



Corporate Office Perspectives

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This 174th issue of OfficeTimes marks the 29th year of every-other month publication, one of the longest-running individual office trends newsletters in the country. Many office brokers start a newsletter, but speaking from personal experience, it is so daunting to get the second and third issue written that just about everyone soon abandons their venture. Sitting at home writing for four hours nonstop on a sunny Sunday afternoon while your friends are all out bike riding or with the family can be a real challenge! I hope you find value in reading OfficeTimes and please keep me in mind as a resource for all of your commercial real estate leasing and sales requirements.

The Almost-Daily Commercial Blog (<http://jeffreyweil.blogspot.com/>) I've been writing for the past 18 months focuses on how today's news and events affect our commercial real estate market. Finding the "silver lining" in what has usually been doom and gloom is an exercise in creativity. What is positive about month-after-month 600,000-plus job layoffs? True, this is one of the best office and retail tenant markets in 35 years, but as a dedicated tenant rep broker, the key is in having clients able to take advantage of this incredible marketplace. Sometimes it feels like taking a serious dieter to an all-you-can eat buffet – it doesn't matter how good the food looks if they can't or don't want to eat. The one key factor that seems to be present in most U.S. office markets is uncertainty. When and where will the stock market bottom? How low will a particular company's sales fall before it turns around? How long will lack of business and commercial real estate financing last? When we pull out of this deep recession in 2011, companies that signed long-term leases at the bottom of the market will be corporate heroes, but these will be the exceptions. Everyone wants office space when the market is hot and rental rates are skyrocketing (i.e. Dotcom 2000) but few are willing to commit when the market has tanked. Take a look at my Deals and Rumors section during the past 10 to 20 years and you can tell by the number of transactions and sizes of leases when it has been hot versus not. The silver lining for landlords – those who have a good product, are well-capitalized, understand how to proactively get ahead of the market, and have a strong track record of being fair to their tenants and to the office brokers will come out ahead of those who lack these traits. In most cases securing a credit-tenant even with healthy lease concessions is usually far better than having long-term vacancies.

Editor:

Jeffrey S. Weil,
MCR.h, CCIM, SIOR
Senior Vice President

1850 Mt. Diablo Blvd.
Suite 200
Walnut Creek, CA 94596

Phone: 925.279.5590
Fax: 925.279.0450
jweil@colliersparrish.com
www.OfficeTimes.com

Offshoring “A survey of 200 companies by The Hackett Group indicates that companies plan to increase their levels of offshoring by 74 percent in the next two years with corporate finance leading the pack. Why now? Besides the savings in labor costs, many finance chiefs like the flexibility outsourcing arrangements can provide,” *CFO* (February 2009) ... However, in this same publication “Moving work overseas is a slam-dunk cost-cutting move in the midst of financial crisis, right? Not so fast. The \$1 billion accounting scandal at India’s Satyam Computer Services – provider to the likes of Cisco Systems and GE – saw the CEO and CFO being led off in handcuffs. Last year, the number of outsourcing contracts worth more than \$25 million signed by global financial-services firms declined by 19 percent according to outsourcing advisory firm TPI,” (also *CFO* Feb. 2009). The month prior (Jan. 2009 *CFO*), “Sara Lee ... announced plans to outsource finance jobs ... Consero, which outsources finance work to India for small businesses, says its revenue grew 90 percent from 2007 to 2008.” If you are slightly confused by these seemingly contradicting articles, join the club!

Energy-efficient windows and insulated drywall can slash energy bills in homes and offices. One building renovation project in New York will install \$1.5 million of Serious (from Serious Materials in Sunnyvale) windows, a big investment. But the windows will save the building more than \$700,000 each year. Since 2003 the amount of venture capital flowing into energy-efficiency companies has grown 505 percent to hit \$427 million in 2008. Chevron Corp. in San Ramon has a division, Chevron Energy Solutions, that performs energy audits for its clients, inspecting their buildings and equipment. The auditors determine how much energy each building uses and how much could be saved by upgrading its lighting, its heating and air conditioning and the machinery inside. Then Chevron gives its clients a menu of the most cost-effective upgrades and lets them pick. On average, the company can cut a client’s energy bills by 30 percent. Greenbox Technology of San Bruno has developed a computer program that can tie into the new generation of high-tech electrical meters that utilities are installing on homes and businesses across the country, letting the user track when and how they use energy, *San Francisco Chronicle* (3/14/09).

Long-term hold strategies – real estate investors who had originally planned for a three to five-year hold are now looking at seven to 10-year holds, and focusing on cost containment and cash management to make it through “the tough next two to three years.” “We are going to push out the market maturity and expiration date on our assets,” Joaquin de Monet, president and CEO of Arden Realty Inc., a division of GE Real Estate, said. To extend these expirations, it sometimes means Arden executives explaining to investors that a change in strategy is needed from an improve-and-flip model, to filling buildings with stable tenants and managing them effectively through the downturn. “We bought some value-add properties that had a lot of roll – that doesn’t look so good now,” de Monet said, *California Real Estate Journal* (Jan. 20, 2009).

The recent stimulus plan appears to have more focus on keeping small businesses alive which would help keep landlords buildings occupied but “there was not much in the stimulus package that will help commercial real estate owners directly,” according to Amy Tranckino, partner with Sheppard Mullin Richter & Hampton in San Diego. “I think the focus of the stimulus package was not real estate per se, but to help small business and increase jobs,” said Gary Painter, professor at USC, *California Real Estate Journal* (March 9, 2009).

Demand-Response (DR) energy programs – companies earn money or utility credit for lowering energy consumption during peak periods. “There are two situations that trigger a DR event: when demand is high, and when prices are high. Questions to ask before signing up for these types of programs: 1. How will I be notified and how far in advance will I be contacted? How long will I have to shed load? How frequently will I be contacted/required to curtail load? What determines the amount I earn? If I don’t shed load what are the penalties? What is the length of the contract? Operational changes to curtail load: Pre-cool the building during hot summer days; reduce the speed of variable speed drives; reset CO₂ and temperature setpoints; dim lights; shut off banks of interior lights along the building parameter on sunny days; shut off nonessential exhaust fans; and lower the temperature of domestic hot water,” *Buildings* (February 2009).

Economic development Top 10 lists ... City rankings by least expensive, most tax-friendly, best job creation, etc., etc, and etc. may or may not actually influence where a corporation locates. “In truth, many CFOs choose locations based on factors that such lists just can’t capture,” *CFO* (January 2009).

Deals & Rumors: Liberty Mutual will be relocating from Pleasanton to 30,000 sf in **San Ramon**, Breathe Technology might be relocating from Fremont to San Ramon. I represented Valent U.S.A. in a long-term lease extension of their 42,000 sf laboratory facility at 6560 Trinity Court in **Dublin**. Hope Hospice of California leased 15,000 sf at 6377 Clark Ave. In **Pleasanton**, I represented Microchip Biotechnologies in their upcoming expansion to 16,000 sf at 5720 Stoneridge Drive; SpringBioScience leased 16,000 sf at 6620 Koll Center Parkway; Kleinfelder will be relocating to 15,000 sf at 4670 Willow; Commerce West, currently in Pleasanton, is rumored to be looking for 16,000 sf of relocation space along the I-680. In **Walnut Creek**, Charles Schwab may have signed a 12,000 sf build-to-suit at S. California at Olympic; Contra Costa Board of Realtors is rumored to be in escrow for a 12,000 sf office building at 1870 Olympic Blvd and Digiglobe which was formerly GlobeXplorer may be relocating from Citrus Plaza to 12,000 sf at 2121 N. California Blvd. Up in **Napa**, Bay-Tec Engineering leased 17,000 sf at 535 Airpark Rd. In **San Mateo**, NR2B Research leased 50,000 sf at 475 Concar St. In **San Francisco**, Comcast SportsNet took 37,000 sf at 370 Third St.; Marriott leased 19,000 sf at 45 Fremont St.; ON24 signed for 27,000 sf at Convention Plaza; Art Institute of California leased 37,000 sf at 1170 Market St.; Bank of the West sublet 13,000 sf at 88 Kearny St.; Carat is rumored to be out looking in downtown San Francisco for 40,000 to 60,000 sf; Microsoft might also be out for 30,000 to 50,000 sf; 601 Inc. took 11,000 sf at 855 Battery St.; Phillips, Spallas & Angstadt LLP sublet 15,000 sf from MTC Holdings at 3 Embarcadero Center; Fox Interactive Media did a 70,000 sf expansion at 625 Second Street; Norcal Waste Systems leased 20,000 sf at 50 California St.; Medivation sublet 13,000 sf at 201 Spear St.; and The San Francisco Police Department leased 57,000 sf at 1740 17th St.

All you ever wanted to know about plug loads ... these are represented by devices that plug into a facility’s electrical system such as computers, monitors, printers, vending machines, etc. In a 2006 study by the Lawrence Berkeley National Laboratory (LBNL), the top five large energy users are: cold beverage vending machines, commercial refrigerators, computer speakers, Ethernet switches and commercial freezers. Strategies for reducing energy usage: purchase energy efficient equipment (i.e. EnergyStar labeled), install auxiliary tools such as power strips programmed to minimize or shut down power, implement policies and educate occupants on how

to reduce unnecessary energy use i.e. shut down task lighting, computer monitors, coffee makers, etc. after-hours. For more information on this, please go to www.ecosconsulting.com, www.lbl.gov and www.energystar.gov, *Today's Facility Manager* (January 2009).

“Owners’ Pain is Tenants’ Gain” ... As landlords are pinched by sagging property fundamentals, now may be the best time for creditworthy space users to secure great deals ... Now more than ever, savvy companies can capitalize from this recessionary period by taking advantage of attractive lease rates, thereby strengthening their long-term capital positions,” *Real Estate Forum* (December 2008).

Just when you thought it was safe to come out of the ozone ... In 1996 they phased out CFC’s used in HVAC systems, and now the United States is preparing to phase out HCFC, including HCFC-22, also known as R-22. Expect potential cost spikes of R-22 (wonder if there is a D-22 – like in Star Wars) in 2010 as production gets cut. More details on this at www.aei.org and <http://www.epa.gov/Ozone/title6/phaseout/hcfc.html>, *Today's Facility Manager* (February 2009).

A new software dashboard by Lucid Design Group lets companies see immediately how much electricity is being consumed in their buildings. “The dashboard comes with a meter that works and tracks overhead lights, electrical plugs, and heating and air conditioning systems. The information is updated every 60 seconds and can be checked over the Web.” There are additional upgrade monitors that allow monitoring of water use and solar energy panels, *San Francisco Chronicle* (2/20/09). For more information on this please go to www.luciddesigngroup.com.

One of the largest occupants of office space, either owned or leased, is the banking industry. Although U.S. banks have shed tens of millions of square feet of excess office space, according to recent reports a number of the top banks have debts that far exceed assets, which does not bode well for near-term office leasing. The article was headlined “Economic downturn could bankrupt banks,” *Honolulu Advertiser* (March 10, 2009).

Attracting office tenants with amenities ... one landlord offers concierge services, with the concierge manager making your dinner reservation, ordering flowers and taking care of your kayak rental ... offering indoor bicycle parking, fitness center, no-charge conference facilities and training rooms, on-site day care, and BART shuttle ... just remember, usually there is no such thing as a free lunch so these amenities might appeal to a few but who will be paying for this in their operating expenses? *San Francisco Business Times* (Feb. 2009)

New commercial real estate terminology: Zombie buildings ... these are buildings which might be difficult to lease because the loan might be in default, or coming up for refinance but no lender is willing to extend the loan or refinance and/or the landlord doesn’t have or is unwilling to invest necessary dollars into the building for tenant improvements, life-safety upgrades, or leasing commissions. Brokers might be afraid to show the property because there are few things worse than having a signed lease where the landlord is unable to perform, leaving the tenant in limbo-land while attorneys run up huge legal fees trying to get everything sorted out.

Asset-management systems can track fixed equipment like HVAC systems, portable equipment such as copiers and furniture and mobile equipment linked to commercial buildings. In addition, you can

track the history of assets, including costs, work performed, failures, keep track of regular preventative maintenance, and allow you to spend less physical time managing assets. Remember though, that software is only as good as you make it, and if no one is assigned to keep the information up to date, the system quickly loses its value, *Buildings* (February 2009).

Check with your CPA, but the HR 1424 Commercial Buildings Tax Deduction may allow owners who retrofitted their buildings to be more energy efficient between Dec. 31, 2005 and Jan. 2, 2014 to be eligible for a deduction for part or all of the associated costs. Check out www.irs.gov/pub/irs-drop/n-06-52.pdf or www.energy.gov/additionaltaxbreaks.htm for more details, *Buildings* (February 2009).

Ski season isn't even over and already swim suits are out on display and baseball is in full swing. Too bad we can't change economic trends as quickly as we can the season ... if the weather report was like our economy, with our wild stock swings, occasional good news but overall doom and gloom, it might go like this – light rain alternating with occasional heavy downpour, at times flood warnings, with sporadic sunshine, with the unseasonal temperatures expected to last well into the next decade ...

Jordan and Madison have been lucky in their ski forays to the Sierras, timing their ski adventures to the days of 2-3 feet of fresh powder and amazing skiing experiences. Madison, who is 6 ½, is just beginning to ski black diamond runs and can now parallel-turn down the mountain. Jordan, 11, is an amazingly graceful advanced skier who loves the double-black chutes and steep bumps found throughout Squaw Valley and Alpine Meadows. Madison is in her second season of girl's softball and with her Dad as manager is having a blast on the Cheetahs. Jordan was recently called up to Majors and is on the San Ramon Valley Little League A's. Photos of their recent sports and other adventures can be found at <http://officetimes.com/2009/Apr09/JMapr09.htm>.

Have a great spring; please call me with any commercial real estate needs, and thank you for taking the time to read this!

Sincerely,

Jeffrey S. Weil, MCR.h, CCIM, SIOR
Senior Vice President
(925) 279-5590



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