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555 California St. tower rises again

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The old Carnelian Room atop 555 California St. has been stripped down to its shell — 7,600 pounds of oak and mahogany paneling hauled away by Ohmega Salvage.

But while owner Vornado Realty Trust is trying to figure out what to do with that 52nd floor space (it could be a restaurant and nightclub or converted to office space) something unexpected has happened in the rest of the San Francisco trophy building: it filled up.

While many expected the financial implosion of 2008 to leave big vacancies in the landmark Bank of America building, Vornado has completed 230,000 square feet of leasing in the tower this year. The demise of Wall Street tenants like Lehman Brothers created holes in the marquee building, but others, like private equity firm Kohlberg Kravis & Roberts and law firms Foley & Lardner LLP and Jones Day, have stepped in and gobbled up the empty space. The deals have left the building with 4 percent vacancy: besides the former Carnelian Room (home to the Bankers Club), the only significant vacant space is the old two-story banking hall on the second floor.

In the newest deal, KKR doubled its footprint in the building to 50,000 square feet, taking another 25,000 square feet on the 51st floor, according to **David Greenbaum**, president of Vornado Office. Greenbaum said the 10-year renewal and expansion with KKR has been a priority since acquiring the building four years ago.

Vornado declined to comment on the rents KKR is paying near the top of the building, but said “we are achieving in our space some of the highest rents that have been achieved in the city.”

Other recent transactions include Foley & Lardner LLP, which took the entire 17th floor, some 30,000 square feet, and Jones Day, which grew from 60,000 square feet to 80,000 square feet. RW Baird and Servcorp have taken most of the 49th floor, space Shorenstein executives previously occupied.

“If you look at the fact that its only been 25 or 26 months since we lived through what we thought was the end of the world, or at least the end of the financial system, the recovery we have seen in the market has actually taken place much more quickly than we had expected,” said Greenbaum.

Even downsizing tenants have made more modest cuts than originally expected. Goldman Sachs originally slashed its space in the building from 100,000 square feet to 72,000 square feet, but quickly moved to add another 11,000 square feet, Greenbaum said. He said 30 percent of the leasing deals in Vornado’s New York and San Francisco buildings have represented tenant growth, while 2 percent of tenants have been shrinking. Lehman Brothers gave up two floors, which were quickly reoccupied by Goldman Sachs and Barclays PLC.

“We have all heard a lot about tenants rightsizing and downsizing, but in premier buildings and premier portfolios, we have actually seen some decent growth,” said Greenbaum. “The major concern, that everyone would be dumping space on the market, is something that candidly we have not seen in our portfolio.”

The New York-based REIT acquired a 70 percent controlling interest in the BofA tower in May 2007 and later replaced Shorenstein Properties as the building manager. **Tom Poggi**, **Bill Cumbelich** and **Angus Scott** of the CAC Group handle the leasing.

Building architect **Dan Huntsman**, of Huntsman Architectural Group, said Vornado “has been very aggressive in keeping the building full and they insist on a design level that a lot of building owners would not entertain.”

“It’s a timeless building, but it needed some updating and (Vornado) did it — I think a lot of people have been surprised at how well it’s done,” said Poggi of the CAC Group.

The building is on track to get LEED certification in 2011 and Vornado has installed a metering system that allows tenants to monitor their own energy use.

The deals come as demand for trophy view space — as well as South of Market tech space — is on the rise, even as empty commodity space languishes. A major hedge fund is in negotiations for the penthouse of the Spear Tower at One Market St., space that has been empty for five years.

Meanwhile, Vornado will continue to talk to potential users for the old Carnelian Room, with its 25-foot ceilings and famous panoramic views.

“We are considering a number of office users, but we continue to work on a club concept,” said Greenbaum. “If done properly, it could be a great amenity for the building.”



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