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Pinterest lease break is 'wake-up call' for S.F., experts say

This rendering shows was 88 Bluxome St. would look like when completed.   *Binyan Studios*

By Laura Waxmann – Staff Reporter, San Francisco Business Times
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Pinterest Inc.'s decision to fork over $89.5 million to terminate a year-old lease for a yet-to-be-built San Francisco office development signals a major — and most likely permanent— turning point for the city's hot real estate and big tech industries, according to local business and real estate experts.

The company, which went public last year and had planned for further growth in San Francisco, said Friday it has killed its 490,000-square-foot lease at 88 Bluxome St. as it analyzes its workplace needs in light of Covid-19.

The sudden reversal appeared to catch the commercial real estate community largely by surprise. But experts say Pinterest will likely not be the last company to change course on expansion plans in San Francisco, where pandemic-induced remote work and pending taxation efforts have created a "perfect storm" bound to impact site selection and accelerate a long-projected exodus of tech companies from the city.

"San Francisco has been the golden child of our national economy for almost a decade. I think this lease break is a wake-up call that our heyday — that era — is coming to a close and the city is not just going to be gifted the best and brightest companies going forward," said Jay Cheng, public policy director of the San Francisco Chamber of Commerce.

"Remote work has fundamentally changed our economic landscape and how competitive San Francisco is nationally and globally — and it is here to stay, at least for a couple of years," he said.

Companies such as Core-Mark, Bechtel, McKesson, Schwab, PG&E, Stripe, Juul and Xero have or will soon relocate their headquarters, while Uber and Square have announced large campus acquisitions outside of San Francisco, according to Cheng.

Twitter, Facebook, Slack and Coinbase have "announced the move to near 100% remote workforce," and smaller tech companies like Gitlab, Buffer, Automattic, Zapier have made "similar announcements pre-Covid-19," he added.

While remote work is by no means a new trend, companies finding themselves in cost-cutting mode post-pandemic are more likely to opt in to this model on a more permanent basis while opting out of the city's pricy real estate market as the exorbitant cost of living is forcing employees to settle down elsewhere.

For a remote worker, "the Bay Area is a difficult sell because of its high cost of living and the taxes, versus a lower cost alternative," said John Boyd, a principal at The Boyd Co., a site-selection consulting firm.

The desire to negotiate the freedom to work remotely — at least part time — is a growing particularly among millennials, according to Boyd. He also cited an IBM survey that revealed that nearly 70% of new hires want the freedom to work remotely to be at least an option.

"Companies now have a dollar-and-cents motivation to embrace the work-from-home model and they see that as an HR recruiting tool," Boyd said.

Going “backwards” on remote work is likely to present a “major behavioral battle,” said Martin Reeves, a San Francisco-based office expert with the Boston Consulting Group — particularly as the pandemic stretches on in the absence of a vaccine.

Reeves is not predicting the death of the office market, but he is predicting long-lasting changes.

“We will have some form of rebound but it won't be to previous levels. What we will be rebounding to might be different — a core workforce versus a peripheral workforce, showroom types of offices, different uses of space,” said Reeves. “None of this is good for the real estate market, except perhaps the rebuilding and different usage of space. Every crisis is a fortune or blessing for somebody, and certain segments of the market will benefit.”

Increased taxes proposed at the state and local levels — including a proposed repeal of Proposition 13’s protection on property-tax increases for commercial and industrial property and a San Francisco ballot measure that would impose a new levy on highly compensated CEOs — are making companies’ decisions to relocate easier, according to real estate experts.

“These additional taxes encourage companies to look elsewhere as they are currently under direction to save money,” said Alexander Quinn, JLL’s research director for Northern California. “One of the ways companies can save money in the short-term is to reduce their real estate and labor costs. Thus, finding more affordable locations is a simple short-term approach.”

Supervisor Matt Haney, whose district includes the 88 Bluxome St. site and who is spearheading the CEO tax, said he does not believe the local tax efforts to be a factor in Pinterest’s decision to give up San Francisco office space.

“The potential tax increases on the ballot are modest and would cost Pinterest a whole lot less than $89.5 million. This is clearly driven by other factors,” said Haney, adding that he expects the “growth of Central SoMa” to continue.

“Companies will return to in-person working at some point,” said Haney. “Pinterest continues to have a massive presence in San Francisco. There is uncertainty around how companies are restructuring their workforce, but it's not just in San Francisco, it's everywhere.”

Pinterest, which has 2,400 employees worldwide, owns four office buildings in San Francisco — 410 Townsend St., 149 Bluxome St., 651 Brannan St. and 505 Brannan — totaling 338,884 square feet. The company’s lease for its 122,170-square-foot headquarters at 651 Brannan St. is due to expire in May 2022.

Pinterest has not indicated any eventual plans to leave San Francisco and did not comment on whether the pending taxation efforts played into its decision to cancel the 88 Bluxome St. lease.

For now, it expects a majority of its employees to work remotely until 2021 and plans to distribute its workforce across geographical locations after that.

“We’ve explored alternatives to occupying office space at 88 Bluxome St. and have agreed with the developer to terminate the lease,” a Pinterest spokesperson said on Monday. “We’ll continue to occupy four buildings in San Francisco and believe we have enough space to accommodate our current needs.”

TMG Partners and Alexandria Real Estate Partners — the developers behind the 1 million-square-foot 88 Bluxome development — have declined to comment on Pinterest’s lease and whether the project will move forward without an anchor tenant.