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This issue marks the 30th year I have been writing and publishing this office newsletter every other month, reportedly the longest running private office industry newsletter in the country … and you can't beat the price! I did a rough estimate of how many copies have been distributed during this timeframe (starting with my first issues on which I hand-wrote personal remarks to the 200 or so who were on the original mailing list), using electronic double-opt out email delivery. I've sent out more than 900,000 newsletters throughout these past 30 years! Vacancy and rental rates have gone up and down during the many economic cycles we've gone through. Standard "turn-key" tenant improvements went from $10/rsf to now $40-$60/rsf from shell (and yes, there are still shell spaces out there), household corporate names have come and gone, commercial real estate firms have morphed, merged and morphed again, and we have had so many issues that at some point seemed to threaten one part or another of our industry – earthquake insurance, asbestos remediation, high inflation, high interest rates, Resolution Trust Corporation back in the early 1990s where 25 percent of all our office buildings were foreclosed, energy crises, environmental crises, dotcom collapse, offshoring taking tens of millions of office jobs overseas, Sarbanes-Oxley, and now the near-total lack of reasonable small business financing and commercial real estate refinancing. During the past 30 years, technology has enhanced our industry in so many amazing ways – most office brokers today find it hard to believe that for years the fax machine was a mainstay – and that we actually did tremendous amounts of office leases on IBM Selectronics and what a Godsend the invention of the error correction key was! My first car phone was the size of a suitcase, mounted in the trunk and it cost me a dollar a minute to use. DayTimers were an absolute necessity and can you imagine having to write your weekly office meeting schedule by hand 52 times over the course of a year? We had boom times where leasing activity was fast and furious – I remember several periods when millions and millions of square feet of new office projects went up simultaneously throughout the East Bay, the Bay Area and the entire county as office jobs became the mainstay of American commerce. Technology also had the illusion of replacing the human office broker – with the power of the Internet one could do virtual tours online, select their new office space, space plan online, and even execute the new lease without ever physically looking at the space. Fortunately for me and my fellow office leasing comrades, there is a lot to be said for the human factor in the office leasing process, and the skills, expertise, market knowledge and past 34 years representing tens of millions of square feet of office clients is nowhere close to being replaced by a software program. There are still a few of my readers who hark back to the first issues of this newsletter and to you I say, thanks for sticking with me! And to all who have joined in since then, I still have many future issues to write and stories to tell …

"A new study from the U.S. Green Building Council and Booz Allen Hamilton shows that green building will support 7.9 million jobs in the United States, and will pump $554 billion into the American economy between now and 2013, green construction spending currently supports more than 2 million American jobs and generates more than $100 billion in gross domestic product and wages." *Buildings* (January 2010)

Report out March 7, 2010 in the *San Francisco Chronicle* where out of 2,700 small-business owners, 25 percent expect to be hiring in the next six months … Before you dust off your party hats to start the celebration, later in this same article, 20 percent see themselves going out of business in the next three years … and in a report sent out by Office Furniture Trends (found here: **http://ofc-trends.blogspot.com/search?q=decline+by+18%2C000**) ADP reports that from January 2010 to February 2010 large businesses (500+ employees) had employment declines of 10,000, medium businesses (50-499 employees) had employment increases of 8,000 and small businesses (1-49 employees) saw employment decline by 18,000.

Office space interiors and layout – doing more with less … "Even corporations with very rigid design standards are relaxing those standards and not remodeling, especially if they are taking subleased space," says Janet Pogue of Gensler. "Businesses are also more willing to reuse furniture and even components like glass partitions when they redecorate. That doesn't mean that companies won't make changes to freshen the space and brand it to fit floor corporate images, but they will often substitute color, paint and graphics for more expensive constructions," says Tom Polucci of HOK. Even if cost were no object, the growing interest in workplace sustainability is making the reuse of interior materials more appealing to tenants. "More tenants are environmentally sensitive and are willing to reuse at least parts of an existing buildout," says Mike Watts of J.F. McKinney & Associates of Chicago. A 2002 IFMA study found that its corporate facilities managers moved 41 percent of employees each year, so finding ways to reshape spaces without extensive construction is critical. Perhaps the ultimate in office space mobility is the "bench" system. Used more widely in Europe, workers sit along a bench, with a desk or table in front of them. Spaces are divided by short screens on the tabletop. When you need to adjust the amount of space per worker, the screens can be moved easily … Individual spaces are shrinking. "We're seeing more 8 foot-by-6 foot spaces for workers and offices going to 120 square feet from 150," said Holly Briggs, of Perkins and Will's interiors, *Realtor* (February 2010).

Top financial officers reveal expectations … One of the largest Bay Area regional CPA firms, Armanino McKenna, just released a survey of top financial officers at about 200 mid-market companies. A majority of these companies believe their revenues will grow in 2010, but they will grow through acquisition or "squeeze" more productivity out of existing staff, and there does not seem to be any indication that there will be rehiring or job growth as profits increase.

Telecommuting connection tool just became way cheaper … Cisco announced it is taking its high-resolution high-def videoconferencing experience into the home … it is seamless, no lag, allows lots of eye contact, and I can envision future telecommuters who need to speak to their boss or co-workers or be part of a virtual teleconference utilizing this type of system to enhance working from home …

In the March 3, 2010 *San Francisco Chronicle* a report that small firms' hiring is up … and even though it is only up 1 percent, this is still in the right direction … from a number of reports and speeches I have heard lately, the Peninsula and San Francisco office markets appear to be improving but all signs point to an 18-month lag before the East Bay shares this positive trend. And a recent CEO report for the Bay Area reported that out of 498 senior executives, 20 percent plan on new hires during the next six months and only 17 percent expect layoffs…

"More than 36 percent of the $270 billion in commercial real estate loans maturing in 2010 have mortgage balances greater than the value of the underlying property … and the worst is yet to come. By 2011, 49 percent of maturing loans will have negative equity, followed by 63 percent in 2012, 61 percent in 2013, and 57 percent in 2014. In all, loans expected to mature in the next five years with balances greater than their collateral value total $770 billion," *National Real Estate Investor* (January/February 2010). It is my opinion that during the next few years, commercial rents will begin to stabilize and head back up which will reduce this negative equity gap and greatly lessen the impact predicted above for 2013 and 2014 … just my opinion!

Deals & Rumors: A lot of great office leasing during the past 60 days on the Peninsula … in **San Mateo**, the California CPA Society leased 26,000 sf and CAMICO Medical Insurance took 24,000 sf, both at 1800 Gateway Dr.; Premier Source took 15,000 sf at 1650 S. Amplett Blvd.; Mobile Complete leased 13,000 sf at 1730 Amplett Blvd., and Jigsaw DataCorp leased 16,000 sf at 777 Mariners Island Blvd. In **Burlingame**, Virgin America expanded by 15,000 sf to 60,000 sf at 555 Airport Blvd.; MacCorkle Insurance Services leased 18,000 sf and Pillar Systems 18,000 sf, both at 577 Airport Blvd. In **Brisbane**, XOJET signed for 18,000 sf at 2000 Sierra Point Parkway. In **Foster City**, QuinStreet took 64,000 sf at 950 Tower Lane and in **South San Francisco**, Veracyte Inc. sublet 17,000 sf at 7000 Shoreline Court and Campbell Alliance took 11,000 sf at 801 Gateway Blvd. In **San Francisco**, Fidelity Investments leased 26,000 sf at 350 California St; Yelp expanded by 20,000 sf to 50,000 sf at 706 Mission St.; Sears Holdings leased 25,000 sf at 760 Market St.; SFMTA leased 23,000 sf at 651 Brannan St.; Luce Forward and Hamilton signed for 22,000 sf at 121 Spear St.; Posit Science sublet 19,000 sf at One Montgomery Tower, where Design Within Reach leased 16,000 sf; NGMOCA took 15,000 sf at 475 Brannan St.; Deloitte is rumored to be out for 180,000 sf; DreamWorks is rumored to be looking for 150,000 sf; Miller Law sublet 12,000 sf at 111 Sutter St. to total 26,000 sf of occupied space; Salesforce is reportedly out looking for 215,000 sf over the next two years; STUDIOS Architecture leased 17,000 sf at 405 Howard; Latham & Watkins might be seeking 130,000 sf; Sephora is rumored to want 150,000 sf; Quantcast signed for 26,000 sf at 201 Third St.; The Environmental Protection Agency is back out again for its 300,000 sf headquarters search; Keker & Van Nest reportedly looking for 100,000 – 125,000 sf; KPFF Consulting Engineers leased 15,000 sf and Leukemia & Lymphoma Society leased 11,000 sf, both at 221 Mission St. Over in **Oakland**, Sungevity is relocating to 19,000 sf at 66 Franklin St., and DeVry University leased 16,000 sf at 505 14th St. In **Berkeley**, WLC Architects leased 12,000 sf at 2600 Tenth St., and in Fremont, Mentor Graphics bought three buildings that had been vacant five years and will be relocating to 196,000 sf at 46871 Bayside Parkway. In **Pleasanton**, I sold a 5,600 sf office condo at 6155 Stoneridge Drive to a medical group and Clorox is rumored to be negotiating for 250,000 sf of office space at the former WAMU/Providian campus. In **Walnut Creek**, I sublet 10,000 sf to Clearwire at 1990 N. California Blvd. and Moffatt & Nichol leased 14,000 sf at Mt. Diablo Plaza.

Good news in the office market department according to a recent release from CoStar … the U.S. office market unexpectedly posted positive net absorption for the quarter, with 154,000 office-using jobs increased since the end of August 2009. Personally, I am not sure what to make of this in light of the continual increase in office vacancy rates but oh well, there you have it … however, the National Society of Industrial and Office Realtors (SIOR) just sent me their report and 97 percent of SIOR respondents nationally report either deep discounts to asking rents or moderate levels of tenant concessions. Only 3 percent of SIORs feel they are experiencing a normal negotiating balance. Leasing activity continues to be below historic levels, vacancy rates remain high, and asking rents are low." But … 55 percent of SIOR members expect the market to improve next quarter …

"Power management software can reduce computer power consumption by up to 80 percent. It can monitor how long PCs stay on while inactive, PC shutdown time, and when PCs need to power up for updates. Computers and monitors are the largest single source of plug load power consumption in most office buildings. Almost half of all employees who use computers don't shut them down at the end of the day. Sleeping computers and monitors generate less heat, which increases cost-savings benefits from reduced air-conditioning loads." *Buildings* (January 2010)

Dead Cap Bounce … Michael Gottlieb, the editor of the *California Real Estate Journal*, used this phrase to describe a short rise in commercial real estate prices in a time of declining fundamentals … Overall delinquent unpaid balances on commercial real estate mortgage-backed securities is up 380 percent from a year ago, and is 18 times the low point of March 2007. Vacancies continue to increase and lease rates decrease, and some experts predict that NOI's contribution to value won't turn positive until 2015. So how are cap rates justified today even though there may be, again, too much money chasing too few available properties?

Commercial real estate sales dropped by nearly 90 percent in 2009 compared with 2007 levels, according to *Real Capital Analytics* (2009).

CFO Magazine (January/February 2010) reported that in the past 20 months, 74 percent of companies reduced their workforce and 84 percent of these did not expect to reverse this action in 2010; 60 percent eliminated or reduced overtime and of these 81 percent were not expecting to reverse this action in 2010, and 42 percent reduced work hours of which 64 percent were not expected to reverse this action in 2010.

The fourth quarter San Francisco office market … posted 270,140 square feet of negative net absorption, the vacancy rate increased to 14.7 percent, but the sublease vacancy rate dropped as tech tenants took advantage of the great bargains… For the complete report - **http://www.officetimes.com/MarketReports/Q4SF_09.pdf**

Predictions documented in writing in past OfficeTimes (during the last several years), that state, county and local governments were going to be in increasingly challenging hard times with first the residential meltdown which changed new high-price subdivision property tax revenues into deep-discount foreclosure sales and resulting much-lowered property tax revenues … this was followed by the triple-whammy of the car industry falling into the toilet, and those municipalities previously counting on new car sales to generate tax revenues were sadly out of luck, and then the retail sales market went down hard, also reducing sales tax revenues, which all went along with huge unemployment. This of course meant less income tax revenue and more benefits drain on governments. Now we are experiencing The Great

Commercial Real Estate Meltdown, with foreclosures reducing the value of commercial property almost across the board down 40 percent from the 2007 heights … In California, with a $20 billion budget gap, there are also problems at the county and city levels … San Francisco is $522 million over budget, San Jose needs to cut $116 million and the Los Angeles school district is short by $640 million … California has 58 counties, 480 cities, and almost 1,000 school districts, and on the federal level, the post office just announced it may cut out Saturday delivery, which might put thousands or tens of thousands of postal workers out of jobs … so those who think our economy is "out of the woods" may be just a bit premature … unless you can have a strong economy without significant job growth.

Drop in commercial real estate values, rise in vacancy rate … In the February 18, 2010 *San Francisco Chronicle,* a report confirming that San Francisco experienced a 28 percent drop in commercial real estate values during 2009 and a 39 percent drop since December 2007. The office vacancy rate now approaching 17 percent, which is already a 15-year high, is expected to approach 20 percent this year.

Finance offshoring programs initiated and led by CFOs generated an average savings of 21 percent, compared with only 15 percent by those led by others, *CFO* (November 2009).

Baseball and softball season is now in full swing, pun intended. Jordan is in his eighth year of Little League and playing at the Majors level for his second and final season before he ages out. Another great season, with their field backdrop of Mt. Diablo, an electronic scoreboard that usually works and Jordan's dad (me) taking action photos as a local newspaper freelancer. Madison is in her third year of girl's softball, and by the time you read this will have had her first few games with actual coach pitching instead of hitting off the Tee. Madison is in Daisies, which leads into Girl Scouts and Jordan is close to Life rank in Boy Scouts and will be the Senior Patrol Leader at one of his troop summer camps in July. Their recent pictures can be seen at **http://www.officetimes.com/2010/Apr2010/JMApr10.htm**

Thank goodness for hot showers, fabulous books to read, beautiful local bike rides to trek and treasured friends to share memories with – economy schmonomy, if I can't change it, why worry about it? I can change your company's real estate situation, so don't hesitate to call me, with 15,000 Colliers associates and 2,500 fellow SIOR's ready to be of service in any leasing, sale, lease restructure or other commercial real estate need!

Sincerely,

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