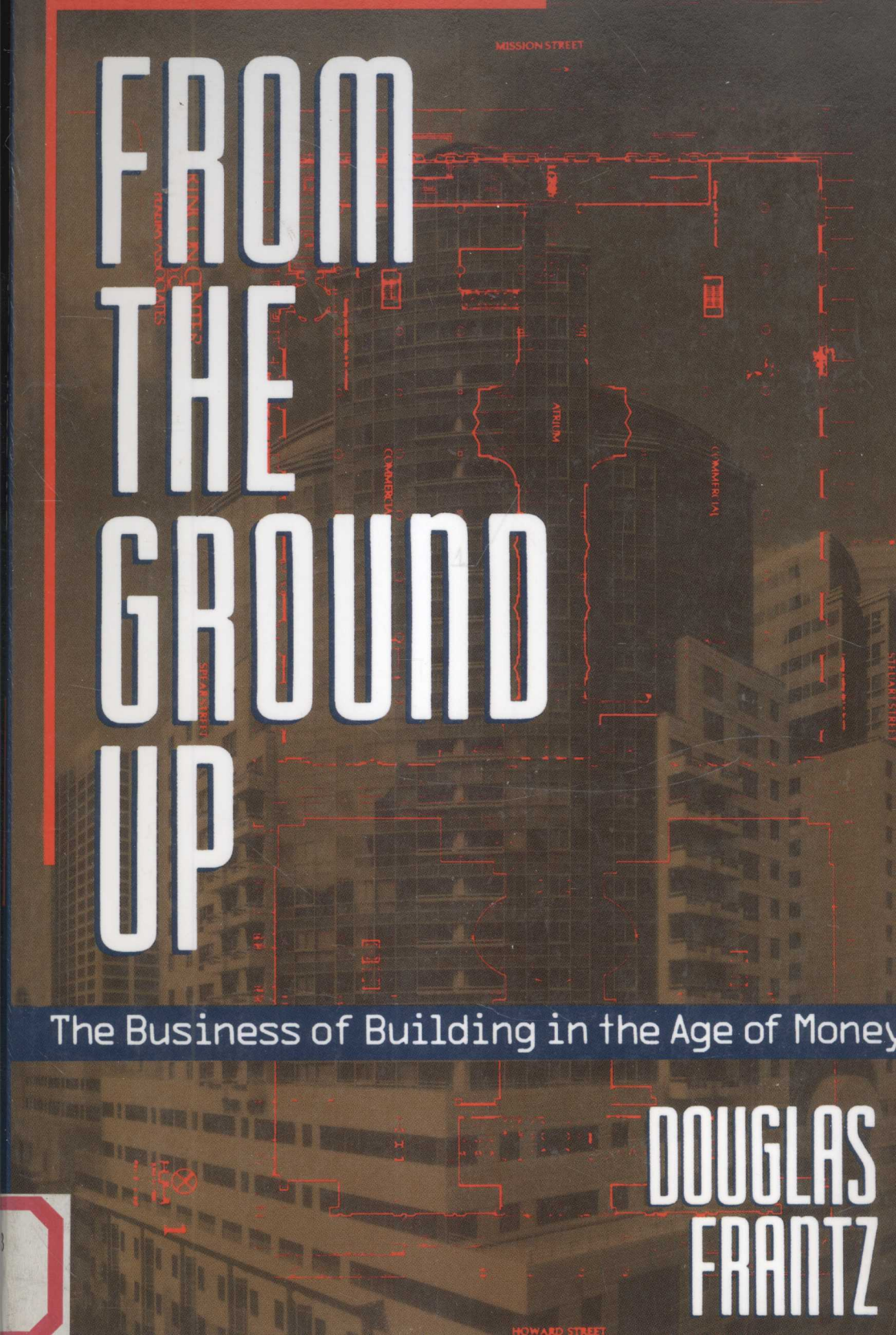


FROM THE GROUND UP

The Business of Building in the Age of Money

DOUGLAS FRANTZ

FROM THE GROUND UP

THE • BUSINESS • OF BUILDING • IN • THE AGE • OF • MONEY

DOUGLAS FRANTZ

UNIVERSITY OF CALIFORNIA PRESS
BERKELEY • LOS ANGELES • LONDON

University of California Press
Berkeley and Los Angeles, California
University of California Press, Ltd.
London, England

Published by arrangement with Henry Holt and Company, Inc.

First Paperback Printing 1993

Library of Congress Cataloging-in-Publication Data
Frantz, Douglas.
From the ground up : the business of building in the age of money
/ Douglas Frantz
p. cm.
Reprint. Originally published: New York : Holt, 1991.
Includes bibliographical references and index.
ISBN 0-520-08399-7 (acid-free paper)
1. Rincon Center (San Francisco, Calif.) 2. Real estate
development—California—San Francisco—Case studies.
3. Construction industry—California—San Francisco—Case studies.
I. Title.
HD268.S4F73 1993
333.77'15'0979461—dc20 93–13485
CIP

DESIGNED BY KATY RIEGEL
MAP BY JEFFREY WARD

GRATEFUL ACKNOWLEDGMENT IS MADE
TO JOHNSON, FAIN & PEREIRA ASSOCIATES AND TO PERINI CORPORATION
FOR SUPPLYING MANY OF THE ILLUSTRATIONS USED IN THIS BOOK

Printed in the United States of America

The paper used in this publication meets the minimum requirements
of ANSI/NISO Z39.48-1992 (R 1997) (*Permanence of Paper*). ♾

This book is a print-on-demand volume. It is manufactured using toner in
place of ink. Type and images may be less sharp than the same material
seen in traditionally printed University of California Press editions.

"Was he, Thomas Buddenbrook, a man of action, a business man—or was he a finicking dreamer? Yes, that was the question. . . . For the first time in his career he had fully and personally experienced the ruthless brutality of business life and seen how all better, gentler, and kindlier sentiments creep away and hide themselves before the one raw, naked, dominating instinct of self-preservation."

—Thomas Mann, *Buddenbrooks*

CONTENTS

1

RINCON AT MORN

The view from the 20th-floor apartment is postcard-perfect. Early-morning fog tumbles out of the hills above Sausalito. Alcatraz is wrapped in a misty blanket. Patches of San Francisco Bay are visible beneath the fog, a solitary sailboat bobbing in and out of sight. Treasure Island, the navy base in the bay, has disappeared in the gray swirls.

Closer to the apartment, on the right, the waterfront terminal is quiet. The commuter ferries will begin to dock in an hour or so, bringing lawyers, bankers, and secretaries from Marin County to toil in the office towers of San Francisco. As they shuffle out of the terminal, the commuters will pass beneath the elevated, double-decked Embarcadero Freeway, its huge concrete columns buttressed with wooden supports since the earthquake in October 1989 threatened to send the highway crashing down.

Visible off to the left are the tall buildings of the financial district, headquarters of the Wells Fargo Bank, Citicorp Center, Pacific Stock Exchange, and Bank of America. Peeking above those skyscrapers is the sharp tip of San Francisco's tallest building, the forty-eight-story Transamerica pyramid. Once the city's most radical structure, the pyramid is now an icon in its skyline. Also off to the left is Nob Hill, with its elegant hotels, steep streets, and quaint cable car tracks. Partially visible in the distance is the rust-red span of the Golden Gate Bridge.

Much closer now, twenty stories below the window, a solitary man in a business suit sits on a gray-green metal bench in the building's courtyard. Steam rises into the morning chill from his Styrofoam cup as he snatches a moment's peace before heading off for the day's battles. The courtyard satisfies the need for a sense of security in a public place; as the day goes on, and the hustle of the urban landscape commences, the courtyard will continue to hold out a promise of relief, a place where a person can sit or stand without getting in the way of anyone else. Its granite planters brim with pink begonias and purple impatiens, and its graceful benches are sited carefully on the granite floor beneath outdoor lamps. Near the center of the courtyard, an obelisk tapers to a height of ten feet, its white, brown, and blue ceramic surface highlighted by diving dolphins.

The tower that contains this apartment 200 feet above the courtyard is the twin of one a few feet away. Both are made of concrete and glass in shades of gray. The towers are curved, so that they cradle the courtyard below. They are eighteen stories tall, topped by identical twenty-four-foot spires, and sit on a shared six-story base that houses professional offices and retail space. The total structure reaches twenty-four stories into the air, or 240 feet, not counting the spires. The top two floors of each tower are used for mechanical systems, such as the heating and air-conditioning units.

The six-story office base creates the southern border for the courtyard below the high-rise towers. The base also forms the courtyard's sides on the east and west. The east and west extensions will eventually contain stores, but for now their large glass windows are covered with off-white paper as they await tenants.

From above, the overall configuration is that of a square-bottomed U.

At the open end of the U, the plaza's north side, a five-story archway frames a huge window on the rear facade of a five-story, older building. The older building is made of white concrete. Its top two floors are new and, except here at the back, they are recessed from its edge fifteen feet so they are not visible from the street. Below the arch, three sets of wide glass doors stand open and a colonnade, with a patterned marble floor, leads into the smaller building. A woman emerges from one of the apartment buildings, briefcase in

one hand and newspaper tucked under an arm. She strides across the courtyard and disappears into the smaller building. Minutes later, a couple comes out of the apartments and follows the same path.

Two men, deep in conversation, walk into the courtyard through one of the two glass-canopied entrances on opposite sides of the plaza at midblock and also disappear into the smaller building. The canopies span the twenty-seven-foot gap between the older building and its new neighbor. The link between the old and new is tenuous, partly for obvious architectural reasons and partly for hidden engineering ones. The old building, built five decades ago, is more rigid than its new neighbors and would sway less in an earthquake. The results, if the buildings were tied together in any significant manner, would be disastrous.

By now, it is nearly seven o'clock on the morning of June 18, 1990. The sun has come up over the bay and soon the fog will burn off to unveil a glorious, cool summer day in San Francisco. Within the next hour, this multiple-use development, known as Rincon Center, will awaken fully as more of its residents leave for jobs and workers arrive to labor in its offices and to search for food among the restaurants beneath its 200-foot skylight. Tourists and other pleasure seekers will begin to arrive to marvel at its unique free-form waterfall, which plunges five tall stories from ceiling to floor and fills the older building with the joyful sounds of a summer rainstorm.

This is the story of Rincon Center, a mixed-use project in San Francisco that includes apartments, offices, shops, and restaurants. It also is the story of the men who shaped and built Rincon Center, the dreamers who seek riches and immortality by launching great buildings onto today's urban landscapes. They are modern-day gamblers who have learned to exploit every loophole possible in pursuit of maximum profit. In boom years, they amass enormous profits and pray that they can stave off bankruptcy in the lean ones. Only the smart developers survive these boom-and-bust cycles.

The full range of human emotions were as much a part of erecting this complex development as the steel, concrete, and glass that give it tangible form. Those who build tall buildings would prefer that it not be so. Plans and schedules and budgets are meant to order the

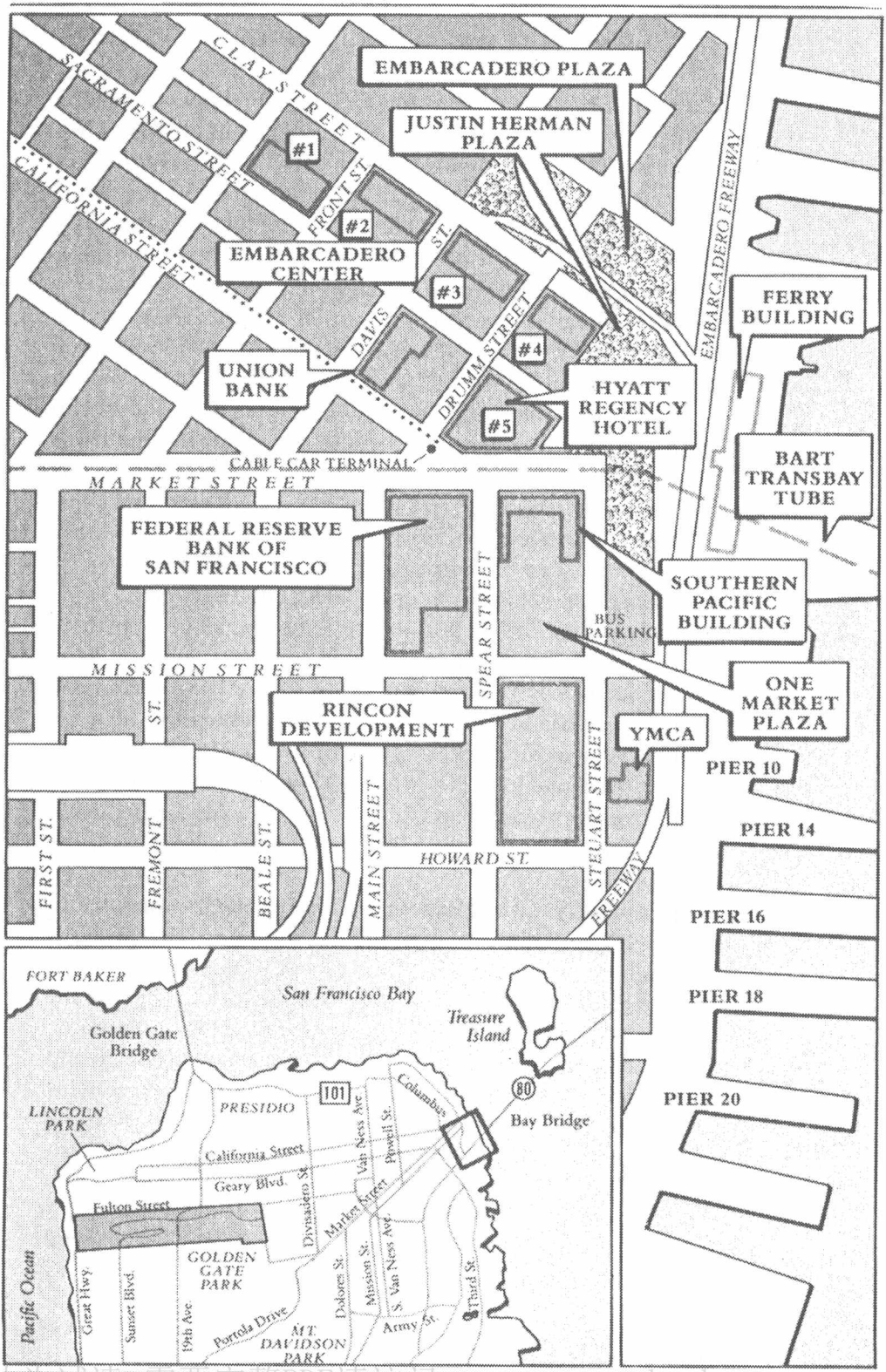
process and eliminate such unnecessary items as emotion. As Rincon Center neared completion in 1989, its construction manager, John Costello, observed: "In our business, we don't like drama. But this building had plenty."

What are the fruits of that five-year drama? Stunning views from a 20th-floor apartment. An elegant rain column and a new stop on the Grayline tour. A dozen restaurants in a dozen flavors for hungry office workers. Office space for 1,500 or so people, and 320 apartments in a city desperate for urban housing. Survival for an outdated but historic post office. Another notch of fame for a rising young star in the world of architecture. A development team battered by millions of dollars in cost overruns. And money, in various denominations, from large to larger, flowing in various directions.

Yet in the end, when the drama has been played out, what is left on which to judge whether the effort was worthwhile, whether the mark that remains from all this labor is sterile and ugly or uplifting and golden, whether a dysfunctional neighborhood has been put on the road to health? The building, of course. Long after the owners have collected their profit or lost their shirts and the architects, engineers, and laborers have moved on to other projects, a million square feet of concrete, glass, and marble on a full city block remain as testament to their labors.

Rincon Center is bounded on the north by Mission Street and on the south by Howard Street. The eastern border, closest to the bay, is Steuart Street, and the western one is Spear Street. Four lanes of ugliness, the Embarcadero Freeway, curve around the southern edge of the site. Not long after the 1989 earthquake, one of Rincon's owners said he wished the entire freeway had fallen down; it would have cleared the views of the bay from the lower floors of the development. Uptown is west from Rincon, and three blocks in that direction is the busy Transbay Terminal for public buses. The ferry terminal is two blocks north and slightly east, on the waterfront. North and slightly west is the Embarcadero stop on the Bay Area Rapid Transit.

The entire site is situated in an area known as "South of Market," regarded in recent years as fertile territory for urban pioneers. Market Street has long been the boundary in downtown San Francisco between premium developments and the rest. The financial district, Fisherman's Wharf, and the huge Embarcadero Center are north of Market; warehouses and transient hotels dominate to the south.



Once, this location was under ten feet of bay water. Countless wooden ships were abandoned here in the late 1840s and 1850s, when their crews ran off to seek their fortunes in the gold rush. As San Francisco grew into the financial and business capital of the West, portions of the bay were filled in to accommodate the expanding city and the area became home to Chinese laundries, saloons, brothels, hotels, and chandleries that served the shipping trade.

In 1940, the federal government completed a postal facility on the site. Covering almost half a block, the structure was built on 3,800 wooden pilings sunk in the bay and the mud. It was called the Rincon Annex Post Office. Gilbert Stanley Underwood, an architect who enjoyed a small measure of fame on the West Coast during the 1920s and 1930s, designed it: the post office is a three-story example of the Streamline Moderne school of architecture. It is a compact and symmetrical structure, with clean lines that are graced by two-story windows and punctuated by nautical devices, such as dolphins, portholes, and railings, in recognition of the location's heritage.

Today, the exterior of the post office is little changed on three sides. Cut into black granite above the two small entrances on Mission Street are the words "United States Post Office Rincon Annex." But the rear facade has been ripped away and replaced by the giant archway and glass window. And the interior bears no resemblance to the warren of offices and long tables for sorting mail that did not have enough historical or architectural importance to warrant preservation. The two new floors that have been added are topped with the 200-foot-long skylight.

Beneath the lightly tinted glass of the skylight, a five-story atrium has been carved out of the center of the building. The project's structural engineer compared creating the atrium to using a can opener to pry off the lid of the building and then scooping out the contents. The ground floor of the atrium is ringed by restaurants, tables and chairs clustered in common dining areas, an art gallery, and other small shops. The upper stories house offices, with large windows and balconies overlooking the atrium. Its design and detailing were the focus of a prolonged battle among the architects, the developers, and a small army of consultants that in many ways was a microcosm for the entire development process at Rincon Center.

Most people enter the old post office through one of three original entrances, two on Mission Street and one on Spear. The two-story

lobby retains the feel of the post office. The floor is government green granite. Twenty-seven bold murals line the 400-foot lobby. They depict the history of California, from the early Indians to the founding of the United Nations in San Francisco, and are the work of the late Anton Refregier. They have been painstakingly restored by a team of experts. Metal grates still cover the service windows and above them are plastic signs: PARCEL POST, STAMPS, LETTER DROPS, FIRM MAILING, LOCK BOXES. But behind the grates are displays for the shops in the atrium. There is no longer a place to mail a letter in the old building. The new post office is in the second building at the other end of the block. Still, the question most often asked of the security guard at the information podium in the historic lobby is, "Where can I mail this letter?"

Falling water is the first thing one hears upon entering Rincon Center through the post office lobby. It is less than a roar, louder than a trickle. A visitor who follows his ears through the lobby to the atrium soon finds the source: some eighty-five feet above, barely visible against the skylight, is a square Plexiglas plate measuring eight feet on each side and perforated by 4,000 precisely drilled holes. Every minute, a recirculating pumping system sends a steady fifty-five gallons of water swirling onto the plate. The water pours continuously through the holes and falls straight into a pool flush with the floor. Think of it as a giant but elegant shower.

Every first-time visitor instantly and automatically looks straight up on entering the atrium. When the building first opened, visitors were so mesmerized that some walked right into the pool while staring at the ceiling. Several slipped and fell in the shallow water, causing the building's owners untold worries about possible lawsuits. The inelegant solution devised by the owners over the objections of the architect and the artist was potted plants at critical spots along the perimeter of the pool.

Small metal tables with laquered wooden tops and matching metal chairs surround the atrium. The chairs are half-price knockoffs of an Italian design that would have cost $600 each. In the mornings, they are usually about one-quarter full as workers grab a quick breakfast or cup of coffee. At the start of the day, the atrium is in shade. As the sun rises and the light filters in, the aluminum mullions supporting the skylight break the sunshine into patterned shadows that creep down the west interior wall. The wall was designed to

evoke the warmth and grandeur of sandstone, but that is one of many illusions necessitated by budget limitations on Rincon Center. The atrium walls are gypsum board, also known as drywall, that have been artfully painted and cut to look like sandstone. Similarly, some of the round columns defining the eating area in the atrium appear to be red granite but are merely hollow columns with a *faux* finish applied by a team of painters. Small screened openings in their bases help ventilate the atrium.

By mid-morning, the sun has moved down the walls as far as the new murals that line the perimeter of the atrium. Designed specifically for the space by New York painter Richard Haas, they depict the modern history of San Francisco in panels of beige, blue-gray, and pink. The murals seem faded and washed out compared with the Refregier works in the old lobby.

A few minutes before eleven o'clock, a young man in a tuxedo pulls the cover off a Steinway grand piano a few feet from the rain pool and begins to play, moving from Broadway show tunes to classical as the lunch crowd trickles in. Rincon's developers stole this idea from the Trump Tower in New York City.

Traffic in the atrium picks up about eleven-thirty as the lunchtime crowd begins to arrive in earnest. By shortly after noon no tables are left, and men and women in business dress vie with workers from nearby construction sites for spots on the two-tiered platforms that, curving around the perimeter of the atrium, offer additional seating. On their laps, they balance trays from restaurants with such names as the Tampico Taqueria, What a Deli, Arabia, and All Stars. The buzz of a hundred conversations is muffled by the constant sound of falling water. This is a scene that is repeated every weekday in the atrium, which has already become far and away the most popular lunchtime gathering spot in the neighborhood.

By two o'clock, only a few stragglers remain and the after-work crowd does not materialize on this Monday as it often does on Thursdays and Fridays. Only a few people meet for a quick soda or cookie before moving on. At night, most of the people who come into the atrium head for Wu Kong, a fancy and highly rated Chinese restaurant, or Asta, which serves American cuisine and was named for the dog in the movie *The Thin Man*.

Outside, at the far end of the courtyard, sit the two apartment towers. The sun has dropped below the skyline, leaving the court-

yard shaded and cool. In truth, the courtyard is chilly and shaded much of the day because the towers block out the sun, except between eleven o'clock in the morning and one in the afternoon. The shadows are unavoidable, given the density of the two towers at the south end of the site. Numerous sun and shade studies were conducted during the design process in an attempt to ensure that sun reaches the plaza at least during the noon hour. People still use the space during periods of shade, but it is rarely as packed as some of San Francisco's other outdoor areas.

The few people who work in the six floors of offices in the new portion of the project use a small lobby and elevators off the back end of the plaza. This space is still almost entirely empty, costing the developers thousands of dollars a day in lost rent. In a conscious attempt to separate the work and living portions of the complex and maintain the two different security levels, the office workers are cut off from the more elegant lobby on the Howard Street side of the building that serves the apartments. There, a concierge is on duty behind a large custom-made wooden desk. The walls are covered with fine woods and the lights are brass. Unlike the relatively unrestricted access to the commercial space, all visitors to the residential portion of the building are stopped and identified.

The first apartments were available early in the summer of 1989. On this June day almost a year later, a leasing agent named Jill Dilley says the towers are 96 percent occupied. The choicest apartments, those on the east and south sides of the towers, have panoramic views of the Bay Bridge and Oakland. Many of them were snapped up even before the building opened. The early customers included local architects who admired the project, people who work in the area and had followed the structure's progress, and corporations looking for a convenient pied-à-terre for visiting executives. Scattered throughout the building are the below-market "affordable" units, occupied mostly by young singles who fall within the income guidelines set by the city.

All that Dilley has to show a prospective tenant is a two-bedroom, two-bath apartment on the 20th floor with a northern view of the city and the bay. It is the same spot from which the visitor watched the sunrise earlier that morning, courtesy of a friendly security guard. The apartment has a small, well-appointed kitchen and a medium-size living room. Both bedrooms are small and one is chopped into a

strange configuration to accommodate the intersection of two structural girders. Another girder curves around the exterior, dropping the ceiling about eight more inches right at the windows. But any sense of claustrophobia is relieved by the panorama beyond the huge windows. This particular apartment is 1,000 square feet and the rent is $2,100 a month, on the high end for San Francisco. Better take it fast, because it's the only big one available, warns Dilley.

"This building has been a big success since before it opened," brags Dilley.

Perhaps that is true. But it is not the whole truth. Not by a long shot.

2

THE RISKS OF THE GAME

Real estate developers assemble pieces of land, arrange financing, secure government approvals, and hire architects and engineers to design and build big projects. It can be a long and complicated process, requiring creativity and persistence. But real estate developers are not business people in the traditional sense. In their hearts, they are gamblers. The smart ones gamble with other people's money, raising their stakes from banks, syndicates, and big-time investors. They hedge their bets by exploiting the potpourri of tax breaks and subsidies offered by Uncle Sam. And even in this era of equal opportunity, real estate development remains a man's field or, more accurately, a boy's game.

Through the late 1970s and early 1980s, real estate development was a lot like sex: when it was good, it was really great and when it was bad, it was still pretty good. Fueled by generous tax laws and big banks, and small savings and loans burning to lend money to hordes of borrowers of sometimes dubious repute, an unprecedented building boom transformed downtowns across America. So it's no surprise that, by 1984, many areas around the country were suffering from an overbuilding that was beginning to send tremors through the nation's banking community. Some developers would try to grow their way out of the problem, taking out bigger and bigger loans and putting up more buildings in a variation of the old Ponzi scheme. Those who had not stretched their finances so thin could afford to