



## Corporate Office Perspectives

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Many of the first paragraphs of the past 30+ years *OfficeTimes* have pontificated at length on the current state of the office market or the broader commercial real estate industry. This time, for a change, the message will be short and sweet – we are at the bottom of the commercial real estate recession in the East Bay. The Peninsula, San Francisco and others regions are working their way upward but for many it will be a bumpy bottom – incredible tenant opportunities to lock in long-term low rents and load up on landlord concessions, occasional office building bargain buying opportunities, but for most, 2011 will be a struggle and challenge to make it to 2012 ...

A most informative article in *CoStar* written by Mark Heschmeyer (January 26, 2011): “Bouncing Hard Along the Bottom: Bankers Eye View of CRE ...” In the bank executives own words ... “Commercial real estate is very much a bifurcated market and continues to be so. What’s good is getting better, what’s not so good is not getting better,” Charles Hyle, chief risk officer, Key Corp. “Commercial real estate, I just have to characterize, it’s still extremely stressed. I think it will remain extremely stressed for another 12 to 18 months,” P. Parker, chief credit officer, U.S. Bancorp.

Along the same lines as the above paragraph, *Real Estate Forum* (January 2011), Neil Shapiro of Herrick, Feinstein LLP, “For stable income producing properties, we are seeing traditional lending terms come back. Debt is now available, the terms are good and we are seeing LTV’s starting to move to 75 percent or even more.” The key, though, is that these are income-producing, stable properties. “We are in a two-world situation,” Shapiro says, “For certain properties, debt is plentiful and there are multiple bidders with the buyer paying top dollar. On the opposite end are the distressed properties that no one will touch. These have mortgage loans that are significantly over the value of the properties, and I don’t see a light at the end of the tunnel for these deals. In this case, Shapiro says, there won’t be a break until 2012.”

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Quotes from the past:

“For the first time in five years, a number of Contra Costa office buildings are now on the market. Prices range from \$110 – \$160 per building foot. Cash down ranges from 35-45 percent of total sales price,” *OfficeTimes* (October 1, 1981). What else can you buy today for the same price as 30 years ago? “Downtown Walnut Creek

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\$2.00 – \$2.15/rsf, Walnut Creek Shadelands \$1.39 – \$1.75/rsf, San Ramon \$1.45 – \$1.75/rsf fully-serviced office rents,” *OfficeTimes* (February 1, 1983). Slightly more than 28 years later and with operating expenses 200 to 300 percent of what they were in 1983, net rents are actually much lower today. “Vacancy rates for office space: Concord 40%, Walnut Creek 25%, Pleasanton 36%, Martinez 67%,” *OfficeTimes* (April 1, 1987). Actual April 1, 2011 vacancy rates: Concord 18%, Walnut Creek 10%, Pleasanton 18%, Martinez 31%.

The newest trend in office layout might be great for creativity, productivity, space efficiency and flexibility but it does nothing to help office building owner profitability ... “Dilbert would hardly recognize the newest Bay Area office of Skype, eBay and other technology companies. Cubicles are vanishing. Employees can look all the way across a room and see who else is there. They can sit in twos and threes on a couch to collaborate on a project, instead of stuffing themselves in a conference room. If they need a place for a private phone call or special concentration, they can step into small study rooms or a phone booth. The new San Francisco office of London-based United Business Media Ltd. epitomizes the trends. Its location at 303 Second St. is cubicle-free and compact, allocating 75 square feet to each worker. The lunchroom is not buried in the bowels of the building; it opens onto a roof deck.” *TheRegistrystf.com* (March 2011)

I have begun to see parking spaces at office buildings with special “electric car parking” or other signage usually for spaces near the building entrance. This is in preparation for the onslaught of the new electric-only vehicles ... however, many of the spaces I have seen to date do not have plugs available ... according to an article in *TheRegistrystf.com* (February 2011), “... industry experts expect as many as 10 percent of car sales will be electric by 2020.” Questions these future charging stations raise ... who will pay for the installation of charging units estimated at \$2,000 – \$4,000 per unit? Will this be passed on to all the tenants as part of their operating expenses? Who will be paying for the electricity used? How will this be made fair to all the tenants of a multi-tenanted office building? Different systems run on different voltages. What if someone plugs in the wrong “juice” and fries their battery system – who is responsible? What about common area parking or guest parking?

I have been saying this in *OfficeTimes* for years ... the headlines in the *Contra Costa Times*, “U.S. Hiring Up – Overseas” ... many American corporations are hiring ... just not here in the U.S. ... more than half of the 15,000 people Caterpillar hired last year were outside the U.S. ... according to the Economic Policy Institute, American companies created less than 1 million jobs last year domestically but created 1.4 million jobs overseas.

SIORs (Society of Industrial & Office Realtors), of which I have been a member since 1985, closed more than 78,000 transactions last year, down just a bit from the 83,500 transactions our 2,700 members closed in 2008, representing 3.3 billion square feet of office and industrial space.

*Deals and Rumors:* San Francisco office deals totally dominated the rest of the Bay Area so let’s start there ... In **San Francisco**, Fortress Investment Group, Inc. leased 21,000 sf at One Market Plaza; Trulia took 30,000 sf at 116 New Montgomery St., growing by 300%; BTIG sublet 22,000 sf at 600 Montgomery St.; Kabam leased 25,000 sf at 405 Howard St.; Sedgwick, Detert, Moran & Arnold LLP is rumored to be taking 95,000 sf at 333 Bush St.; GCL – PolyEnergy Holdings leased 15,000 sf at One Market St.; AZZ Development is taking 21,000 sf at 475 Sansome St.; California Department of Corporations leased 17,000 sf at 1 Sansome St.; Wharton School signed for 37,000 sf at Two Harrison St. At 123 Mission St. Tioga Energy signed for 14,000 sf and Marin Software leased 29,000 sf at 123 Mission St. (that reminds me of Alamo Capital, based in Walnut Creek – the danger of choosing a city or county for your name ...) Williams Sonoma took 60,000 sf at 100 North Point; ABM Industries signed for 31,000 sf at 600 Harrison St.; Sony inked a 14,000 sf lease at 400 Second St.; Metaswitch

Networks leased 29,000 sf at 208 Utah St.; Aptimus sublet 51,000 sf at 199 Fremont St.; Bigpoint is taking 30,000 sf of flex space at 500 Howard St.; Corporate Executive Board leased 21,000 sf at 580 California St.; Frog Design snapped up another 12,000 sf at 660 Third St.; Fitness Anywhere took 18,000 sf at 755 Sansome St.; Aliph Inc. leased 60,000 sf at 99 Rhode Island St.; Salesforce.com leased 56,000 sf at 123 Mission St.; U.S. Government Secret Service took 23,000 sf at 1700 Montgomery St.; Fluid might have leased 14,000 sf at 222 Sutter St. in the same building Craigslist also took 14,000 sf; Inkling leased 20,000 sf at 153 Kearney St. Way down the Peninsula, Playdom, Inc. took 35,000 sf at 395 Page Mill Road, and IXL Learning Inc. leased 17,000 sf at 777 Mariners Island, both deals in **Palo Alto**. SunEdison is moving 100 jobs from Maryland to **Belmont**. In **Redwood City**, San Mateo County may be buying the 208,000 sf two office building complex at 1 & 2 Circle Star Way, and Genomic Health Inc. leased 30,000 sf at 301 Chesapeake Drive. Across the Bay in **Fremont**, Bruker Corp. leased 36,000 sf at 3500 – 3550 W. Warren Ave.; Quality Quartz Engineering leased 40,000 sf at 8484 Central Ave. in **Hayward**; StemCells Inc. leased 38,000 sf at Pacific Research Center, and up in **Berkeley**, GU Energy leased 26,000 sf of R&D space at 1509 Fourth St. Weiss Associates expanded to 13,000 sf at 2200 Powell St. in **Emeryville**. Over the hills in the TriValley and I-680 Corridor, Omron Network Products look 18,000 sf and PureRed Creative took 25,000 sf, both at 5700 Stoneridge Drive in **Pleasanton**, Bank of the West expanded for a second time taking an additional 80,000 sf in **San Ramon**, and Leica might be out in the San Ramon area for 15,000 sf. PG&E leased 17,000 sf at 350 N. Wiget Lane in **Walnut Creek** and Securimetrics will be relocating to 25,000 sf at Concord Gateway 1855 Gateway Blvd. in **Concord**.

According to the 2010 Green Building Survey recently undertaken by *National Real Estate Investor* and the U.S. Green Building Council, three of four corporate respondents say lowering operating costs are the biggest benefit of going green, and the most important attribute of a green building to corporate space users is energy efficiency. It takes developers a median of 3.9 years to recoup the cost of energy-saving building retrofits. *National Real Estate Investor and Retail Traffic* (Nov./Dec. 2010)

Tony Downs, one of the most respected economists in the World, had a very sobering article in the latest *National Real Estate Investor* issue. On the one hand, there are subgroups within our country who want to maintain or increase their current government benefits, whether it be Social Security, Medicare or interstate highway road repair. Government workers want to maintain or increase their pension benefits. Many groups want to decrease taxes, yet this is in conflict with the groups that don't want to cut out programs with the reduced government revenue. In California, Governor Jerry Brown is going through the same dilemma, with liberals not wanting to cut out programs and conservatives not wanting to extend taxes, and his proposal is to do both to solve the current \$25 billion dollar deficit. (I digressed from Tony Downs article in this last sentence, sorry!). Back to Tony: "We should not maintain consumer spending at 70% of gross domestic product, but go back to about 60% to 62%. That means spending more on investment and less on consumption, and changing our tax system to favor investment over consumption ... Another truth we must face is that real estate is not going to recover from its weak condition for several more years. Housing is going to remain a drag on all property markets as long as unemployment and foreclosures remain high. Loans on many commercial properties cannot be repaid without a large infusion of equity, which will not be easily forthcoming. Hence commercial foreclosures will increase substantially." *NREI* (January/February 2011)

According to *CFO Magazine* (January/February 2011), "U.S. finance chiefs are sitting on nearly \$2 trillion in cash, bringing the ratio of corporate cash to assets to its highest level since 1959. Half of all CFOs responding to the latest Duke University Survey say they plan to continue to hold on to their cash in 2011, while the other half say they are ready to put some dollars to work." Bottom line, large hiring appetites have not appeared quite yet...

Fourth Quarter 2010 Colliers National Office Market Trends report just out; you can get this from the link below but highlights are as follows:

- Office Markets Look and Feel a Lot Better – But Higher Rents Still Some Way Off
- U.S. office vacancy rate down sharply
- With nearly 15 million square feet of absorption in the fourth quarter, the U.S. office market has unquestionably turned the corner
- Office occupancies up for a third consecutive quarter
- Rent picture again mixed
- Office construction slows to a trickle

For a complete copy of this report ... <http://officetimes.com/MarketReports/on4q10.pdf>

I was cleaning up old files and stumbled on our First Quarter 2000 Walnut Creek Office Market report ... “However, from late February to early March the market was hit with a rent spike, with asking rental rates increasing 21%, especially in Downtown Walnut Creek, Lafayette and Orinda ... The First Quarter ended with a 2.3 percentage drop in the overall direct vacancy rate, closing at 3.9%.” Contrast this with today’s direct vacancy rate of 15.2% and no rental spikes in sight ...

Apple City ... nope, not the Delicious ones found in Washington State, but Cupertino, where Apple, Inc. owns more than 3 million square feet of office space. Measured by market capitalization Apple is now the second-largest company in the United States, after Exxon Mobil Corp ... and much more resilient to major spills and leaks ...

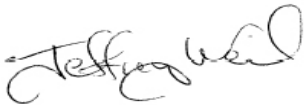
New building controls that harness ambient light to keep rooms at the perfect temperature, open and shut windows, and turn off lights in empty rooms use battery-free wireless controls that harvest their own power by capturing the minute amounts of energy generated when a button is pressed. A new solar light sensor that recently hit the market takes it a step further by harvesting and storing power from the ambient light in each room via miniature solar panels ... I know, hard to believe but this is in Buildings December 2010 ... wonder if they can tap the energy slot machine players use pulling that arm in the same manner or the energy office brokers expend pushing buttons on their telephones all day? *Buildings* (December 2010)

I ran across an office tour I had on July 25, 2001 with an unnamed headquarters for 100,000 square feet of East Bay office space. In Pleasanton California where Class A office space today is going for \$1.75-\$1.85/rsf fully-serviced and including \$25-\$35/rsf in tenant improvements back then Class A space went for \$3.00-\$3.60/rsf! Up at the Pleasant Hill BART Station with a Walnut Creek address, Treat Towers was asking \$3.50/rsf on an as-is sublease and 3000 Oak Road next door wanted \$3.75/rsf, and today these same buildings are doing deals sub-\$2.50/rsf ... and today’s operating expenses are substantially higher as well. Timing is everything in so many ways ...

My 13-year-old son grew like crazy during the past six months and now is taller than his dad. Many of my friends are experiencing the same phenomenon – not sure if it is hormones in the fast food diet or just the way it is these days. Jordan just started his first season of lacrosse with the Diablo Scorpions and totally loves it! He is one of the lead scorers on his team and it is a sheer joy to see him twisting, turning and tearing down the field to score another goal or pass to a teammate. Madison just tried out for one of the advanced soccer teams our 5,000-player Mustang Soccer League is famous for and is also deep into her fourth season of girl’s softball. You can catch up on their latest photos at <http://officetimes.com/2011/Apr2011/JMApr11.htm>.

In this down economy, or as the economists are now calling it, the Great Recession, it is easy to get caught up on all the material things and exotic vacations that might have made sense in better times but seem extravagant in today's new financial era. Not being able to count on how home is equity increasing at ridiculous compounded rates of return, or stock, bond, real estate and just about everything else we at one time or another may have considered a "sure bet" has many of us reprioritizing how we live our lives. Going to Europe with the kids, or heli-skiing in another country for some is an economic drop in the bucket but for others it was a dream that has now faded away. I took a break writing this April *OfficeTimes* to road bike up Mt. Diablo, one of the most beautiful bike rides in the U.S. and only minutes from my house, and there are so many, many incredible, economical experiences and adventures just waiting to be tasted. Amazing books, music, hiking, biking, day trips and adventures – and the Four Seasons is not mandatory. Last summer a friend of mine bought a used RV and took his family of four on a two-month drive across the U.S., visiting dozens and dozens of historical and memorable sites – cliff dwellers, Grand Canyon, Gettysburg, Field of Dreams, Washington, D.C. and countless other stops made for a lifetime of memories. Devoting part of your life to charity and worthy causes can be one of the most rewarding aspects of your life. Special time with friends and families can make life so much more enjoyable. The dreams may return and that fancy new car or 85" flat screen may once again be a reality, but until then life surrounds us with so many other joyful and totally fulfilling opportunities. As one of my Colliers mentors recently remarked, "You will truly find happiness if you appreciate what you have." Andre' Walewski

Sincerely,



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# Newsletter

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