



## Corporate Office Perspectives

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The office market today feels like it is moving in slow motion. Office tenants have more uncertainty about where their businesses or industries are headed and, for the most part, are taking two to three times longer to make office facility decisions than in previous years. I wish this extra contemplation time resulted in more accurate results, but unfortunately in our office facility industry, it is usually still at best an educated guess as there are no certainties ... back in May 2007 who would have thought the price of gas would double, the stock price of Washington Mutual would fall so low, trophy investment properties might actually drop in value, or that we would have 8 million homes vacant today due to foreclosures? Predicting business growth for office usage can be tricky, although I have a number of clients that have remained in the same size and location for decades, steel desks and all – a landlord’s dream! We are currently in one of the best tenant markets we’ve had in years, yet I hear from a number of office brokers how office tenants can be hesitant to take advantage of this. Don’t worry, sometime after 2010, the office boom may return, push vacancies down and re-spike rental rates, and then we’ll be back into the leasing frenzy once more!

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Wonder if there are any new web sites dedicated to creative ideas for corporations and businesses on how to deal with employees and the current gas price crisis? Some of the possible solutions being mentioned have been around for awhile, such as increased telecommuting so that workers can work from home one or two days a week more than they are currently doing to save the high cost of commuting ... companies are looking with much more seriousness at how close and accessible public transportation is to their locations and how “usable” these systems are ... i.e., there might be a subway station adjacent to the building but the system might not extend far enough to the suburbs to be of value, or parking lots for these stations might be already at capacity by 7 a.m. ... employers are playing around with offering incentives to employees to carpool when they might not otherwise, giving public transportation vouchers to encourage non-car commuting, installing bike racks or participating in van and ride-sharing programs sponsored by local government entities ... been noticing very recent press on governmental agencies going to four-day work weeks ... the State of Utah just did this for thousands of government employees and not only will employees save on their commute costs, the government will be saving millions

on being able to turn off the HVAC and lighting for these departments on Fridays ... no, the police and fire departments are not part of this ... one Emeryville company recently began reimbursing its employees who bike to meetings during the day at the IRS auto rate of 58 cents a mile ... please let me know what other creative ideas you have heard about!

Highlights from a recent Gensler report, "The Next Workplace Revolution:" What's needed is a workplace that's responsive to the needs of a creative workforce and still real estate efficient. Sustainability is now a corporate pre-requisite. Companies are looking to shed space. They still want the quality and performance but they don't want to pay for workspace that's occupied less than half the time. One-size-fits-all standardization is history. For mobile workers, time and energy matter. As organizations merge and expand, a company's workplace standards need to be global, but allow for geographical, national and ethnic culture flexibilities. Top-ranked companies found that 74 percent of respondents were highly satisfied with the functionality of their personal workspace, while only 48 percent from average companies had a high level of satisfaction. For more information on this, please go to [www.gensler.com](http://www.gensler.com).

Free employee meals at many Internet companies ... to help build team spirit and entice employees to work longer, Internet companies ranging from small startups to the goliaths like Google, Facebook and LinkedIn offer employees free lunches. A number of companies also have breakfast and dinner available for diligent workers. Food can range from catered to in-house chefs. Some do it daily while others make free lunch available once a week ... *San Francisco Chronicle* (July 1, 2008).

Office building operating expenses, which other than possible spikes in the property tax component due to sky-high sale prices of 2006 and 2007, for the most part have been relatively stable and fairly predictable ... i.e. out in the suburbs for older low-rise office buildings with surface parking have been running \$0.60-\$0.70/sf per month for property taxes, property insurance, sewer, water, garbage, utilities and janitorial ... in the downtown suburbs figure \$1.00/sf per month, and in downtown cities like San Francisco figure \$1.00-\$1.35/sf per month ... well, kiss stability goodbye ... with gas at \$4.00/gallon and more, water a shortage on the West Coast, heating oil costs skyrocketing in the Midwest and back East ... expect operating expenses to go higher and higher ... how does your janitor get to work? Car using expensive gas ... how does your garbage get picked up? Garbage truck using costly gas ... and etc.

"Operations is replacing speculative buildings as the trigger for growing real estate values." Maximizing occupancy in terms of generating positive cash flow, scrutinizing operating expenses for reductions without sacrificing tenant satisfaction, proactive vs. reactive approach to utility conservation, *Buildings* (May 2008).

I have been hearing just recently from senior commercial real estate brokers that in their opinion commercial real estate values have declined 10 to 15 percent since this time last year ... with residential real estate still seeking the bottom of the trough, would it be too crazy to think that commercial real estate could go down further? This in no way suggests commercial will plummet like residential as the dynamics are totally different ... we didn't have no money down, teaser interest rates, no verification of income for commercial loans and the majority of commercial property owners are financially strong. Commercial property for the most part generates cash flow to cover the mortgage unlike residential housing ... yet, if the lofty cap rates of early last year when we were hearing 5 and 6 percent head back up, towards the more traditional cap rate returns of yesteryear of 7 or 8 percent, and if softening retail and office rents force cash flows downward, long-term commercial loan interest rates increase, and lenders

require more down payment and less risk, it might not be too farfetched to see this 10 to 15 percent drop in values continue downward. Some property types and locations could end up 25 percent below what they once sold for ... (or worse?) ... bargain hunters beware as if you buy at the wrong part of the curve and it still goes down, your “bargain” may be relatively overpriced ...

Green, the color of today? ... green roofs which use soil and planted material to cover commercial and residential buildings is a “growing” trend (pun intended) ... in Manhattan, Rockefeller Center is installing an 18,000 sf green roof; in San Francisco Hines’ winning proposal for a mixed-use complex of office towers 1,000 feet high at the Transbay Terminal was aided by inclusion of a huge five-acre green park 70 feet above the main bus platform. In a 2005-2006 study, U.S. green roofs grew by 25 percent from the year before. Tokyo now requires 20 percent of roof surfaces to be green. In Germany, 7 percent of roof space is already green. Green roof benefits: Reduced energy costs by keeping the roof cooler in summer, reduced heat island effect, longer roof life, (UC Davis researchers reported that green roofs can double the life of a roof from 15 years to 30 years), stormwater capture and pollution filtration, improved air quality. Green drawbacks – higher upfront costs and figuring out how to get either the grass-eating goats or your lawnmower crew up on the roof ... *National Real Estate Investor* (May 2008). For more information, contact John Loomis [jloomis@swagroup.com](mailto:jloomis@swagroup.com) and don’t blame him for the goat quip, that was strictly mine ...

For numerous links to Green initiatives, sustainable sites, LEED and others please go to [www.officetimes.com/2008/Mar2008/sobr.htm](http://www.officetimes.com/2008/Mar2008/sobr.htm). If you’d like the email version with color-coded hyperlinks you can just click on to get to the sites we reference instead of having to type all this stuff, please just send your email address to [kmoe@colliersparish.com](mailto:kmoe@colliersparish.com).

*Deals & Rumors:* We’ll start with **Redwood City** this time, where Gunderson Dettmer leased 98,000 sf at Pacific Shores; Sony Ericsson took 62,000 sf at 100 Redwood Shores Parkway; Perfect World Entertainment leased 12,000 sf at 2200 Bridge Parkway; Tumbleweed Communications took 37,000 sf at 1200 Seaport Blvd.; and Nominum sublet 35,000 sf and Ingenvity leased 34,000 sf in this same project. Farther down in **East Palo Alto**, Ropes & Gray leased 24,000 sf at 1900 University Ave. Up in **San Mateo**, Sametrix, Inc. leased 27,000 sf at 2755 Campus Drive; NetSuite expanded to 93,000 next door at 2955 Campus Drive; NextLabs leased 13,000 sf in The Crossroads III at 1855 S. Grant Street and over at 800 Concor Dr., Capcom USA leased 12,000 sf. A bit further North in **South San Francisco**, KaloBios Pharmaceutical took 40,000 sf at 260 East Grand Ave. In **San Francisco**, Analysis Group leased 15,000 sf; Chapman Popik & White 14,000 sf, both leases happening at 650 Calif. St.; Liberty Mutual leased 12,000 sf at 353 Sacramento St.; Simple She Inc. took 23,000 sf at 1020 Kearny St.; Selman Breitman leased 20,000 sf at 33 New Montgomery St.; Chevron USA Inc. leased 52,000 sf at 345 California St.; Schawk, Inc. signed for 20,000 sf at 650 Townsend St.; RSM McGladrey leased 10,000 sf at 55 Hawthorne St.; Sequoia Capital may be taking 15,000 sf at 555 Mission St.; JPMorgan sublet 21,000 sf at 560 Mission St.; UCSF leased 42,000 sf at 1500 Owens St. in Mission Bay; Wideorbit inked 32,000 sf at 2 Harrison St.; United Growth took 14,000 sf at 201 Spear St.; MedVantage signed for 12,000 sf at 111 Sutter St.; Telava Networks sublet 12,000 sf at 353 Sacramento St.; Kadoink sublet 10,000 sf at 410 Townsend and Anthem Worldwide leased 13,000 sf at 77 Maiden Lane. Up north in **Santa Rosa**, Sutter Medical Foundation expanded by 45,000 sf at 3883 Airway Drive. Eastward in **Richmond**, California Dept. of Justice DNA Lab expanded to 28,000 sf, in **Berkeley** the International Computer Science Institute leased 28,000 sf at 1947 Center St., and next door in **Emeryville**, Bionova expanded to 32,000 sf at

EmeryStation I; Amyris Biotechnologies expanded by 21,000 sf at EmeryStation East, and NetSol Technologies Inc. leased 24,000 sf at 111 Anza Blvd. In **Oakland**, Sierra Nevada Corporation leased 11,000 sf at 1956 Webster Street. In **Alameda**, OtisMed Corp. leased 30,000 sf 1600 Harbor Bay Parkway, and down in **Newark**, Emcore took 25,000 sf at 8678 Thornton Ave. Heading east over the hills, Festo Corp. leased 30,000 sf at 4935 Southfront Rd. in **Livermore**. In **San Ramon**, Robert Half will be relocating 235,000 sf in 2010, Chubb Insurance leased 24,000 sf; Hill Physicians is expanding to 87,000 sf; UC Davis leased 11,000 sf and Del Monte Foods leased 20,000 sf. In **Walnut Creek**, Morrison Knox leased 14,000 sf at 1550 Parkside and EmeryStation; Basic American Foods will be relocating to 36,000 sf at 2121 N. Calif. Blvd. In **Concord**, ITT Educational Services leased 21,000 sf at 1140 Galaxy Way. Up in **Fairfield**, Applied Materials leased 80,000 sf at 2700 Maxwell Way.

Ten factors critical to conference room design:

1. Large electrical floor boxes to accommodate both data and audiovisual connectivity
2. Conduit sized for HD video, audio and data cabling
3. Millwork designed to allow easy connection of microphones and computers to audiovisual presentation and conferencing systems
4. Enclosures for loudspeakers and projector cabling
5. Proper light for video conferencing
6. Acoustical treatment
7. Isolation from external noise
8. Control of mechanical noise levels
9. Mechanical systems designed to handle additional cooling requirements
10. Space allocated for audiovisual and conferencing equipment cabinets and racks

*Buildings* (May 2008) ... I would like to add a few more key items to consider – drop-down projection screen, flexible dimmer switches for lighting, if interior glass, blinds if privacy is important. One of my clients just installed a very cool (and expensive) system where the conference doors and interior glass turn opaque at the flip of a switch, using some new technology that does something electronic to the molecules in the glass. Also, consider where to locate conference rooms to proximity of main reception (do you want visitors walking through your office space on the way to the meeting?), restrooms and coffee bar or lunchroom (closer is better unless you already have coffee-colored carpeting). Lastly, if you occasionally bring lunch in for conferences is there a set-up area for the caterer or a counter to put out the food?

Not sure how this will play out but most in our commercial industry are not worried about our market catching foreclosuritis like the residential market has. However, there are reports of major institutional purchases at the height of the market now having to sell for unrelated financial pressures from other directions and being forced to take huge losses because of this inopportune timing, i.e. just heard of one portfolio in the San Jose region proudly purchased a year ago for \$1 billion sadly being liquidated today for \$800 million ... what if this isn't an isolated event but instead a growing trend? What domino effect might this have?

Using the gas price crisis as a recruitment/employee retention tool: Looking to reduce costs, spare the environment and create better balance, many workers and employers are turning to at-home work ... Technological advances – including affordable broadband connections, the ubiquity of cell phones and the advent of productive software – have combined to make a nearly ideal portable working environment and many employees are beginning to see the advantages of cutting out the daily commute. Up until now, telecommuting has been favored by more creative jobs like writing and

continues to develop in favor of remote workers, *San Francisco Chronicle* (6/15/08) .... More employers are offering additional benefits, such as telecommuting and flexible schedules, to help offset the costs according to a new survey by The Society for Human Resource Management. Only 2 percent of surveyed employers offered raises or stipends prompted by gas prices. The most common tactic (42 percent) was to raise the mileage reimbursement to the IRS maximum; 26 percent offered a flexible work schedule, 18 percent telecommuting, 14 percent public transit discounts and 14 percent rewarding employee performance with a gas card. However ... your company may have gone to great lengths to create flexible work arrangements, but that doesn't mean employees are comfortable with them. In a survey of more than 1,600 workers, Deloitte found plenty of concern that taking advantage of formal programs (such as telecommuting, flex-time, or part-time schedules) and informal programs (taking time off for personal activities such as errands or children's events) would harm careers. What would make employees feel more secure? If executives were more open about their own needs and practices in this regard. Survey results: Taking advantage of formal flexible-work policies will harm my career: 39 percent agreed, 46 percent disagreed. Taking advantage of informal policies will harm my career: 48 percent agreed, 42 percent disagreed, *CFO* (May 2008).

San Francisco has 2.25 million square feet of new office projects under construction, 3.86 million square feet approved and 7.2 million square feet currently in planning.

#### Ten Ways to Save Energy In Your Data Center:

1. Turn off idle IT equipment – identify underutilized equipment
2. Virtualize servers and storage – aggregate servers and storage into a shared platform
3. Consolidate servers, storage and data centers
4. Turn on CPU's power-management feature
5. Use IT equipment with high-efficiency power supplies
6. Use high-efficiency UPS's
7. Adopt power distribution at 208V/230V
8. Adopt best practices for cooling
9. Conduct an energy audit of your data center
10. Prioritize actions to reduce energy consumption

*Buildings* (May 2008) For more detailed information on this please contact Chris Loeffler at [www.powerwave.com](http://www.powerwave.com).

In the past, before shatterproof glass was invented, we had car windshield glass that would shatter shards of glass upon impact – now we don't give this a second thought. One of these days in the not-too-distant future, residential roof tiles will have solar collectors built into them and provide highly efficient energy generation for both household use, charging your cars as well as for credit with surplus energy going back on the grid. Office buildings may have the same effect with their external building panels incorporating energy-generators, and on commercial rooftops, powerful magnifiers will allow rooftops to multiply the solar power generated.

National Office Market Snapshot: Office absorption slows, concessions rise, the national office vacancy rate has increased 20 basis points in the past two quarters to reach 12.9 percent at the end of March, even as vacancies have inched higher, effective rents have been on the rise since 2004 ... the good news as compared with previous cycles is that the office sector has not been overbuilt. Owners will likely weather this market downturn by granting higher tenant improvement

allowances and free rent rather than lowering rents, *National Real Estate Investor* (July 2008). Investment sales have slowed to a trickle, in large part due to a capital crunch as well as sellers thinking 2007 prices and buyers thinking 2009 prices ...

One possible way to tell when we have hit bottom in regard to the national office market is when the major financial institutions who have been laying off tens of thousands since the subprime meltdown at the end of last summer stop these layoffs for 12 consecutive months ... then perhaps we have hit bottom and are about to climb up the other side of the economic curve.

Curious what the LEED Project Checklist is all about? How to get Certified, Silver, Gold or Platinum? Please check out the U.S. Green Building Council LEED point chart at [www.officetimes.com/2008/August08/LEEDP.htm](http://www.officetimes.com/2008/August08/LEEDP.htm).

Jordan and Madison are both enjoying summer camp, with Jordan, our 11-year old boy, at a stay-away in the Santa Cruz Mountains and Madison attending a day camp. Summers seem to be shorter and shorter each year, with school already just over the horizon. Their photos can be viewed at [www.officetimes.com/2008/August08/JMAug08.htm](http://www.officetimes.com/2008/August08/JMAug08.htm). It can be psychologically daunting; with regional water shortages, painful gas prices, global warming and airline surcharges (did you hear about the airline charging an extra \$5 to carry your cell phone onboard? just joking), but then I realized I can only do my small part in all of this and not much more – how did folks feel during WWII when tens of millions of lives were at stake and no one knew what the ending was? I remember the Cuban missile crisis and my Dad not sure whether we would be able to avoid a nuclear war with Russia. Heck with it, let's just have a great summer and do and be the best we can!

Sincerely,

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