



Corporate Office Perspectives

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The right wing may in part be complaining about the economy, too many taxes, too many benefits, while the left wing bemoan insufficient social projects ... meanwhile, the labor department just announced overall unemployment is down to 5%, which is full employment if you can ever believe the Fed's statistics. Donald, Ben, Jeb, Bernie, Hillary, sometimes very entertaining, no matter which side you are on, and I don't remember anytime ever in my past 11 presidential elections where there was so much hoopla a full year ahead of the actual election. In most regions of the U.S. tech is king, traditional office users in law, accounting and finance are cautious, and markets very slowly are improving, although double-digit vacancy rates abound. I added up just the San Francisco expansions listed in my Deals and Rumors section, and they translated to 5,000 current job openings. If just half (and it is actually more than half) of the office projects under construction in San Francisco fill that space with the current employee density we are seeing, (7-10/1000 sf) this represents 21,000 jobs to fill. Any way you slice it, other than traffic and the cost of housing, not too shabby an economic scenario!

UBERization - What East Bay landlords are doing in reaction to the 330,000 square foot office deal UBER just did in Downtown Oakland - raise asking office rental rates in anticipation of more San Francisco firms relocating a portion or all of their operations across the Bay.

The median home value in Silicon Valley is now \$896,000, but according to a new Zillow study, the median home price for Apple Campus workers was \$1,370,000, for Facebook HQ and GooglePlex workers it was around \$1,249,000. "Using census data, Zillow found the "typical worker at Apple's Cupertino, Calif., headquarters lives in a home that is worth about \$1.14 million, about \$241,000 (27 percent) more than the median home in the already-pricey San Jose metro area and \$380,000 (50 percent) above the median home value in the San Francisco metro area." ([SF Gate, November 2, 2015](#))

What high-tech companies want for their employees? "They want a place to park their bikes; they like bringing their dogs to work; and, above all, they love rooftop decks." This is true not only in San Francisco and Silicon Valley, but in New York City as well, where there is a proliferation of rooftop decks, lots of bikes and lots of dogs. ([Urban Land, November 2, 2015](#))

Apple may be taking an entire 777,000 square foot office redevelopment in Sunnyvale, The Central and Wolfe Campus, which architecturally looks stunning with clover-leaf shaped office buildings for the Class A 18-acre project. ([The Registry, September 16, 2015](#))

A new rule on banks which kicked in this past January requires banks to reserve more capital for loans on property defined as “high volatility commercial real estate”. One way to avoid this designation is if the borrower has contributed capital to a project with at least 15 percent of its appraised-as-completed value. As a result, banks are expected to make fewer construction loans. ([The Registry, October 22, 2015](#))

At a recent speech to the California CPA Society I asked two questions: For the following regions what is the total amount of Class A office space, and what is the total square footage currently vacant today? The regions are: Los Angeles County, San Francisco, San Mateo County, Fresno, San Diego, Sacramento and Silicon Valley, and the answers are 668 million square feet of Class A office space with 84 million square feet of this currently available!

Deals and Rumors: Oakland continues to sizzle, although with a 5% vacancy rate and few decent-size blocks of available space ... but for now, The Sierra Club will be relocating its headquarters from San Francisco to 38,000 sf at 1111 Broadway to Oakland; Pandora expanded by 49,000 sf at 2100 Franklin St., CoreLogic took 24,000 sf at 555 City Center, and Wendel, Rosen, Black & Dean LLP expanded to 56,000 sf at 740 Heinz Ave. In **Walnut Creek**, Hormel took 24,000 sf at 1340 Treat Blvd., up in Concord I helped International Education Center sign a lease for 10,000 sf at 2151 Salvio St., and Unitek College leased 24,000 sf at 1401 Willow Pass Rd. In **Pleasanton**, Acosta is rumored to be leasing 25,000 sf at Britannia. In **San Francisco**, Credit Karma may be leasing 150,000 sf at 650 California St.; Twitch might be taking 150,000 sf at 350 Bush St.; Zenefits rumored to be out looking for 150,000 sf, PagerDuty leased 42,000 sf at 600 Townsend, and DoubleDutch Inc. signed for 36,000 sf at 350 Rhode Island St.

The Warriors’ purchase of the 12-acre San Francisco Mission Bay site includes a \$1 billion, 18,000-seat Warriors Stadium, 580,000 sf of lab and office, 100,000 sf of retail and a 5.5 acre public park. The \$155.1 million price works out to \$296 per dirt square foot.

Every day for the next 15 years 10,000 Americans turn 65, and the Baby Boomer generation is expected to begin retiring in force. During the next 10 years, the Millennials are positioned to take over management as they approach 50% of the workforce. Now here come the Gen Z’ers, born between 1990 and 1999, some of whom have no idea what a VCR is, never saw a rotary phone, and couldn’t begin to imagine a tube television or not having Internet. Their career goals include attaining management positions within five years of finishing college (32%) as well as owning their own business (30%). Most surveyed (77%) believe they’ll need to work harder to have a satisfying career compared to those in past generations. ([Robert Half Legal 2016 Salary Guide](#))

San Francisco Bay Area traffic continue to worsen. I work out almost daily in my home gym, usually at 5:00 a.m., and the traffic reports seem to be increasingly

worse as population and office occupancy rates increase, the commute now begins at 4:00 a.m., and one overturned truck can shut down a key artery for a number of hours. Recently, a big rig flipped over on Interstate 580, spilling 30,000 frozen chickens (why did 30,000 chickens cross the road?) and shutting down this key freeway route for 11 hours. Not sure what can be done to alleviate all this traffic as long as the economy is strong ...

Pretty scary stuff from [Buildings, October 2015](#) - The Chief Content Director, Chris Olson, wrote about "how to hack into building systems" and came up with lots of hacking vulnerabilities for commercial buildings. "... threats can involve any building system with an internet connection - including CCTV camera systems, HVAC, access control, fire annunciation and suppression, elevators, lighting, and power systems." Yikes!

There is 3 million square feet of Class A office space currently vacant along the I-680 corridor and Tri-Valley regions, with rental rates on a full-service basis for the most part in the \$27-32/rsf range. A number of the projects offer amenities such as free common conference and exercise facilities, free parking, and a number of office projects are BART located. Activity is brisk in several sub-regions with prospects coming from Oakland and San Francisco taking advantage of the huge rent differentials.

The 20 richest cities in America - Bloomberg ranked these based on gross metropolitan product per capita, with Silicon Valley at the top with \$105,482, more than double the national average, and Bridgeport, Conn. as second at \$94,349, followed by San Francisco, Seattle and Boston. To see this study, click [here](#).

A 75% savings due to Next LED efficiency frontier! Incorporating daylight and occupancy sensors into fixtures themselves raises efficiency to a new level, according to a study by the Lawrence Berkeley National Lab. Installation costs were minimized by using the wiring of the legacy recessed fluorescent fixtures. "The system was so easy to set up that it literally took us less than an hour to commission all 300 fixtures - and we didn't need an engineer or program specialist to do it." ([Buildings, October, 2015](#))

I recently made a presentation to the CPA Society, covering all the major population centers in California in terms of commercial realty estate. In a nutshell, office leasing is just OK in the Los Angeles, Fresno, Sacramento, and San Diego regions, prime retail is fairly tight while in some sub-regions 'B' inventory has brought the overall market down, industrial almost across the board is in single digit vacancy with a number of regions reporting sub-5% vacancy. This contrasts to Silicon Valley, the Peninsula and San Francisco which are off the charts in office velocity. San Francisco which has 5.4 million square feet of new office projects is currently under construction and the majority preleased, with 18 million feet of new office development pending or in the pipeline. The Prop M moratorium limited development to 850,000 square feet a year will put a strangle hold on this.

Jordan, my 18-year-old son, went off to Cal Poly for his freshman year and appears to be having a great time, but those of you dads with boys in college

know how frustrating it can be to get a return phone call, photos or an invite to visit. He is majoring in bio, has two roommates in his dorm room, and all three are over 6'1". Madison, my 13-year-old daughter, just finished her soccer season with the Diablos, and in one of their best games was against the undefeated team at the final regular season game, Madison made an assist and then the winning goal for a 2-1 victory. Their photos can be seen [here](#).

As I write this, it is lightly raining, and for us, Californians, we can't get enough. The ski resorts are beginning to open and Christmas shopping seems to be in full swing. I can judge by how quickly time zooms by from Costco's seasonal displays with camping gear and beach equipment is just around the corner. My gym, Forma, in Walnut Creek recently had an art show by its members and I was fortunate to have had two photographs on display as well as playing my tenor sax with the duo they had performing. What made the event extra special was seeing my 90-year-old father, Arthur, with his own section on poetry, where he signed and gave out copies from the 22 books he has written to date. What a joy to see him interacting with the crowd, and it is these moments and memories that we all experience that make life so special! Have a wonderful and safe holiday season!

Sincerely,



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