



There are long-term NNN investments offered with returns as high as 9 percent or less, but investors with cash wonder if they should still wait. There are long-term office lease deals at less than 50 percent of what it would actually cost to rent a new building, but office tenants hesitate to commit long term at any price. One of the few indicators still growing is unemployment, and corporations continue to cut costs to minimize financial losses.

Contractors, subcontractors, office furniture vendors, telephone system sales, and on and on, are all suffering as this Great Recession continues unabated. Most of us were so much happier paying top-of-market office rents when the economy was booming than we are today getting six months or more free rent, tons of tenant improvement dollars, and rental rates so low they look like typos. For the past several years, I've been predicting this would be a lengthy downturn, unfortunately I was correct, and my prediction now is hoping for economic sunshine by 2011. I have been writing a daily commercial real estate blog for the past 18+ months <http://blog.officetimes.com>, and you can get these short updates emailed directly to your iPhone, Blackberry, or inbox by subscribing at <http://feeds2.feedburner.com/officetimes>.

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Energy savings update: Retro/recommissioning office buildings for energy savings has a median cost of \$0.27 per square foot, but results in whole-building energy savings of 15 percent, with a simple payback of less than one year. Janitorial activities typically account for almost one-quarter of a commercial building's lighting usage. Opportunities to reduce that amount include team cleaning, where staff cleans one floor at a time, and lighting is turned on and off as janitors progress through the building. Lighting levels might be too high and can be lowered by delamping, adding reflectors and new lenses to improve efficiency, reprogramming motion sensors, adding new lighting occupancy sensors, replacing inefficient T-12 with CFLs, LEDs or T8 fluorescents ... *Buildings* (May 2009).

Biometric technology, including fingerprint and eye retina scanners, and hand geometry readers are not without pitfalls, including high-value clients and partners who may be reluctant to provide biometric information for registration; some international users resist touching any device that isn't cleaned after each use; and apparently no vendor currently is able to

demonstrate consistent adherence to guarantees of error rejection limits. However, expect to see growing applications for office and industrial building access and construction site access. “Since biometrics will almost certainly be required to gain interior access to all federal buildings, as well as many sensitive research and infrastructure buildings, greater entrance area space and more access-control devices must be allocated to reduce queue time,” *Buildings* (June 2009).

Seven relatively new and innovative techniques for IT department cost-cutting: 1) Offshore Insourcing, replacing the bulk of IT infrastructure with open-source technologies and shifting development work overseas to places like Lima, Peru, at a third the cost of U.S.-based employees and in the same time zone as Chicago 2) Sharing or bartering with firms who have excess network capacity 3) Using self-help software to save IT from cost and time-consuming technical admin questions such as “what’s my password?” 4) Cross-Training IT workers in a variety of technical disciplines 5) Leveraging Software Contract Perks – if you can’t get the price down lower, get more add-on services like free training or free future upgrades at no additional cost 6) Negotiating Lower Contract Labor Rates – rates for IT contractors have dipped 10 to 15 percent compared to 2008 7) Hiring Managed-Services Providers – i.e. one national retailer hired local companies to service laser printers and replace toners, but now uses a national managed-services agreement with substantial savings, *CFO* (May 2009).

Sublease space is on the increase in many U.S. subregions as Corporate America finds it can increase profits/reduce losses by continued expense cutting. As of two months ago San Francisco reported more than 2.5 million square feet of available sublease space, and based on the current absorption of sublease office space, this represents a seven-year supply. With office sublease terms averaging 34 months, this means most office sublease space won’t be sublet, the term will run out, and it will then become the landlord’s problem. The East Bay isn’t quite so bad, but I know of a number of large blocks of office space totaling hundreds of thousands of square feet that will hit the market during the next few months.

Deals and Rumors: For a change let’s start with **Livermore**, where GSE Construction leased 58,000 sf at 6950 Preston Ave.; Assay Technology took 11,000 sf at 1382 Stealth St.; AutoZone Development leased 10,000 sf of office space at 1511 First St.; and the 220,000 sf Comcast complex on a 20-year lease sold for a reported \$50 million. Next door in **Pleasanton**, I helped Five9 extend their 17,000 sf office lease at 7901 Stoneridge Drive. In **Dublin**, Graybar Electric leased 20,000 sf at 11501 Dublin Blvd. and just north in **San Ramon**, the big news was Bank of the West’s consolidation into 240,000 sf at the end of 2010. In **Walnut Creek**, I helped sell an owner-user office building at 500 Lennon Lane, and Newmeyer & Dillion is rumored to be relocating to 12,000 sf at Treat Towers. In **Pleasant Hill**, I assisted in the sale of an 11,000 sf office building at 333 Civic Drive, and up in **Concord**, the Contra Costa County Employees Retirement leased 16,000 sf at 1355 Willow Way. Through the tunnel in **Berkeley**, Intel America’s leased 11,000 sf at 2150 Shattuck Ave.; and next door in **Emeryville**, KineMed took 15,000 sf at 5950 Horton St.; Wiss Janney Elstner Assoc. leased 13,000 sf at 2000 Powell St., and the big news was Clif Bar’s

announcement to relocate to 115,000 sf at 1400 65th St. In **Alameda**, Matthews International will be taking 20,000 sf at 1851 Harbor Bay Parkway. Up in **Novato**, Marin County leased 13,000 sf at 88 Rowland Way. In **San Francisco**, Twitter took 11,000 sf at 539 Bryant St. and is rumored to be out looking for 60,000 sf; Scribd leased 11,000 sf and Jaspersoft 10,000 sf, both leases also at 539 Bryant St.; MyNewPlace leased 15,000 sf at 343 Sansome St.; United BioSource Corp. took 30,000 sf at 303 Second St.; Marsys International inked 12,000 sf at Market Center; CNA Insurance leased 30,000 sf at 555 Mission St.; Chicago Title sublet 12,000 sf at 455 Market St.; Federal Home Loan Bank expanded by 14,000 sf at 580 California St., and ICF International leased 16,000 sf at 620 Folsom St. In **South San Francisco**, BiPar took 19,000 sf at 400 Oyster Point Blvd., and in **Foster City**, EZOpen leased 25,000 sf at 4100 E. Third Ave. In **San Mateo**, Golub Group leased 14,000 sf at 1850 Gateway Dr., and in **Palo Alto**, Facebook expanded to 150,000 sf at 1601 S. California Ave.

On-site medical centers as part of corporate real estate strategies ... Some big corporations are creating on-site medical centers in order to contain rising health care costs and maximize employee productivity. “Cisco Systems recently opened a \$38 million health center at its headquarters in San Jose, California. Run by an independent medical group, the center is staffed with physicians available to the 17,000 employees at Cisco’s headquarters and their dependents. Housed in converted office space, the facility occupies 24,000 square feet of a 112,000 square foot LifeConnections Center that also provides fitness and childcare operations ... In some cases, hospitals are partnering with corporations to open wellness centers of 50,000 square feet to 100,000 square feet ... A company needs at least 10,000 employees to justify the costs,” *National Real Estate Investor* (June 2009).

It might be one way to get new business, but getting major newspaper coverage by giving instructions on how terrorists can wheel canisters filled with deadly gases up to building ventilation systems, turn a nozzle and within minutes kill everyone within the building to sell chemical sensing equipment that can detect this threat and within seconds block the ventilation system seems a very scary way to pitch a business ... The equipment costs about 40 cents a square foot, takes about eight weeks from contract to installation, and if you’re interested go to www.bpsiglobal.com, *Contra Costa Times* (June 3, 2009).

Office tenants with vacant dark space may still be paying for utilities and janitorial even though these services might not be provided if the tenant has vacated the space ... this depends on how the lease reads, and check with your legal counsel, but most leases for fully serviced leases has the landlord obligated to provide all the services whether or not the tenant is occupying the space, and landlords who cancel janitorial services and shut off the HVAC for dark spaces may be saving substantial \$... perhaps the tenant can either negotiate shared savings or require that these services still be provided if they are paying for them ... but what a waste ...

250 Montgomery Street, San Francisco, a 116,000 square foot building that sold for \$46 million in 2006 just traded for \$20 million. The 850,000 square foot Class A Watergate office complex in Emeryville, with incredible views of San Francisco Bay, just went into default. There are a number of I-680 Class A office buildings reportedly in default as well. My understanding is that there are thousands and thousands of office, retail and hotel loans currently underwater that are under the “official” radar screen as lenders postpone what may be inevitable ...

As Yogi Berra once said, it is déjà vu all over again ... I gave a presentation at the monthly Investment Marketing Forum on June 10th at the Orinda Country Club and as part of my talk referenced past issues of the OfficeTimes newsletter which I have been publishing for the past 29 years. In regard to the office vacancy factor, while the Tri-Valley Region (San Ramon, Pleasanton, Dublin and Livermore) office vacancy is currently 17 percent as is the I-680 North vacancy (Walnut Creek, Concord), back in February, 1985 the vacancy rate was a staggering 30 percent! In discussing the cost of commercial real estate finance, while it is true today that for some properties financing is almost impossible to locate, rates today are in the 6.5 percent to 7 percent range, and yet back in April, 1986 we had permanent financing at 9.75 percent and in October, 1982 we had insurance companies lending for eight year terms at 14.5 percent interest! So everything is relative ...

City, county, and states thinking of selling excess properties to raise cash ... this might be a great time to catalogue what properties are excess on a long-term basis, but one of the worst times in history to be trying to sell commercial or residential property ... there is almost no financing available and prices are in many cases at a fire-sale level ... hold off three to four years until the market stabilizes and you may be able to get 300 to 500 percent more for your property than selling in today’s terrible market.

CFO Magazine outlined five corporate green initiatives with quick 12 to 18 month paybacks. These were: 1) Facilities, with improvements to lighting, heating, and cooling systems not only saving companies money but in some cases also improving the quality of the work environment for employees 2) IT Systems – “Computer servers are enormous consumers of electricity so the data center is a prime target for greater efficiency. But small things count too, like setting all printers to produce double-sided pages and installing software that switches all computers to sleep mode at night” 3) Distribution and fleet-training drivers to operate for maximum fuel efficiency, looking at hybrid truck options 4) Telecommuting – Huge savings by substituting teleconferencing for travel, and of course telecommuting/virtual officing of all types 5) Waste – Recycle to the next level ... *CFO* (June 2009).

A few weeks ago I was with our Boy Scout troop up in the Sierras and I had the opportunity to spend a few minutes away from the boys trout-fishing in a small river. If I were better at this sport I would call it “catching” instead of “fishing,” but standing in the shallow waters of the river, watching the trout follow but not take my lure, the sound of small waterfalls ahead and behind me, and totally being “there” with nature was one of those precious moments we seem to dream of and strive for, and when they happen we are so reluctant to let them go. No cell reception, the Blackberry turned off for the week, and just the Scouts’ safety training and

adventures as primary concerns ... recharging to be ready the following week to take up the sword and shield of the Exclusive Tenant Rep Roundtable and once again head back into battle to protect my corporate clients ...

Jordan had a great time at two different summer camps, one in Santa Cruz where he learned how to swing through the forest on ropes, and honed his archery skills, followed right after by a week at Boy Scout Camp Wolfeboro where his dad is one of the assistant scoutmasters. Madison went to four weeks of day summer camp and her favorite weekly theme was skateboarding. Both kids are getting ready for soccer season which Jordan begins this week and Madison in mid-August, but they have one more big adventure planned for 10 days in August when they go to Lake Tahoe and get to have their best friends join them. You can see pictures of Jordan and Madison's latest adventures at www.officetimes.com/2009/Aug09/JMaug09.htm.

Be safe this summer season, appreciate what you are blessed with, whether it be family, friends, pets, a great home, an ideal career, or a chance to make this world even a tiny bit better through your presence. Boy Scouts have taught me to begin each day seeking as many good deeds and opportunities to fulfill, and my family has taught me to appreciate and be grateful, always ...

Please call me regarding any commercial leasing or sale requirements anywhere in the 50 states as well as the 51 major countries we service!

Sincerely,

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