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This month, on October 11th, marks the beginning of my 40th year of leasing and selling San Francisco East Bay office space and buildings. I've seen so very many brokers come and go, leave brokerage for the lure of huge profits in development or, conversely, job security and salary in banking or other related fields, but during the past decade, there has been much less turnover in my industry. Maybe we are all finding our own niches and rolling with the waves ... The stock market goes up or down 200 to 400 points at a time ... In October 2014 Bloomberg News predicted the average price of a barrel of oil for 2015 would be \$99.65 a barrel, then a few weeks ago Goldman Sachs thought prices could go as low as \$20 a barrel in 2016. Later this month, I fly to Southern California to do a one-hour speech to the CPA Society, and in a few weeks I will be giving a one-hour presentation to the Contra Costa County Bar Association attendees. So much to think about, so much going on ... The commercial real estate frenzy is still whirling fast and while few know when the boom will end, most agree it can't last indefinitely. One silver lining for those of us in suburban office markets is that we haven't soared as high as for example, San Francisco with \$65 to 80/rsf rents, so we don't have as far to fall.

One of my favorite real restate authors is my friend and fellow SIOR, Bill Gladstone, who dominates the Harrisburg, Pennsylvania commercial real estate market. In his [Second Quarter 2015 Real Estate Review](#) included an article focused on downtown revivals that have been mushrooming across the country. "Charles Lesser & Co., a real estate consulting firm, recently surveyed the preferences of young adults aged 20 to 34 and found that:

- 31 percent prefer to live in a center city
- Two-thirds seek walkable places or town centers and one-third are willing to pay a premium to be within walking distance to shops, restaurants, bars and other amenities
- Half are willing to give up living space in order to live in a "walkable neighborhood."

I have been hearing about San Francisco apartment rents for one bedrooms at \$3,000-5,000 a month, and I know of someone who just rented a two-bedroom apartment in downtown Walnut Creek for \$3,900 a month! Midwesterners can purchase a 3,000 sf home for \$250,000 or less, with a monthly mortgage payment

of \$1,070/month or less and are in shock when they hear these figures. San Francisco also has a “mini” housing component, where for a paltry \$415,000, one can purchase a “spacious” 291-square-foot total condo with fold-down Murphy bed that converts to a kitchen table, a tiny kitchen, and not a lot of entertaining room. ([SFGate, April 2015](#)) There are also “mini-studios” for rent at \$1,425/month. Alan Mark, a president of San Francisco’s Mark Co., said he advises folks in compact spaces to “think of your apartment as your bedroom and the neighborhood as your living room.” Oh, yeah, easy for you to say!

Office markets are in transition – after years of sleepy, slow moving market velocity in recent months, downtown Oakland has been on fire. Brokers complain that they set up client tours a few days in advance only to find half the spaces are off the market by tour day. One broker called it a “See it – take it” market where reflection and indecision means lost space opportunities. Out in the suburbs, Concord has seen a surge of activity, with rental rates jumping \$.25 to .50/rsf per month just during the past 6 months.

Offices in a converted shipping container? Campsyte Inc. is in-filling vacant lots with recycled shipping containers converted to retail shops, start-ups, creative businesses, and yes, smaller office tenants. Its first project is San Francisco’s South of Market district will be a three-level container complex with food vendors and offices. For further information, please check out [www.campsyte.com](http://www.campsyte.com). ([The Registry, September 1, 2015](#))

The IoT (Internet of Things) for office and other commercial buildings: As sensors become an integral part of more and more building systems, expect significant utility cost savings, interaction between how employees use space and how HVAC, lighting and other systems react and proact for precise monitoring capabilities for critical power management systems. ([Facility Executive May 28, 2015](#))

[Site Selection](#) July, 2015 cited a report by Smart Growth America - “Core Values: Why American Companies are Moving Downtown” ... “Our younger employees don’t want to go to a suburban office park. It’s boring as all get-out out there. Here they walk outside and see cool stuff and it’s fun ... More people are now living downtown, there are more restaurants, more cultural opportunities, more fun by an order of magnitude.”

In a July 15, 2015 report by [Morgan Stanley](#), AlphaWise Survey: Broker Optimism Nearly Maxed Out, “Almost 300 brokers nationwide participated in our July real estate survey. Industrial optimism reached new heights but concern over new supply ticked up. Office sentiment polarized and large financial tenants remain weak.” Reviewing the various charts, half the cities are landlord markets (San Francisco, Atlanta, New York City, and Boston) and half are tenants markets (Washington, D.C., Philadelphia, and Los Angeles).

WeWork Companies, Inc., the cool, hip operator of co-worker spaces which can be rented by the hour, day or month, has 3.6 million feet under lease and is valued at \$10 billion. Wow! ... headphoned workers sit across from one another on long picnic tables and stare at their computer screens. Amenities include couches, beanbag chairs for dogs, fresh fruit, free coffee, ping pong and pool tables, and free beer at happy hour.” ([The Registry, July 14, 2015](#))

One of the more troublesome aspects of leasing office space in California, particularly in the Bay Area, is the crazy-high cost of tenant improvements. The construction trades are going gangbusters, thanks in part to the 8 million square feet of office space leased this past year just in San Francisco and the 25 million square feet of office, flex and warehouse anticipated to be leased in Silicon Valley in 2015. Building material costs have also skyrocketed, but the one particular TI element that is most troublesome is Title 24 energy retrofits initiated in mid-2014. For new or expanding tenants or existing office renovation, if either 10 percent or more of the layout is changed, or, according to some contractors and architects, the “volume” of the space usage changes, all ceiling light fixtures, light switches and plugs have to be replaced with sensors, auto-shut offs, and LED fixtures. Ballpark (and this comes from many, many sources), this one element can cost from \$10 to 15/ rsf which is a huge number. According to one GC, the electrician in charge has to sign off on code compliance audits and at his or her cost during the following five-year period pay for remedies if any non-compliance is found. This adds a significant cost factor to bids, and I have heard of several “nightmare” tenant improvement scenarios with TI’ costs in the \$50 to 60 per sf range for second-generation space. Another troubling comment I have heard is that different cities interpret the Title 24 requirements in their own way, which can add to contractor, landlord and tenant frustrations.

**Deals and Rumors:** We will start this time with **Oakland**, where Uber just purchased 320,000 sf at the former Sears building on Broadway; Fluid leased 16,000 sf at 1611 Telegraph Ave.; Brown & Toland Physicians will be relocating 60,000 sf to 1221 Broadway; and The California Institute for Regenerative Medicine leased 17,000 sf at 1999 Harrison St. In **Walnut Creek**, Mass Mutual signed for 17,000 sf at 3003 Oak Rd. and in **Concord**, The Regional Center for the East Bay may be taking 25,000 sf at 1320 Willow Pass Rd. In **San Ramon**, Trumark is rumored to be leasing 12,000 sf, and BlackBerry for 57,000 sf, and in **Pleasanton**, Cisco may be leasing 12,000 sf at Rosewood and GAP just purchased the 180,000 sf Class A office building they have been leasing at Rosewood. Over in **San Mateo**, DoorScan renewed and expanded to 122,000 sf at 221 Main St. and SurveyMonkey is taking 200,000 sf at 3050 Delaware St. In **San Francisco**, Rodan + Fields took 62,000 rsf at 60 Spear St.; NRG Energy leased 51,000 sf at 100 California St.; New Relic signed for 56,000 sf at 123 Mission St.; Zipongo may be out looking for 45,000 sf; Apple, Inc. leased 76,000 sf at 235 Second St.; Cypress Insurance is taking 65,000 sf at One California St.; DoorDash leased 33,000 sf at 116 New Montgomery St.; WeWork is reportedly considering leasing 100,000 sf at the new Salesforce Tower, where Barn & Company might also be looking to take 60,000 sf; and LendingHome will be taking 32,000 sf at One California St.

Office flexibility can be a key to employee productivity – “... Employers continue to discover that, in many cases, they have overbuilt collaborative workspaces to the detriment of focus or heads-down work. As those realizations hit home, it’s important to stay with flexible furniture to create new spaces as needed.” Having the capacity to reconfigure workplace designs affordably can spell the difference between higher and lower rates of productivity ...” ([Facility Executive May 22, 2015](#))

*SF Business Times* July 31, 2015, “Americans under 30 are 2.3 times more likely to use public transit compared to those between ages 30 to 60, and 7.2 times more likely than Americans over 60, according to a 2014 study from TransitCenter.” What long-range impact will this have on future suburban office development, not easily accessible to public transportation? How does this relate to new employee hiring and employee retention? What happens when these “under 30-ers” become decision-makers?

*Buildings*, August 2015 had several great ideas for providing bike parking at work that employees actually want to use and are even encouraged to bike to work.

1. Have a brainstorming session with your company’s bicyclists to get their input and support. If you don’t get their buy-in, it will probably be a waste of money.
2. The old-fashioned bike racks may damage bikes and allow easy theft, so check out bike lockers or, if enough demand, bike rooms, perhaps in the parking garage or underutilized facility space.
3. The right location can make all the difference in how many people use the bike parking. If too hard to get to or use, it will deter usage. Have it by the main entrance or main employee entrance, or convert a parking stall (one stall can accommodate 10 to 12 bikes).
4. Collaborate with the Human Resources department. Offer group riding events, bike repair classes and incentives to sustain a bike-friendly workplace. This may have a positive impact on employee retention, recruiting, wellness programs, and insurance premiums.

Tips on avoiding The Home Office Blues ... Have your workday start time be a routine, do not do household chores during work hours, set up a designated work space where the door can be closed to minimize interruptions and distractions, create a “co-working” group where once or twice a week you can interface with other at-homers, perhaps, meeting at a local Starbucks or the library, and have a daily exercise routine. (*Tahoe Daily Tribune, July 31, 2015*)

CompStak reports that San Francisco office rents were up 6.6% from the previous six months to \$65.29 per annual square foot, and Class B office rents increased 12% during the same period to \$59.40 per square foot. There have been a number of office leases in the north Financial District signed in the \$70s, and the new Salesforce Tower is reportedly asking \$110 per square foot for its under-construction space. (*The Registry, August 30, 2015*)

The property value increases in some regions have been humongous and it is great for now, but local governments need to be diligent and remember that these tax revenues are not sustainable and at some point will diminish just like they have done during all past real estate cycles. “Fueled by the largest economic recovery in over a decade, Santa Clara County Assessor Larry Stone announced today that the county assessment roll hit a major new milestone exceeding the \$400 billion mark. The gross assessed value hit \$409 billion and the net taxable assessed value after exemptions was \$388 billion. The net

assessed value grew by 8.67%, an increase of \$31 billion. The assessment roll is a snapshot of the assessed value of all real and business property in Santa Clara County as of the January 1, 2015 lien date." Huge tax revenues for infrastructure upgrades, pay down of long-term debt, road repairs and rainy day funds ... but do not count on this lasting forever ... ([Office of the Assessor, County of Santa Clara, June 30, 2015](#))

Madison, who turned 13 on August 23, is now in the seventh grade and seems to be enjoying her middle school experience. Her particular school, Stone Valley Middle School, is 65+ years old and will be demolished during the next three months, so poor Madison will spend the rest of her time there in portable classrooms. I just hope they are not Katrina FEMA leftovers! Jordan, my 18 year-old young man, just left home for his first year at Cal Poly in San Luis Obispo, and those parents who have been through the child leaving the nest process know how painful it can be. High in the tree, being fed great food, a spacious private bedroom, his own car, never wanting for anything, now tossed out of the nest in hopes that his wings are sturdy enough to fly, in a dorm room with two other roommates, dorm food and shared everything. Ah, but the freedom (for him)! Their most recent photos can be seen [here](#).

A quote I read daily says the following, "I will make up my mind to be cheerful every waking moment of this day. I will not expect too much; this will shield me from being annoyed at little things that do not go just the way I wanted them to, what a comfortable feeling it gives me to realize that all I have to deal with is just this one day, it makes everything else so much easier!" I am sure most of you are in more predictable professions than 100% commission-based commercial real estate brokers, but there are just some days that seem to defy even gravity! I have had both major incredible positive as well as negative surprises. Yet life still goes on, and just for today everything will be great!

Enjoy the fall, pray for just the right amount of rain wherever you are, and continue to call me with your commercial real estate questions and requirements!

Sincerely,



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