sublease space hit the market in the first three months of the year.

Available sublease space in the Central Contra Costa office market more than doubled to 376,000 square feet during the first quarter compared with 186,090 square feet during the same period last year, according to data from Colliers International.

The amount of sublease space in Oakland edged up to 407,338 square feet during the first quarter from 329,838 square feet during the previous quarter.

On the Peninsula, available sublease space jumped 128 percent to 1.9 million square feet during the first quarter from 852,423 square feet during the same period in 2008, according to CB Richard Ellis.

Sublease space comes with its own challenges. Generally, it's only available "as-is," with no tenant improvement dollars from the landlord. The term is dictated by the original lease and can be short, particularly on space with the biggest discount.

In San Francisco, sublease space is available in chunks of up to 375,000 square feet at One Montgomery Tower, where Schwab is pulling out.

Most of the subleases available in the East Bay are under 10,000 square feet. One

exception is in Oakland, where American Presidents Lines, a shipping and logistics firm, plans to vacate 139,000 square feet comprised of several floors at 1111 Broadway. The space, which is leased through 2016, was remodeled about a year ago and is what some brokers have called the best Class A space in the East Bay.

"It's prime space, but bear in mind, APL was a full-floor tenant," said Larry Westland, a broker with TRI Commercial in Oakland. "The space was designed for their unique needs."

Further to fall?

Brokers say the sudden flood of cheap space is generating interest — but so far mainly from lookers rather than takers, as prospective subtenants gauge whether the market still has further to fall.

"Today, we are at about where rates fell to at the low point in the 2000 to 2001 era, the low part of the last downturn," said John Carpenter of Carpenter/Robbins, a San Ramon-based brokerage. "The difference this time is that we have a long way to go. We're not at the low point in the cycle. There's reason to believe rates will continue to drop."

Still, those trying to unload the space are trying to look on the bright side.

"This too shall pass," said Frank Fudem, managing director at NAI BT Commercial in San Francisco, who is trying to sublease the top floor at 555 Mission. "People who take advantage of the current market conditions are going to look awfully smart in the future."