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The following headlines summarize our current Bay Area office market: "Asyst halts plan for new headquarters," "Troubled 333 Grant building hit with default," "Jeeves canceling move!" Last summer (Issue 122), I stuck out my neck and surmised we had already reached a peak in the office market, and then earlier this year voiced an opinion that we might not see an improvement in most Bay Area office markets until 2003 at the earliest. Opening up the business section on almost any random day supports this less-than-cheerful prediction. Take the July 25, 2001 *San Francisco Chronicle* as an example: Cnet revealed plans to lay off 300 employees; Lucent announced it would slash its workforce of 106,000 nearly in half (about 50,000 jobs); just about everyday, week after week, announcements are being made of impending layoffs, which translates to excess office inventory at some point down the road. Well, we are nowhere close to reaching bottom, and from the subtle signals I've received from major employers who have yet to announce more layoffs, I fear we will see the vacancy rate climb possibly significantly before it begins a downward descent.

We have a number of new articles at www.officetimes.com, including a Realcomm summary review of dozens and dozens of cutting-edge corporate real estate software solutions with direct links to their web sites. Also, please check out "Ten Signs the Office Market has Bottomed," "Silver Linings of a Down Office Market" and a 10-year historical review on various Bay Area office sub-markets such as San Francisco, Walnut Creek and Pleasanton, complete with graphs.

Office & Industrial Properties June 2001 interviewed a number of real estate directors, and here are interesting summarized answers to the following question: What are you trying to accomplish in the next 12 months? "We're developing web-based applications for corporate real estate processes, services and information," (Sprint); "We are looking to establish a web-based facilities management system within the facilities division; this will allow us to handle a larger volume of work with the same or limited resources," (International Monetary Fund); "Next year's goal is to reduce excess space. We are going to dispose of 2.5 million square feet of our 7.5 million-square-foot portfolio," (United Health Group); "We're looking to reduce our square footage per person and reduce the cost per square foot," (AT&T); "We're reducing our current surplus inventory, by finding new opportunities to reduce the amount of space occupied as well as occupancy costs" (Computer Associates).

According to the *San Francisco Chronicle* 6/6/01, 56 percent of Californian's exports came from the tech industry, which created 234,800 jobs in 2000. Last year we employed 973,555 tech workers, but you can be sure this number will be lower by the time we get through 2001... According to the *San Francisco Chronicle*, 6/7/01, by mid-2001, 269 Internet companies closed, compared with 222 closures for all of 2000.

It seems so long ago but it was as recent as last fall when the Pleasanton/Tri-Valley region was boasting a 1 percent vacancy rate and now estimates are surfacing in the 8 to 9 percent range, with nothing yet to slow down this upward trend. San Francisco vacancy rates in 2000 of 1 to 2 percent have now hit 10 percent in the Financial District and 25 to 35 percent South of Market. Here's a rental snapshot, and you can get lots more current stats at www.officetimes.com (no ads, no banners, just tons of office information): **SF SOMA** \$25 to 30/yr. (down from \$65/yr.); **SF Financial** \$40 to 70/yr (down from \$70 to 100/yr.);

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
www.officetimes.com
jweil@colliersparrish.com

Peninsula \$3/sf month (down from \$7/sf month last year); **Pleasanton** \$3.25 to 3.50/sf month (down from \$4 to 4.25/sf month); **Emeryville** \$3/sf month (down from \$4.50/sf month); **Downtown Walnut Creek** \$3.75 to 4.00 (down by not much from \$4.25/sf month); **Concord** (\$2.75/sf month-holding steady).

Silver linings in a down office market: More parking, an easier commute, usually much easier to get into great restaurants, easier to negotiate office expansion rights, more employees available to hire, lower office rents, and more plentiful and much cheaper space for the art, music and non-profit organizations who were squeezed out by the dotcoms.

Deals and Rumors: For once we will start in **Richmond**, which was a comparative hotbed of office/R&D leasing activity. Contra Costa County Dept. of Health Services leased 60,000 sf on Hall Ave., where Brite Point Systems took 60,000 sf, and at **Point Richmond** the State DNA lab might be taking a large chunk of the former PIXAR space and the City of Richmond leased 32,000 sf at Marina Way South. In **Berkeley**, Bayer Corp. might be leasing 70,000 sf at Aquatic Park, and in neighboring **Emeryville**, Chiron committed to 22,000 sf at 5650 Hollis Street and BioMedicines took 11,000 sf at 2000 Powell St. In **Oakland**, The University of the California Office of the President leased 24,000 sf at Kaiser Center, and the Federal Office of Emergency Management (FEMA) took 36,000 sf at 1111 Broadway in Oakland City Center. Over the hills in **Walnut Creek**, I assisted Levi Strauss & Co. in a 19,000 sf renewal at 3000 Oak Road, where Vodaphone is rumored to be leasing 25,000 sf, and I also helped lease 10,000 sf to BriteSmile at 365 Lennon Lane. Up in **Concord**, Kyocera took 14,000 sf at 1855 Gateway Blvd. and VoiceStream Wireless leased 39,000 sf at 2380 Bisso Lane. In **Dublin**, Avaya took 67,000 sf at Koll Dublin Corporate Center; in **Livermore**, Triad leased 55,000 sf of office space at the Vineyard; in **Pleasanton**, Wausau Mortgage sublet 13,000 sf at 6800 Koll Center Parkway and Washington Mutual sublet 17,000 sf at 4450 Rosewood. Over in **Alameda**, Strategic Marketing Resources is building its new 36,000 sf office building at Harbor Bay, and Alameda Alliance for Health bought a 50,000 sf office building at 1240 S. Loop Road and plans to occupy half of this project. Down in **Fremont**, Bay Packets leased 17,000 sf at 47266 Benicia Blvd., and Abgenix took 72,000 sf of R&D space at Ardenwood Corporate Park. In **San Francisco**, Legacy Partners is reportedly looking at 70,000 sf at 345 Spear Street, Huntsman Architectural Group leased 19,000 sf at 50 California Street; Burrill & Co. sublet 19,000 sf at One Embarcadero, Telephia is rumored to be taking 40,000 sf at 149 New Montgomery, BEA might be leasing 75,000 sf at 225 Bush, and One Workplace leased 26,000 sf at 475 Brannan Street. Further down in **South San Francisco**, EOS may have committed to 82,000 sf at Oyster Point, where Rigel Therapeutics is the anchor for 250,000 sf.

As reported in *Buildings* June 2001, BOMA did a research project in 1999 titled "What Office Tenants Want," and the primary drivers in tenants locating decisions were rent, comfort and quality of indoor air quality, and responsiveness of building management. Broadband was not even in the top 10. In a recent study by the Strategic Policy Research group to update the BOMA study: "Nearly four-out-of-ten business tenants surveyed stated that they would consider moving elsewhere at lease renewal if important telecommunications needs aren't being met at their current location. Tenants know they have a choice in selecting a telecom service provider. Also, many building owners are not charging for competitive local exchange carriers (CLECs) or incumbent local exchange carriers (ILECs) access. In 2000, office buildings generated \$21 in income per square foot. Of this \$21, less than 12 cents was generated by telecom revenue, and of the 12 cents, nine cents were generated by rooftop tenants." Stay tuned...

Talk about a sub-industry going from 0 to 200 miles per hour almost overnight: In 1999 there were 213 'server farms' with 8.4 million square feet of heavily powered, heavily HVAC and electrified space, and as of December 31, 2000, according to Tier 1 Research, there were 725 data centers covering 33 million square feet...wonder what this figure will look like by the end of next year? (And just how convertible are they back to a basic warehouse?)

Long term the Tri-Valley area still has potential room to grow. Dublin plans to annex 1,120 acres of land for residential and industrial development east of Fallon Road along I-580. This might one day hold 2,500 homes and 1.4 million square feet of industrial space, but expect long battles between now and then. For those concerned about too much development, in the *San Francisco Chronicle* 7/9/01, a story titled "Keeping It Open" mentioned that during the past decade conservation groups have acquired 10,000 to 15,000 acres a year for open space. In the past two years, between 25,000 and 30,000 acres a year have been acquired. "The Bay Area is a leader in the United States – if not the leader – in setting aside acreage for open space, local conservationists believe. Nearly 25 percent of the Bay Area nine-county region, or about 1 million acres, is permanently protected as open space."

What mind-blowing changes have happened in data transmission speed just during the past four years! In 1997, data speed was 14,400 bps and is now available at 100 million bps, and in 1997 wireless was 9,600 bps and is now at 54 million bps. Practical speeds today are a little slower but still comparatively super-fast. At the Realcomm conference in Dallas there was a lot of discussion about companies going wireless within their office facilities, i.e. no Cat 6 hardwired to each workstation.

Think how this might dramatically change the way layouts are done in the future, and the way space is utilized – one speaker suggested that wireless might be as revolutionary to the office industry as the invention of the elevator or modular furniture...

Real Estate Forum June 2001, discussed adaptable workspace solutions and how to keep tenants satisfied by providing them with more effective workspaces. According to Gary Scitthelm, executive vice president of sales and marketing for SMED International, “real estate is the second most expensive line item for employers; the only cost that exceeds it is the investment in employees...*Fortune* ran survey results about the top 100 companies to work for in the U.S. and the number one reason these companies were so great to work for, the employees said, was inspiring leadership. The second reason was knockout facilities.”

A slowdown or halt in office construction across the boards has affected speculative office development as well as owner/user campus office construction, with a number of Bay Area office projects either creeping through the development pipeline or at the other extreme, halting construction mid-project or leasing to outside tenants what was supposed to be an owner-occupancy office campus to outside tenants.

PikeNet 6/4/2001 discussed the usage of technology to speed up real estate, and credits Alan Whitson of the Alan Whitson Company with the following three items that could save one to three weeks from the leasing process. “(1) Landlord’s basic lease document and exhibits online in a PDF Format. This would expedite the legal review and lease mark-up. (2) Operating expense data, current and historical. (3) Floor plans and basic building drawings online in AutoCAD Format to speed up the ‘must-fit’ analysis.”

California is not out of the electrical woods just yet, but it appears that Tennessee and other great states can save these full-page ads on how plentiful energy is elsewhere. We have a number of new plants under construction. Californians actually cut back usage by 10 to 12 percent during the first half of 2001, and we can now worry about our next crisis, which might be water or the economy or some other non-blackout topic. However, just in case we are not totally out of the woods, an April 2001 article published in *Corporate Real Estate Executive*, “Is Your Company Prepared to Survive a Power Outage?,” topics are discussed including 1) Are the right permits in place allowing back-up generators to be used as a main power source? Companies will suffer stiff penalties and may be shut down if they try to run their mainframes and web servers with power sources meant for emergency lighting and fire alarm systems only.” 2) Are the back-up generators the right size? 3) Does the company have contacts in place to have emergency fuel delivered as soon as it is needed? 4) Are systems being put into place to reduce energy consumption?

In an article titled “Healthy, Productive & Green Offices at Little or No Extra Cost,” published in *Commercial Real Estate Executive*, April 2001, here are a few steps to green offices that have little or no budgetary impact: 1) Site Choice: Natural daylight, operable windows, a good ventilation system, and transit and public amenities. 2) Internal Space Planning: The elimination of most private offices, open-space planning, minimal private perimeter offices that block light to interior areas. 3) Material Selection: Water-based paints, non VOC (Volatile Organic Compound) wall coverings, usage of sustainable and recycled products. 4) Choice of Design Team: Experience in green design. 5) Educate Yourself: Clarity results from time spent consulting with experienced green designers, visiting green offices, or interviewing colleagues who have relevant experience can save tremendous amounts of time, confusion and expense once a design project has begun.

One reason our Bay Area homes are so expensive is the \$50,000 per home spent on city fees to make up for our Proposition 13 which for the past 20 years has kept long-term homeowners property taxes down. Someone has to pay the piper!

On top of the millions of square feet of Bay Area office space actively being marketed for sublease, a number of experts estimate additional millions of feet of “shadow space” which is available but not out on the open market. I shudder to think what our actual “vacancy” rate is if one included the shadow space or space only minimally occupied and thus not officially counted as vacant.

Possible methods to improve telecommuting effectiveness: develop a mentoring program for new telecommuters; spell out employer expectations in a telecommuting agreement; have supervisory visits to home to observe employees at work; and make recommendations about making home office safer, more productive.

Thank you Larry Gray, editor of *Real Estate Northern California*, for reminding us of some of California’s greatness: California is the nation’s top farm state, with 350 different varieties of fruits, vegetables, poultry, dairy, livestock and related crops (we have lots of nuts as well...); California’s gross state product ranks us fifth among the world economies; one in eight U.S. residents live in California; California is the most visited state in America and number one in tourism; five California colleges are ranked in the top 10 public institutions (*US News & World Reports*); California accounts for 90 percent of the nation’s wine production; we are also number one in biotech, e-commerce, computer software and hardware.

Today's Facility Manager, May 2001, stated "The amount of space per person in facilities managed by IFMA members has decreased by an average of 13 percent across most industry categories, according to IFMA's latest benchmarking report, Operations and Maintenance Benchmarks." "While their 1997 report showed a mean 771 gross square feet per person, the newest report published in April 2001 shows a mean of 407 gross square feet. In 1994, the Benchmarks 11 report showed that the mean was 589 square feet, which indicates space per person has dropped approximately 31 percent in the last seven years." I like "nice" square feet, but if you want more information about this "mean" report please visit www.ifma.org.

Northpoint going bankrupt, Broadband Office gone, Ricochet in danger, Teligent and the list goes on and on. Scary if your business chose the wrong vendor and you had your communication switch turned off without notice...

24/7 workforce at the June Realcomm conference in Dallas, GMAC discussed how one of its divisions went wireless, and how its scanning centers scan 500,000 pages a day. This allows Internet movement of documents from one time zone to another, around the world, to complete projects in a fraction of the time the former hard-copy process once took.

The last two months with my just-turned 4-year old son, Jordan, have been fabulous. He went on his first river raft ride down the very tame Truckee River at Lake Tahoe. Jordan also had his first steam train ride through the Gold Rush country along Highway 49, and we even managed to fit in a stagecoach ride in the historic town of Columbia. I took him to his first demolition derby, where one watches with amazement as grown men try to smash their cars into each other on purpose, with the last car moving winning the prize. To a 4-year old boy, an event only before dreamt about. Those of you who have kids know what an incredible feeling it is to have your child come up to you, for no reason whatsoever, hug you and say you're the best daddy in the whole world...that's what makes everything so worthwhile! To see Jordan's latest adventures, please go to www.officetimes.com. Each of you, please have the very best summer possible!

Sincerely,

Jeffrey S. Weil, MCR.h, CCIM, SIOR
Senior Vice President



Jeffrey S. Weil, MCR.h, CCIM, SIOR
Senior Vice President
1850 Mt. Diablo Blvd., Suite 200
Walnut Creek, CA 94596

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