



Corporate Office Perspectives

April 1, 2012

Issue: 192

WOW, this 192nd Issue marks the 32nd year I have written and published this OfficeTimes industry newsletter! Back in 1980, most Walnut Creek office buildings were 100 percent leased, and during the preceding three years, rental rates along the I-680 corridor went up an average of 25 to 30 percent per year. Of course, everything is relative. A year after I first entered the office leasing business, fully-serviced Class A office rents in downtown Walnut Creek were \$0.80/rsf per month (\$9.60/yr) and by August 1980, they had shot up to \$1.40/rsf. Office land prices had gone up 200 to 400 percent, construction costs were skyrocketing at 25 percent per year and the back office relocations from San Francisco to the suburbs were just beginning. My initial newsletter went out to 200 tenants and developers, and I remember for several years writing handwritten notes to many before sending them off in the U.S. Mail. Years later when the distribution list was in the thousands and still mailed (before the invention of email), my former company thought this expense was too much and threatened to yank my postage budget, but when I mentioned this to my readership, the outpouring of support and yes, stamps, convinced that former firm to relent. Did they just go bankrupt last month?

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There is little question that the office market overall in most parts of the country and particularly in Northern California is on its way to recovery. San Francisco, where office rents are at \$50 to \$60/rsf per annum, levels and large blocks of vacant space are becoming scarce, is being fueled for the most part by high tech/social media/internet, while out in the suburbs, recent leasing announcements such as PG&E signing for 250,000 sf in San Ramon represent more of the core infrastructure user. In the East Bay, there has been more lateral movement, i.e. when Robert Half relocated 250,000 sf to San Ramon, it left behind 11 vacant office buildings in Pleasanton, and when Ross Stores moves into its newly purchased headquarters buildings in Dublin, it will leave a huge gaping office vacancy hole in Pleasanton. This is a different leasing environment as compared to Google or Facebook expanding by hundreds of thousands of square feet of new space.

Green lets you keep more green ... *Buildings Magazine* (Feb. 2012) reported on a study GSA just completed, evaluating 22 green federal buildings in seven of their regions, and compared to national averages for traditional commercial buildings, GSA's green facilities cost 19 percent less to maintain, used 25 percent less energy and 11 percent less water, emitted 34 percent less carbon dioxide, and had a 27 percent higher satisfaction rating from its occupants ... other landlords are probably green with envy!

Data center construction costs ... the bigger they are the lower cost per foot due to economies of scale, but for a 10,000 square foot data center with 1 megawatt of power, figure on spending \$15 million bucks if you want your own ... *Knowledge-Leader.com* (Spring 2012)

If you want the lowest average office building operating and fixed costs per square foot, head on over to Fresno California where on an annual basis the full-service package will run \$4.25 per square foot. Compare that to the most expensive locale, New York City, where the same full-service package will cost you \$21.44 per annual square foot. *Buildings* (Feb. 2012)

New facility management tools include Smartphone Apps that help operate commercial property HVAC systems, including allowing the building engineers to input reporting information while away from their offices, collect data such as temperature readings, CO2 levels, equipment status, and keep track of the HVAC equipment and maintenance records. There are also remote HVAC management systems that can save owners substantial \$... with savings of up to 28 percent on maintenance costs reported by major firms. *Buildings* (Feb. 2012)

Pretend and Extend. In the *National Real Estate Investor* (Jan/Feb 2012), editorial director David Bodamer made an astute comment, "the pretend and extend tactic that lenders employed worked. (This is where even though the loan may have been technically in default they allowed the commercial real estate borrower to make interest-only or other reduced payments just to avoid foreclosing and then being stuck with the property and with the write-down.) Today, both lenders and borrowers have more options when dealing with distressed assets than they did 24 months ago." ... he goes on to comment that the CMBS sector, where back in 2006 and 2007 bundled a total of more than \$432 billion dollars of loans, has started to come back with \$35 billion in CMBS issued in 2011 ... and remember, much of that \$432 billion turned into problem loans ... but hey, \$35 billion is better than \$0!

Deals and Rumors: For a change let's start over in **Dublin**, where Fluor expanded to 72,000 sf at 6160 Dublin Blvd.; the City of Dublin purchased the 85,000 sf former research lab at 6363 Clark Ave. and Valley Care leased 10,000 sf at 4000 Dublin Blvd. Next door in **Pleasanton**, Ericsson expanded to 41,000 sf at 6160 Stoneridge Mall Rd. to 24,000 sf at 6140 Stoneridge Mall Rd. and The University of San Francisco leased 11,000 sf at 6120 Stoneridge Mall Rd. In nearby **Livermore**, True Tech Corp took 56,000 sf of R&D space at 122 Lindbergh. Up the I-680 Corridor, the big news was PG&E leasing 250,000 sf in **San Ramon**. RPM Mortgage purchased an 18,000 sf office building at 3240 Stone Valley West in **Alamo**. In **Walnut Creek**, Bowles and Verna leased 14,000 sf at 1676 N. California Blvd. In **Concord**, Fresenius is rumored to be looking at a 150,000 sf relocation to 4040 Nelson. In **Oakland**, First Place For Youth purchased a 12,000 sf building at 425 17th St.; Energy Solutions bought a 60,000 sf office building at 449 15th St.; Girls Inc. purchased a 33,000 sf building at 510 16th St. and Navis LLC may be leasing 40,000 sf at 55 Harrison St. In **Berkeley**, Sensys leased 20,000 sf at 1608 4th St. Down the I-880 in **Milpitas**, Creation Technologies

leased 79,000 sf of R&D space at 1855 Barber Lane and across the Bay in **Brisbane**, GSA signed for 11,000 sf at 150 North Hill Rd. Ok, now for the hotbed of office leasing activity, **San Francisco** ... CallSocket leased 30,000 sf at 1355 Market St.; 6 Waves took 26,000 sf at 550 Kearny St. and in the same building iCrossing signed for 19,000 sf. Healthline Networks leased 40,000 sf at 660 Third St.; Cyberagent America inked 12,000 sf at 221 Main St.; Marin Software leased 14,000 sf and Archimedes 14,000 sf, both at 123 Mission St.; Tea Leaf Technology cupped a 27,000 sf lease at 55 Second St.; (yeah, I know, lame humor, sorry ...) Riverbed Technology leased 170,000 sf at 680 Folsom St. and Plum District took 18,000 sf at 225 Bush St. Lithium Technologies is out for 50,000 sf, Lewis Brisbois Bisgaard and Smith signed for 52,000 sf at 333 Bush St. where Kixeye took 52,000 sf; Yammer expanded to 133,000 sf at 410 Townsend St.; Airbnb leased 130,000 sf at 888 Brannan St.; Switchfly Inc. is taking 26,000 sf at 601 Montgomery St.; Funzio inked 20,000 sf at 55 Second St.; Passport Capital LLC committed to 18,000 sf at 1 Market St. and Macys.com leased 250,000 sf at 680 Folsom Street ... whew!

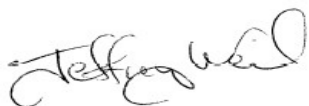
All solar is not the same ... there are three different types of solar technologies that can be used in buildings, solar electric, solar hot water and solar hot air. Solar electric, the least efficient, uses photovoltaic panels to generate electricity from the sun. Typical costs range from 25¢ to 35¢ per kilowatt hour with paybacks of 10 to 15 years. Solar hot water systems feature solar panels that use energy from the sun to heat circulating water for hot water or space heating. Typical costs range from 12¢ to 15¢ per kilowatt hour with paybacks of 5 to 10 years. Solar hot air uses solar collectors consisting of roof mounted or wall mounted metal panels or glazing. Costs range from 5¢ to 9¢ per kilowatt hour. This according to Christian Vachon, president of Enerconcept Technologies (www.enerconcept.com) as published in *Today's Facility Manager* (Feb. 2012)

Timing, timing, timing – take 200 Kansas St., San Francisco, a 92,000 square foot former furniture showroom that Greg Flynn purchased during the first dot.com boom for \$10.5 million, and then he sold the building in 2005 for \$20 million. It was recently reported that he just repurchased this same building for \$11.8 million ... ah, timing ... *SF Business Times* (March 2-8, 2012)

Mobile workers, according to the International Data Corporation, are expected to increase worldwide by 30 percent between 2008 and 2013, with the most highly concentrated market for mobile workers being ... no, not India, no, not your other guess, but The United States. There are three categories of mobile workers: office-based mobile workers (workers who are away from their office 20 percent of the time), non-office-based mobile workers and home-based mobile workers. These last two are also known as telecommuters. Co-working is when a mobile worker is co-working in a coffee shop or alternative workspace. “According to a survey of co-workers by Deskmag.com, the average co-worker is a young, college-educated male who works in the technology industry and lives close to his co-working space.” *Commercial Connections* (Fall 2011)

The past two months with my 9-year-old daughter, Madison, and 14-year-old son, Jordan, have been blessed with terrific new experiences. Madison and I went to Hawaii on the Colliers top brokers' trip, her first time, and she fell in love with the warm water and beauty of Maui. She has been working out with her girls softball team at three weekly practices and as I am writing this mid-March, next weekend she has the season opener game on Saturday and three (yes, three) tournament games on Sunday. Jordan was very fortunate to have made the Monte Vista High School JV Lacrosse team as a freshman, and I have never seen him as passionate as he is about this sport. He gets to practice early and practices daily on his own. Their recent photos can be viewed at www.officetimes.com/2012/April2012/JMApr2012.htm

Everything is relative. Living in the San Francisco Bay Area, one of the most beautiful places in the world and if it were a country, the 19th largest economy on this planet, sounds well and good but if you aren't a software engineer, have been out of a job with a home about to go into foreclosure, the world might not be so rosy. At my gym I hear the guys talking about how low they bought Apple or Google stock, and I know of other guys less vocal who lost much of their retirement investments through the wrong REIT or other less successful venture. I have friends whose children graduated with top honors from stellar colleges, and others with their 30+ year old children back living in the family home. I was taught not to dwell on the "could have been, should have been's" but instead always look into the future for continual personal growth. Where am I going with this train of thought? I'm not quite sure ... but factors that have made this life journey usually most enjoyable, sometimes just survivable, but always full of twists and turns are my family, my friends and my faith. I trust you all have a most amazing spring, please please continue to call me with your commercial real estate needs, and remember that our hugs and smiles are unlimited, cost nothing, and can energize and transform those around us in unbelievable ways.



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