



## Corporate Office Perspectives

August 1, 2011

Issue: 188

Dichotomies abound – San Francisco office rents are experiencing major increases, although the vacancy rate is still above 13 percent, while just 21 miles east, Class A suburban office rents are only \$0.30/rsf a month higher than they were way back in 1991, 20 years ago (and no adjustment for inflation or tripled operating expenses.) Developers prepare to build new apartment houses in San Francisco, Walnut Creek and elsewhere, while residential single-family homes foreclosures in most areas are still rampant. LinkedIn going public created how many millionaires, while in the same month and same region, Cisco announced it was laying off 6,500 employees. Are we in a market of transition, going from tenant-bias to landlord-bias, or a market of uncertainty? Virtual farming online can be worth billions, while Class A office buildings go into foreclosure and sell for 20 percent of replacement cost. You tell me – you can go to my daily blog to post comments and thoughts of where you see our world headed at [www.blog.officetimes.com](http://www.blog.officetimes.com).

*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](mailto:jweil@colliersparrish.com)  
[www.OfficeTimes.com](http://www.OfficeTimes.com)

What is really happening to the economy down at street level ... I know San Francisco, Santa Clara and other areas are experiencing robust leasing activity and I hate to be one of the very few naysayers, but during the past week I have called on a number of medium-size office users who are planning to downsize, i.e. from 18,000 square feet down to 3,500 square feet, another from 6,000 sf down to 2,000 sf, and at the same time I have overheard guys in my gym who own local office buildings lament about recent increased vacancy, with smaller tenants either just going out of business or moving their business back into their homes ... and a buddy of mine who just put his home on the market barely two months ago for \$1 mil just dropped the price this week by \$100k ... maybe exceptions to a recovery, or then again, maybe examples of a sputtering recovery bouncing on the bottom that may take longer than some think ...

Although national prices of office buildings continue to be dragged down by a glut of distressed properties, New York experienced a 24 percent increase versus the first quarter of 2010 and San Francisco gained almost 10 percent in value. *San Francisco Business Times* (6/22/11)

New high-tech surveillance equipment is out that combines the power of sophisticated facial recognition and data mining. I'm sure the casinos in Las Vegas and Atlanta are ahead of the curve (along with the federal offices around the world) where these cameras can match images and immediately identify card-counting gamblers or others that might be on a "not welcome" list ... for the retail industry can you imagine when you stroll into your favorite store and it instantly knows your buying habits and can

direct a sales clerk to massage your wallet (or purse) in their direction? Or what about the office building which identifies one of its competing office project listing agents coming into the lobby to possibly solicit existing tenants ... security can immediately be summoned to escort the agent out before damage is done ... *The Registry SF* (June 2011)

California here we come ... NOT – according to a recent article in the *San Jose Business Journal* (6/19/2011), a growing number of California companies are leaving the state, heading to greener pastures in Colorado, Nevada, Utah, Virginia and North Carolina. The pace of this corporate outflow is now five times what it was in 2009, with 5.4 companies per week leaving as compared with 3.9 companies per week this time last year. Joe Vranich, a business relocation coach who tracks these “disinvestments” estimates that only one out of five companies become public knowledge, and that California may be losing more than 1,000 companies this year with revenue loss in the billions of dollars. *San Jose Business Journal* (6/19/11)

Apple just announced the design of its new Cupertino office campus that will house 12,000 employees when it is completed in 2015. The parking lot will be underneath the facility, and 80 percent of the site will be landscaped. The total size will be 3.1 million square feet, and as Steve Jobs describes the unique design of the complex, “It’s a little like a spaceship landed ... we’ve seen these office parks with lots of buildings and they get pretty boring pretty fast, so we’d like to do something better than that.” *San Francisco Chronicle* (6/9/11)

Where is job growth headed? Which industries are hot? *Wired Magazine* (June 2011) had a chart showing the percentage gains in job categories during 2006 to 2010 which they gleaned from asking LinkedIn to analyze the 7 million U.S. members who have switched industries during the past five years. Here is a sampling of this *Wired Magazine* (June 2011) report: Nanotechnology, 18.6 percent; Computer and Network Security, 21.8 percent; Biotech, 12.8 percent; Wireless, 21.4 percent; E-Learning, 18.7 percent; Computer games, 11.1 percent; Internet, 29.8 percent; On-line Publishing, 29.1 percent; and Renewables and The Environment 56.8 percent.

Why the current economic recovery is, for the most part, jobless ... we lost 8.7 million jobs between 2007 and 2009, and so far have only replaced 1.8 million jobs. However, from 1999 to 2009, U.S. multinational companies added 2.4 million employees overseas while cutting their domestic staff by 2.9 million. This doesn’t even include the millions of jobs that were outsourced to India and other offshore vendors during this same time period. Why pay a dollar to do a task if the same job can be done for 25 cents? During the past 10 years there have been tens of millions of emerging nation workers who were once unskilled, but now are proficient at finance, engineering, architectural, medical research, accounting and other fields that we once did on U.S. soil ... *Bay Area News Group* (Thursday, June 9, 2011).

Solar power from solar window glass ... the former Sears Tower in Chicago, now called Willis Tower, is doing a pilot program and replaced 20 square feet of glass on the 56<sup>th</sup> floor with transparent solar windows. This special glass can generate the same amount of energy as a standard roof-mounted PV panel – about 13 watts per square foot. The glass is made by Pythagoras and its vice president of business development, Udi Paret, said, “A net-zero energy building is the ultimate goal.” *sfgate.com* (Saturday, June 25, 2011). In another more detailed article just out on their new window design which is laced with solar cells. These allow the window to generate and save electricity at the same time. Thin horizontal rows of silicon cells embedded between dual panes of glass catch light from above, and through a trick of optics the window blocks direct sunlight from entering the building. Payback is estimated at three to five years. This idea sure beats the one I heard about where office leasing brokers walk around with solar-collector helmets ... *Buildings Magazine* (June 2011)

Today's workspace ... Benedict Dubbs, a principal of Murray Associates Architects, wrote the following ... "Executives, on average, spend less than 20 percent of a typical day within their offices. They are leaving their offices to attend meetings, use conference rooms, or duck into a breakout room to use their smart phones, iPads or other devices ... the U.S. is expected to remain the most highly concentrated market for mobile workers, with 75 percent of the workforce being mobile by 2012 ... nearly 50 percent of the mobile workforce carries more than 3 devices, causing them to stay connected longer." Companies are rethinking how people work, how big their workstation is, and cost vs. employee productivity. An appropriately designed work environment and an enthusiastic employee can add anywhere from 5 to 20 percent profit to a company's bottom line. *Harrisburg Commercial Real Estate Review* (Spring/Summer 2011)

*Deals and rumors:* Once again, **San Francisco** was the hot bed of office leasing activity so we will start there. ZenDesk leased 16,000 sf at 989 Market St.; Zoosk took 21,000 sf at 475 Sansome St.; at One Maritime Plaza, Farallon Capital Management took 66,000 sf; Hall Capital Partners leased 44,000 sf; Hellman & Friedman signed for 22,000 sf; Watershed Asset Management inked for 22,000 sf and Pisces, Inc., yup, signed for 22,000 sf. Over at 150 California St., Blackstone Technologies leased 10,000 sf and at 333 Bush St. State Compensation Insurance Fund took 29,000 sf; The State of California Department of Corrections (is that like Google's spell check?) leased 17,000 sf at One Sansome St.; Zynga expanded yet again by 45,000 sf at 650 Townsend St.; iWin leased 19,000 sf at 45 Fremont; Brattle Group will be taking 16,000 sf at 201 Mission St.; Pivotal Labs and Idle Games each leased 33,000 sf, both deals done at 875 Howard St.; WeWork leased 25,000 sf at 150-160 Second St.; Dewey and LeBoeuf sublet 20,000 sf at One Montgomery St.; DemandForce sublet 16,000 sf at 22 4<sup>th</sup> Street; Twitter leased 200,000 sf at 475 Brannan; Cloudera signed for 10,000 sf at 433 California St.; Meebo took 10,000 sf at 101 Montgomery St.; Genstar Capital LLC expanded to 27,000 sf at Four Embarcadero Center and Fluid leased 14,000 sf at 222 Sutter St. Down the Peninsula, Gilead is getting ready to build the first 192,000 sf phase of its total planned 1.2 million square foot lab/office campus on Lakeside Drive in **Foster City**. In **San Mateo**, Nextlabs, Inc. leased 11,000 sf at 2 Waters Park Drive and in **Redwood City**, Zenprize signed for 16,000 sf at 1600 Seaport Blvd. Across the bay in **Newark**, Triple Ring Technologies expanded by 21,000 sf to 62,000 sf at 39655 Eureka Drive and in **San Leandro**, Alameda County leased 11,000 sf at 500 Davis St. In **Emeryville**, CSAA will be moving into 75,000 sf at 1900 Powell St. In **Oakland**, Girls, Inc. signed for 33,000 sf at 510 16<sup>th</sup> St. Jumping eastward over the hill, Epicor signed a 74,000 sf lease at Dublin Corporate Center in, you guessed it, **Dublin**, and in **Livermore**, The Well (a church) leased 83,000 sf of former office/R&D space at 6533 Sierra Lane. Up in **Walnut Creek**, Quick Mount PV will be relocating its Concord headquarters to the former Varian facility at 2700 Mitchell Drive, where in early 2012 it plans to occupy 91,000 sf of R&D/office space, and in downtown Walnut Creek at 2121 N. California Blvd. Nestle is reportedly signing for 58,000 sf.

I have been asked many times during recent months why if Silicon Valley, the Peninsula and San Francisco office markets are on fire, with companies taking gobs of office space, rental rates shooting upwards, and buildings selling at frenzied prices ... This hasn't spilled over to Pleasanton, San Ramon, Walnut Creek and Concord? Remember, back in the early 1990s our office boom was fueled by residential development, with millions of square feet of office space taken down by CountryWide Mortgage, IndyMac Bank, title companies, residential developers, subprime lenders and all the other office users revolving around residential development and sales ... which tanked in 2007, and has a long, long way to come back ... meanwhile, out here in the East Bay we don't have any Dell, Apple, Google, Facebook or Twitters to backfill all this terrific and bargain-priced office space ...

Companies that take advantage of economic-development incentives when deciding where to relocate their operations may face “clawback” provisions if they later decide to shut down or relocate the facility, i.e. they might have to pay the government back for leaving early ... 44 states are projecting budget shortfalls this year and incentives might be stricter and tougher to get ... *CEO* (May 2011)

San Francisco office building factoids ... there is approximately 60 million square feet of office space in downtown San Francisco, with 50 million of this in the financial district. Total office square footage city-wide is about 85.5 million square feet. Of this, approximately 7 million is owner-occupied. The vacancy rate is expected to drop down to 13.8 percent by the end of this year, and the last time this type of decrease occurred there was a 12 percent increase in rental rates followed by an additional 21 percent increase in rental rates. A typical tenant improvement build-out can cost \$80/rsf, with law firm TI's which can reach up to \$200/rsf. In today's San Francisco office market, sublease space can sometimes be a premium due to the type of tech firms looking for shorter-term space, and the cost savings of finding a plug & play space ready to move in. The current replacement cost of a high-rise San Francisco office building is around \$650 per square foot.

Nationally, venture capitalists invested \$5.9 billion in U.S. companies in the first quarter of 2011, up 12 percent from 2010. Taking a closer look regionally at where this money went, Texas saw 4 percent of it, New York 10 percent, the Southwest 2 percent, Southern California 8 percent, and ... you guessed it, the San Francisco Bay Area took 42 percent of this venture capital pie ...

In a new report just out from the Association of Bay Area Governments, the Bay Area is expected to add 1.2 million jobs by 2035 and will need 903,000 more housing units than currently available. Of this, 70 percent of the growth in housing will go to “close to transit” places which have been designated by local governments. San Jose, San Francisco and Oakland are expected to account for 200,000 of these new units. *SF Business Times* (June 24-30, 2011)

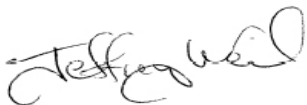
According to the Colliers San Francisco office leasing activity, South of Market is so frenetic, effective rental rates went up more than 13 percent just in the month of April and now averages \$35/rsf per year. The pace of lease-up is also increasing, with Class A space now taking 19 months to re-tenant versus 24.5 months previously, and Class B space taking 24 months, down from 31 months previously. According to Chris Macke, senior real estate strategist for CoStar Group, “San Francisco is bouncing back. You folks have seen rental-rate increases for effectively every quarter since early 2010, whereas nationally they're still having rental-rate decreases. In the second quarter, San Francisco had the largest rental-rate increases, going up 4.4 percent compared to the first quarter. That's very, very strong, far better than anywhere else in the country.” *San Francisco Chronicle* (7/9/2011)

I recently did an extensive interview with a national real estate magazine on where the office market is headed, what sectors may see the most growth, and what trends are emerging in corporate usage of office space. The three industry growth fields at least here in Northern California that have been exploding during the past months are social media, internet and connectivity companies, taking down millions of square feet of office and R&D space. The second big growth sector is lab and biotech, and I just saw an article today that stated South San Francisco direct vacancy rates at less than 5 percent, with rental rates increasing 25 percent just this year. The third major growth industry hasn't taken down as much space but is still a huge player and here to stay, and that is the clean power segment, whether it be marketing offices or engineering facilities for windmill farms, green technology, etc. Please let me know if you see other big-growth arenas in the office and R&D world ...

Ah, summer bliss! Those of you who are or were active in your kids extra-curricular activities might chuckle at this, but we all know how easy it is six or 12 months prior to sign up to go on a major outing or commit your child to a competitive sports program rationalizing how incredible an experience it will be for the child ... and oftentimes minimizing the sacrifices you, the parent, has just committed to. By the time you read this hopefully I will have returned safely from a 50 mile High Sierra Boy Scout backpacking trek in Yosemite as one of the adult Assistant Scoutmasters. Jordan, who just turned 14, will be making this hike carrying in all his food, cooking equipment, tent and supplies, and per our troop rules not even going with my group as his first 50 miler must be dad-less. The snow level is expected to be high, bears are just now coming out of hibernation, and the rivers we are supposed to forge are running at record levels ... and this is a vacation? Next month I volunteered to help lead the troop down Highway One on a 370 mile bicycle trip, but at least this time, my son Jordan will be in my group. Madison, our 8-year-old, qualified for one of the Mustang competitive soccer teams and now has tournaments almost every weekend and practices it seems every other day (actually, twice a week). She is also going to two stay-away camps, so we should have great photos for the next newsletter. Recent photos of their adventures can be seen at <http://officetimes.com/2011/Aug2011/JMAug11.htm>.

Life events around us have a way of getting things into perspective. Last month down in Mexico a fishing boat filled with mostly Bay Area fishermen overturned and sank. My best friend was on the boat and managing to swim 16 hours until he was rescued, but eight of his friends were less fortunate. Most of us have friends who from outward appearances look and act normal and healthy, while in reality they may be undergoing chemo or have other debilitating diseases threatening their life. On the other end of the spectrum, I have friends who have a hard time deciding whether to go back to Europe "again" this year or instead charter a yacht, and yes, I know those who have their own yachts and crew ... Empathetic to those less fortunate, supportive and understanding to those in need whether it be spiritual, financial or just being there as a friend, and non-jealous of those who appear on top of economic, emotional, health and other aspects of life. By and large, most of us have only a limited impact range – ourselves, our friends and family, perhaps our community, but beyond this we are seldom in control – except with our attitude, and may you all have a most positive attitude to impact all those you touch while we enjoy these blessed summer days!

Sincerely,



Jeffrey S. Weil

Email: [jweil@colliersparrish.com](mailto:jweil@colliersparrish.com)

Website: [www.officetimes.com](http://www.officetimes.com)

Blog: <http://blog.officetimes.com>

**COLLIERS**  
INTERNATIONAL

Jeffrey S. Weil, MCR.h, CCIM, SIOR  
Senior Vice President  
1850 Mt. Diablo Blvd., Suite 200  
Walnut Creek, CA 94596  
(925) 279-5590  
CA License #: 00786195  
[www.OfficeTimes.com](http://www.OfficeTimes.com)

**Newsletter**  
**August 2011**