

BEST OFFICE LEASE / SAN FRANCISCO

Zynga

Social gaming juggernaut has room to expand

BY J.K. DINEEN
San Francisco Business Times

Zynga's blockbuster deal with TMG Partners at Eighth and Townsend streets is a great example of the idea that how a building is presented can be as important as the property itself.

For months, TMG Partners had been trying to get Zynga interested in 650 Townsend St. After all, it made the sense: Zynga was SoMa's fastest-growing tenant, growing its headcount from 398 in September 2009 to 1,200 in September 2010 to 1,500 today. And with the 650,000-square-foot Townsend Center largely vacant, TMG Partners was sitting on perhaps the only building in the immediate neighborhood with enough space to accommodate the company's growth.

But Zynga, which makes social games like "Mafia Wars" and "FarmVille," was not initially thrilled with the prospect. Zynga was looking for a private entrance and lobby which would communicate the company's unique culture and identity. While TMG had spent \$12 million to remodel the Townsend Center and had cut a bright new lobby into the center of the building, it was more of a traditional multi-tenant entrance. But after another Zynga deal fell through at 500 Terry Francois Blvd., a new approach occurred to

TMG's David Cropper and Brian Fleming: Instead of taking Zynga to the flashy new entrance at 650 Townsend St., why not try the alternative entrance at 699 Eighth St.? That way, Zynga could have its own, private entrance with its name on the door.

Turning the entrance around turned the deal around: Zynga signed a seven-year, 270,000-square-foot lease to occupy the west end of the building and has already added another 19,000 square feet.

"They were looking for their own identity, but also the ability to expand," said Cropper, a director with TMG Partners. "Eventually we were able to offer them both."

For the SoMa market, the lease was huge. Not only did it represent over 100,000 square feet of positive absorption, it meant that one of the hottest technology companies in the U.S., a company recently valued at \$7 billion, was committed to staying and growing in San Francisco. That commitment has helped fuel a wave of SoMa leasing deals to social gaming companies like Bigpoint, International Game Technology and Kabam, all of which are hoping to emulate Zynga's success.

"It really shored

up that whole market. If they had left it would have been a game changer for the area," said Fleming. "That deal was the catalyst for a lot of the other deals going on and the market is starting to tighten up. Before that a lot of people had been on the sidelines."

Five tenants had to be moved to accommodate Zynga. New deals, totaling 40,000 square feet, were struck with Citrix Systems, Dun and Bradstreet, Schawk, and Common Sense Media.

Zynga will move into its new home in the late spring. The Zynga headquarters will include a private gym and cafe.

"As a 15-year San Francisco resident, I value the city's unique ability to attract the combination of top creative and tech talent that enables innovation," said Zynga founder and CEO Mark Pincus at the time the lease was announced. "Our new headquarters will capture our culture of collaboration, creativity and fun."

For TMG Partners, which bought the building for \$131 million in 2006, the deal helped salvage an investment that could have gone sour if a major tenant had not been landed.

"We bought it for this reason — that when the market comes back, the tech companies will want to be in this kind of space," said Cropper.

WINNER

Location: 699 Eighth St.

Size: 289,000 square feet.

Tenant: Zynga.

Landlord: TMG Partners.

Brokers: Steve Anderson and Bruce Wilson of the CAC Group represented TMG Partners; Phil Arnatou and Jay Sternberg of Colliers International represented Zynga.

Financial partner: Farallon Capital Management.

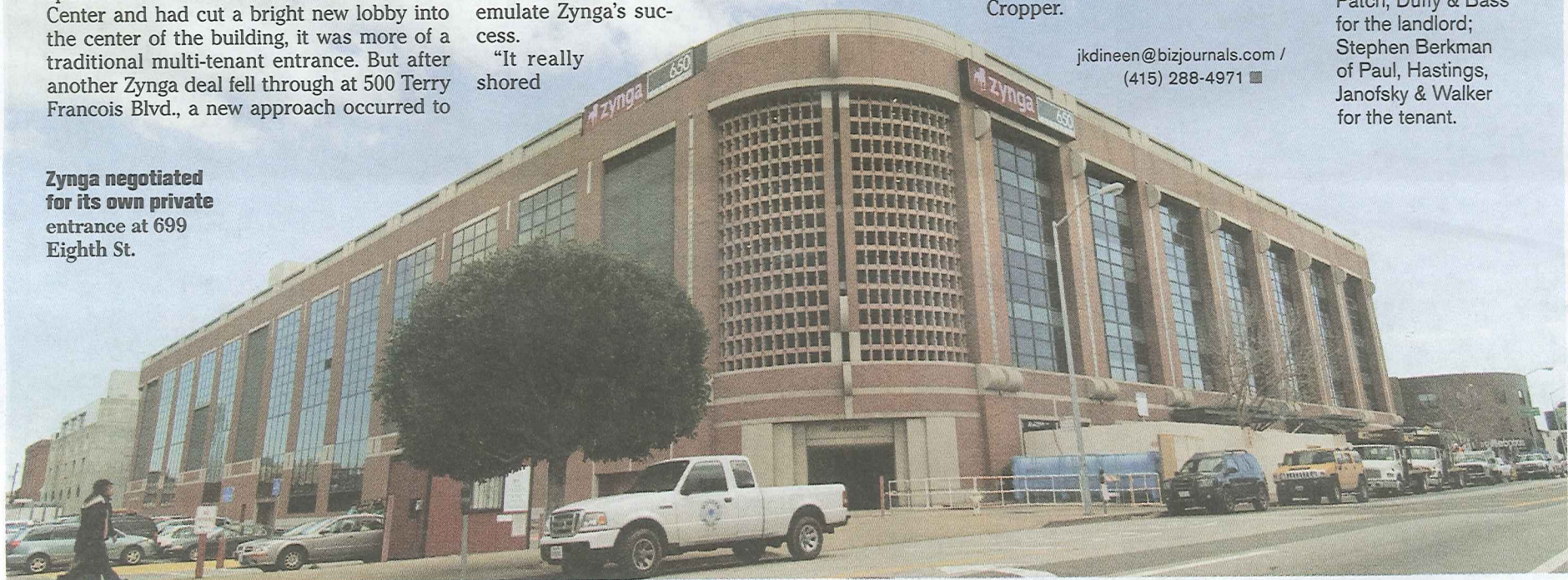
Contractor: Plant Construction.

Architect: NicholsBooth.

Law firms: Danna Kozerski of Coblenz, Patch, Duffy & Bass for the landlord; Stephen Berkman of Paul, Hastings, Janofsky & Walker for the tenant.

Zynga negotiated for its own private entrance at 699 Eighth St.

jkineen@bizjournals.com /
(415) 288-4971 ■



Finalist: Deloitte

It's tough to get more blue chip than Tishman Speyer and Deloitte. So when the top-flight developer and the prestigious consultant started hammering out a deal at 555 Mission St., you knew it was going to be an interesting transaction.

In a high stakes deal that many downtown real estate skeptics thought could never be pulled off, Tishman Speyer methodically set about to lure Deloitte away from its longtime home at 50 Fremont St. First there was the matter of Deloitte's current deal, which had four years left on it and would cost \$12 million to terminate. After agreeing to pay most of this fee and signing a letter of intent with Deloitte, Tishman Speyer faced an aggressive counter-attack from 50 Fremont owner TIAA-CREF.

While TIAA-CREF came in with lower rent proposal in an effort to hold onto the tenant, in the end, Deloitte stuck to its guns and completed the deal at 555 Mission, worth \$168 million over 15 years. The 166,000-square-foot deal — Deloitte later took another floor, bringing the total to 182,000 square feet — brought 555 Mission to 85 percent leased. Not bad for a new building that was largely leased up during a terrible recession.

The deal was also interesting because while Deloitte

Managing Partner Mark Edmunds expects to expand his 1,500 person San Francisco office by 10 percent in the next year, the new office will represent a 37 percent decline in square footage from the 285,000 square feet the firm had at 50 Fremont. The new office — nine floors in San Francisco's newest office tower — represents not only a change in address, but an evolving philosophical transformation in how Deloitte serves its clients. Instead of private sanctuaries where partners retreat to pore over financial statements, the new environment is all about collaborative spaces, Starbucks-like cafes and enclaves with the latest video conferencing technology. There is a theater-style "learning center" that can hold groups of up to 200. The interior architect is SmithGroup.

"The cool factor," Edmunds said, "will be very high."

Tishman Speyer Managing Director Allen Palmer, who led the deal for Tishman, said they are "very pleased with how the building turned out and our tenant roster. ... I feel we have one of the best if not the best in class in the market. I think it's such a beautiful building and everyone walks away impressed."

— J.K. Dineen ■

FINALIST

Location: 555 Mission St.

Size: 181,930 square feet.

Tenant: Deloitte.

Landlord: Tishman Speyer.

Cost: \$168 million over 15 years.

Adviser: Don Finklestein of Finkelstein Associates.

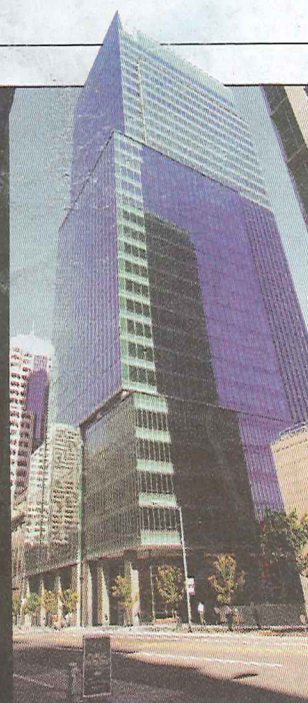
Contractor: Turner Construction.

Interior architect: SmithGroup.

Engineer: Middlebrook and Louie.

Law firm: Allen Matkins Leck Gamble Mallory and Natsis.

Tishman Speyer paid a \$12 million termination fee to break Deloitte's other lease at 50 Fremont St.



PAOLO VESCIA
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