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In the August 1, 2000 **officetimes.com** Issue 122 the first sentence was “In my humble opinion, the Bay Area office market reached its peak in March of 2000.” True, we had a lag effect in a number of sub-regions playing rental rate catch-up, and even today there are still record sale prices of well positioned office buildings around the Bay Area. However, during the past three months we have seen office vacancies soar in most parts of our region from the 1 to 3 percent range to 5 to 10 percent today. The South of Market office market used to host bidding wars, but now has a reportedly 3+ million square feet vacant, with rents dropping \$10 to 30/sf per annum just since the end of Y2000. San Mateo County, just a few months ago tighter than a drum, now offers 2.5 million square feet available, most sublease or give-back space. Emeryville has 500,000+ sf, Richmond 200,000 sf, and even the Tri-Valley region of San Ramon/ Dublin/ Pleasanton had 40 spaces totaling more than 500,000 sf come back to market during the past 60 days. There are several positive spins circulating, like “Well, now we have space for companies to expand into,” and the observation I’ve heard repeatedly, “Sure rents are dropping, but they are still double compared with just a few years ago.” Great, if I’m a tenant I only have to pay twice the rent in a down economy where survival includes watching expenses. I don’t want to stick my neck out and predict this downward spiral might continue before it levels off and but not return to a growth mode for several years, but this appears to make sense...

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I’m involved as one of the advisors in the upcoming Realcomm 2001 program coming up in June 13-15 in Dallas. This promises to be **the** cutting-edge industry showcase of new commercial real estate technology and e-business initiatives, backed by just about all the commercial real estate organizations such as NACORE, SIOR, IDRC, IREM, etc., more than 200 speakers, 150 exhibitors and the who’s who in our industry expected to join the more than 4,000 anticipated to attend. Check out www.realcomm.com to register.

New features on **www.officetimes.com** include a great article on Commercial Property Due Diligence, Pros & Cons to Subleasing, and lots of new San Francisco Bay Area commercial organizations calendar postings. Also at **www.officetimes.com** are articles on cabling trends, telecommuting and links to sites like the CPI Index, BART schedules, etc...

NACORE co-hosted an afternoon program two weeks ago titled “New Business Models in Corporate Real Estate,” focusing on corporate real estate e-commerce delivery systems. Various real life models were presented, including Sun and Oracle as well as business platforms by consortiums seeking to make a significant impact in the way Corporate America procures everything from light bulbs, copier equipment and office space. At the end of the program, after we heard four different e-commerce delivery systems present their bells and whistles one of our leading corporate real estate directors asked the entire group “How come each of you four operate on a different, non-interchangeable software platform? Can’t your various groups go into the next room and work out a common platform arena to make it easier for Corporate America to convert to e-commerce?” Who wants to convince their CFO to spend significant sums of monies to convert their corporate real estate systems to e-commerce, only to find they chose Betamax and not

VCR... don't get me wrong, potential savings are enormous. The advantage of having the sales manager in Dayton being able to access his lease, HR or furniture stats on-line or the cost savings by automating churn (i.e. so when you relocate an employee one input also changes HR, IT, operations, etc.) can be phenomenal. It's coming and the changes will be huge. Another observation: in the long-term future I may be replaced by a software program, but at least for now those of us actively on the battlefield who can spot trends, stay ahead of the curve, and know fairly exactly what is buried where have a jump on web-enabled corporate real estate leasing tools. If I can save a major client just a nickel a square foot, this translates to more than \$500,000 during a 10-year lease term. With rents dropping \$.50 to 1.00/sf per month during the last few months this means savings of millions. No offense to the Internet sites boasting "accurate" comparables, but just as I wouldn't substitute a great lawyer with a well-equipped law library (even one on-line) or replace an experienced heart surgeon with the most powerful robotic system on Earth, an experienced, pro-active leasing agent can make all the difference in the world. Am I biased? Yep, but give me a few hours networking with my peers on lease comparables and we will take on any database currently in existence. I'm as web-savvy as most brokers, having had www.officetimes.com for more than eight years and my Palm Pilot almost since it was invented, but I am still in awe over the incredible creativity and power of the human brain...

An interesting new trend in e-commerce office leasing and construction...stop work in-process. Several good reasons might be behind this, including waiting to see if the economy will continue downward before prematurely pulling the plug, and mitigating out-of-pocket cash outflows not just for the cost of the real estate but for the more significant following costs of furniture, wiring and big-ticket items like employees. Intel had its steel up in Austin on a 437,000 sf office building and pulled the plug six stories into the 10-story structure. Closer to home, Zhong Technologies in Oakland suspended most of the construction of its half-finished headquarters complex "because it does not currently need the space." Cisco has downgraded its Dublin application, paying \$250,000 a month in fees for this proposed 860,000 sf office campus.

Deals and Rumors: At Bishop Ranch 3 in **San Ramon** OOCL leased 35,000 sf, Lucent 47,000 sf, and Deloitte & Touche 22,000, while over at BR 1 currently under construction, Chevron committed for 250,000 sf and McKesson is rumored to be leasing 180,000 sf. At 1320 El Capitan in neighboring **Danville**, EKC Technology leased 11,000 sf, and in **Pleasanton** at 4637 Chabot Dr., Randstad Communications might be taking 14,000 sf and at 4750 Willow Road, Polycom leased 50,000 sf. Kronos might be taking 13,000 sf at Koll Center **Dublin**, and at the **Livermore** North Canyons Business Park, Red Knife just leased 18,000 sf. In **Walnut Creek**, I was involved in First American Title's leasing 10,000 sf at 2401 Shadelands Drive. TIG is rumored to be taking 24,000 sf at 777 Arnold Drive in **Martinez**. In **Oakland**, the U.S. Dept. of Customs leased 22,000 sf at 1500 Broadway, and in **Berkeley** Intel took 10,000 sf at 2150 Shattuck Ave. Up in **Richmond**, Healnet has committed for 30,000 sf at 503 Canal Blvd. In **Hercules** Investigen, Inc. is building a 27,000 sf biotech facility in the Northshore Business Park, nearby where PTRL West, Inc. is moving into their new 27,000 sf bio-facility. Down in **Fremont**, Digital Fountain leased 28,000 sf at Civic Center Place. In **San Francisco**, Adams, Harkness & Hill took 22,000 sf and Union Securities, 21,000 sf, both transactions at Four Embarcadero Center, where Chemoil sublet 12,000 sf in the same complex, Travelocity leased 42,000 sf at 303 Second St., Wasburn, Briscoe, & McCarthy committed to 25,000 sf at 111 Sutter St., Holland & Knight leased 20,000 sf at 50 California St., Cary, Ware & Freidenreich leased 34,000 sf at 160 King Street, Coudert Brothers will be occupying 35,000 sf at The Cannery, Alexander Oglvy Public Relations leased 26,000 sf at 111 Sutter St., LearniT is taking 10,000 sf also at 111 Sutter, Broadvision leased 10,000 sf at 100 Spear St., and in Mission Bay, J. David Gladstone Institutes will be building a 180,000 sf biotech facility at 16th & Owens. In **South San Francisco** at the Cove at Oyster Point, Genesys Telecommunications might be leasing 165,000 sf. In **San Mateo**, Eipiphany, Inc. leased 11,000 sf at 1900 South Norfolk, and at 101 Ellsworth Garnett Capital leased 20,000 sf and Merrill Lynch will be taking 20,000 sf.

According to a recent study conducted by the *International Facility Management Association (IFMA)* titled

“The Impact of E-Commerce on Facility Management Practices: A Survey of Fortune 500 Facility Management Organizations,” 85 percent of total respondents said they expect to purchase supplies and materials on the Web during the next two years, 24 percent indicated they expect a lot of change in their facility management departments due to business-to-business e-commerce sites, and 55 percent claim e-commerce has helped decrease the time to complete projects. For your own survey copy (\$40 + S/H), please call IFMA (713) 623-4362.

In an article titled “Bay Area Refugees Pour Into Central Valley” (*San Francisco Chronicle* 3/11/01), “The latest Census Bureau statistics are expected to show the valley’s booming growth in the past decade. And by the year 2040, the counties of Yolo, Sacramento, San Joaquin, Stanislaus and Merced will form a region of nearly 5 million people, more than half the projected population of the nine-county Bay Area, according to State Department of Finance projections.” Projections about the future Valley growth always remind me how I-680 looked back in the ‘70s, with affordable housing, almost no office space and just about everyone commuting into Oakland or San Francisco. An unconfirmed but persistent rumor has the Bishop Ranch folks possibly buying Tracy Hills for their next business park, which makes a lot of sense as their 8.5 million square foot San Ramon project is just about 100 percent built-out and occupied.

Signs of an office down market... less landlord recapture of sublease space, lower annual rental escalations, more flexible lease terms, rental rate discount for credit tenants, and for us brokers, a dramatic increase in broker openhouses and filing messes with the daily deluge of new space coming onto the market...

One side effect of our sudden office market downturn is the amount of high quality, low priced used (and even some new, still-in-plastic) office furniture, computer, phone system etc. inventories available throughout the Bay Area. If you have excess ‘office stuff’ you want to post on our website www.officetimes.com or you are looking for great bargains, just e-mail me a short description at jweil@colliersparish.com.

The Power Crisis in California... In the *San Francisco Chronicle* (2/22/01), “As many as 10 new power plants may be built in the Bay Area and Northern California by July to help meet next summer’s high demand for electricity, according to a state report released last night...The report also lists 22 sites for “peaker plants” in Southern California and says all 32 plants could be built without excessive red tape.” In the *Contra Costa Times* (3/4/01), “California ranks 47th in per capita energy use, according to the U.S. Department of Energy.” So we are not energy wasters...The 600-megawatt Metcalf Energy Center proposed for San Jose’s rural Coyote Valley which was turned down last November could produce enough power for 600,000 homes, and is up for reconsideration. In Hayward, Calpine has proposed another 600-megawatt powerplant. Meanwhile, the *San Ramon Valley Herald* (2/8/01) stated, “In January, City Council went on record to “strongly oppose” a route of power lines and substations for PG&E’s Tri-Valley 2002 Electric Power Capacity Increase Project.” Ah yes, California...the land of peacock feathers and cold tubs...

On the same page headed “Cisco sacking 8,000 – A Sixth of Staff” in the *San Francisco Chronicle* (3/10/01), Kathleen Pender observed in her Net Worth column that Bay Area companies had a net loss in market value of \$1.9 trillion during the past year, or about 42 percent of the Nasdaq’s \$4 trillion loss. Ouch, maybe there are some lists where it’s not so great being number one!

I was at a recent meeting of senior commercial real estate brokers last month, with an esteemed real estate economist as the guest speaker. The information provided was based on information only two months old, but in today’s nanosecond world what a difference just a few weeks or months can make in rental rates, vacancy projections, trends and economic forecasting! Bottom-line, by the time it’s posted on the web, it’s yesterday’s news, when it’s printed in a magazine it is old news and when presented in a presentation based on historical fact, it is already ancient history and possibly no longer relevant...

Our son Jordan will be four next month on May 26, which is also my wife Lisa's birthday (her best birthday present ever!). Jordan and I have been having a blast this past winter...We went skiing at Boreal and he learned how to get on and off chairlifts (not easy when you're only 42 inches tall), go downhill skiing with Dad right behind holding a ski harness, and last month we even tried snowmobiling, which Jordan just loved...We've been go-kart racing (two-person side-by-side), but our newest passion is painting large abstracts. Jordan works on the bottom of the canvas while I work on the top and then since it's abstract we flip the canvas and complete the process. Jordan's recent photos can be found on-line at www.officetimes.com, current newsletter. Hope you're looking forward to a fabulous spring and summer as we are, and as always please don't hesitate to call and say hi!

Sincerely,

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