



## Corporate Office Perspectives

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Just where are we with the current commercial real estate market? The San Francisco Bay Area may be representative of a number of regional markets across the United States. Multi-family, credit leased investments and strong, anchored retail are in a frothy buyers frenzy, with cap rates as low as 4 percent and multiple bidding wars the name of the game. Almost three million feet of new office construction is currently underway in San Francisco while 20 miles Eastward, Walnut Creek Shadelands has a 40 percent vacancy in existing office space. Long-term commercial real estate interest rates are up ½ to one percent during the past sixty days and the financing bottom has sailed away. For large Class A office users, i.e. 50,000 square feet and up, in many submarkets there is a scarcity of available inventory while the 2-5,000 square foot office size range seems to be on fire. Corporate America for the most part is not on any major expansion mode, still hunkered down, off-shoring, outsourcing and resisting the temptation to hire new permanent employees. The office mom and pops appear to be cautiously considering expansion, unable to accommodate even moderate business growth at existing staff levels. Your comments to my thoughts on this are always welcome ...

*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  
[jeff.weil@colliers.com](mailto:jeff.weil@colliers.com)  
[www.OfficeTimes.com](http://www.OfficeTimes.com)

According to the report out by *Co-Star* on May 15, 2013, office leases across the country signed four to eight years ago which are now rolling over will be done at much lower per square foot per employee ratios. "The trend toward space efficiency has the potential to limit office demand over the next several years as tenants right-size into less square footage as leases roll the next several years." Major institutional lenders are now on the alert for major office lease rollovers that might negatively impact their loan portfolios.

According to the *Bay Area News Group*, May 19, 2013: Around 13.5 million people in this country work from home. The upside to working from home includes time saved by not having to commute, being in charge of your own schedule (within reason), saving on dry cleaning by working in pajamas and numerous other benefits. The downside may include extra hours above and beyond and not being able to turn off "work" when your eight hours is up. Being available to take calls from your colleagues and boss at all hours, and in summary putting in way more time and energy into your job than if you were working from a cubicle in your office. Of course that's why many companies like

to offer telecommuting to their employees ...

The San Francisco Bay area is currently experiencing an upsurge in robotic companies in the United States. According to the *San Francisco Business Times*, at least 12 robotic companies have surfaced with robotic applications for the home, office and factory. Just imagine the robotic office possibilities -- a beautiful or handsome robotic receptionist, filing clerk, (Bob in accounting), robots trained to hang out at the coffee area sharing the latest robotic gossip. Do they have to clock out at 5 p.m. or can these mechanical brain wonders keep working through the night? Will I be replaced by a robotic blogger?

According to *The Registry*, May 30, 2013, the Electrical Workers Union 510 in San Leandro has converted a 46,000 square foot, one- story building into a net-zero energy-efficient training center. "Solutions premised on the weather patterns that were revealed allow dozens of solar panels and three wind turbines to produce as much energy onsite as the building will consume in a year combining passive strategies such as thermal heat and cooling. Architects added 22 triangular-shaped monitors to the building's roof, which admit light, hold solar panels and release heated air from the building's interior. Thus, when the wind blows, cool air is pushed into the building via windows. As the air warms, it rises and is sucked out the roof via the monitors."

When contemplating installing a solar panel array on your roof, make sure to evaluate the condition of your roof first. If the roof needs replacing in the next 5-10 years, you may want to do this prior to installation of the solar panel system. If the roof needs to be replaced after the solar system has been installed you will have the additional cost of removal and reinstallation, *Bill Sutton with Wohlsen Construction and Mike Newman of Haller Enterprises in the Harrisburg Commercial Real Estate Review*.

In a recent *Wired* magazine article, a number of tech workers were interviewed about its South of Market business district headquarters and its 20th anniversary. "The typical work-space is open, with simple drawer-less desks in a row or small clusters. Most offices have a few giant rubber-ball seats, some standing desks the occasional treadmill. There is also a stark absence of paper, often there is not a sheet: no books, no paper on the walls, no binders or pads. The long-prophesied, paperless office has arrived. Only toys, beverage containers, keyboards and headphones sit on the desk ... during the workday, the headphones provide a virtual cubical to block distractions."

Energy management systems designed for smaller building sizes and high-energy intensity uses such as medical offices and restaurants for small building owners, check out the free Siemens EcoView mobile app available in Apple iTunes...

In San Francisco's Mission Bay, The University of California, San Francisco, will shortly commence construction on a six-story, 251,000 office building with shared workspaces and no traditional offices. They will have "focus" rooms where staff can retreat for quiet time or confidential phone calls, with a ratio of one focus room per four workstations.

According to *Buildings* magazine, May 2013, work place violence has declined substantially since 1994—an 82 percent reduction for government employees and 75 percent for private workers.

"Offices have become energetic, casual, and transparent. The days within a fixed environment with silos of people, groups, and information are over," says Dan Lee, National Manager of interior design for Staples. With mobile and wireless devices, workers don't have to be tethered to a fixed spot. The personal desk or work station is just one place of many for employees to get their jobs done. Downsizing individual space goes along with increasing collaborative areas. Cubicles have lower walls, smaller desks which allow for chairs or pullout benches for informal meetings. Office transparency is increased with glass walls, interior windows, and doors with cutouts.

I have heard a number of rumors that the 2.1 million square foot AT&T corporate facility in San Ramon is in the process of being sold. AT&T may be leasing back 800,000 square feet. They have been moving a lot of jobs to Texas during the past several years, so this should come as no big surprise. This also means a lot of vacant square feet about to come on the market.

Adobe is building a 200,080 square foot, wing-shaped building in Lehi, Utah. The long, linear building incorporates a climbing wall, an indoor basketball court and a full gym. There is also an acre and-a-half of soccer fields, volleyball courts and a plaza with a fire pit. The building is almost all open—planned with only 15 percent of the space with private offices.

*Deals & Rumors:* Genworth Financial leased 50,000 sf at 1655 Grant St, Cerus took 16,000 sf at 2411 Stanwell, I helped BioCare with their 14,000 sf lease renewal at 4030 Pike lane, and I was involved with UFCW at 1000 Burnette Ave in purchasing the 97,000 sf Class A office building, all in **Concord**. Down in **Pleasanton**, Schneider Electric is relocating to 11,000 sf at 5735 West Las Positas. In **Livermore** Caltrol took 22,000 sf at 2675 Collier Canyon Road. In **Oakland** the Oakland Unified School District leased 52,000 sf at 1000 Broadway, while in Emeryville Grocery Outlet is moving its headquarters to 54,000 sf at 5650 Hollis St and F'Real Foods will be moving its HQ to 19,000 sf at 6121 Hollis St. In **San Francisco**, Flurry took 31,000 sf at 360 Third St., Beats Music leased 14,000 sf at 555 19<sup>th</sup> St., and Lumosity signed for 30,000 sf at 140 New Montgomery St. DivcoWest took 25,000 sf and Protiviti 11,000 sf, both deals done at 575 Market St.

There are new major office campuses under construction in the Bay Area. Nvidia is planning a triangle shaped one million square foot office campus and Apple's circular 2.8 million square foot campus in Cupertino begs the question, what about the exit strategy? I remember campuses in the past including the one million square foot Concord facility with interconnecting mechanical, electrical and parking which made it costly to subdivide for multiple tenancies, and the 2.1 million square foot AT&T San Ramon campus which is really hard to subdivide because it is one huge building. What happens in the future if the company decides to vacate all or a portion of these mega campuses?

As reported in the *Harrisburg Commercial Real Estate Review*, anticipate mobile work styles and leverage mobility by: Plan for multiple generations at work; give people "environmental control;" design the workplace as a resource, not a destination; incorporate sustainability into the workplace.

Companies are coming up with Wellness Programs within their office facilities to encourage healthy employee lifestyle by offering incentives and rewards. Employees take a benchmark health assessment test. Employees can earn rewards by improving their health by using different benchmarks. They can earn cash bonuses as well as days off for attending health awareness classes.

The Database of State Incentives for Renewables & Efficiency (DSIRE) website, <http://www.dsireusa.org> provides a comprehensive state-by-state listing of current incentives and rebates for sustainability. It also links the user to federal programs that are available.

According to *Commercial Investment Real-Estate Magazine*, May 2013, companies try to accurately estimate how many square feet per worker is needed, but oftentimes end up with 25 percent or more excess space. Thus, a targeted goal of 200 sq. ft. per employee might result in actuality of 250 sq. ft. per employee. "Yet, in last year's CoreNet Global survey, corporate executives indicated they expect to reduce the amount of space they lease in the next five years to less than 100 sq. ft. of dedicated space per worker."

The United States has averaged 150 million sq. ft. of new office building construction per year. There is an estimated 12.25 billion sq. ft. of office space in the United States today. Recent studies suggest that Corporate America downsized their work space at lease expiration to approximately 125 sq ft per employee, which will free up over 540 million sq. ft. of office space.

Smaller Walnut Creek office space demand is red hot, especially for 2,000 square feet and under. Not sure if this applies to the rest of the office world but at least it's happening here and it may be the start of larger corporate expansion.

Commercial property interest rates have gone up 1/2 percent to one percent (50-100 basis points) there are still low amazing fixed rates. I have heard of 15 year fully-amortized 3.7 percent fixed rate commercial loans but the bargain rates are now in the past. Apartment financing has also increased a 1/2 percent to one percent.

There are office building ownerships in the Bay Area which have had huge recent increases in value. One family with a four million square foot office portfolio has had office rents increase \$0.40/rsf per month, which translates to a property value increase over the past year of \$320 million dollars! Not bad ...

East Bay apartment houses are still in huge demand. There was a recent 16 unit which had 12 offers six of which were over the asking price and may have sold for a 4 percent cap rate.

In San Francisco, the tech boom has dramatically increased the need for bicycle parking at office buildings. In some cases as many as 10 percent or more of the employees in the office buildings use their bicycles to get to work. Some buildings are now offering card-key access secure rooms for employees to park their bicycles and include showers and lockers.

The new One World Trade Center in New York will have elevators that reach the speed of 2000 feet a minute with a total of 70 elevators. The office floor sizes range from 46,000 square feet on the 20th floor to 35,000 square feet on the 80th floor. Special security features include biological and chemical filters in the air supply system, multiple backup lighting systems, ultra-wide stairs that use fans to prevent smoke from filling in the stairwells and dedicated stairs for the fire fighters.

"There's definitely a trend towards a more efficient use of space among office users thanks to the advancement of digital file storage, Wi-Fi, and the like," According to CoStar. There are a number of factors involved in this, including length of lease, corporate standards, existing furniture and budgets for smaller, more efficient work environment. Also the major drivers in this era of business growth is by smaller

businesses. The large corporations are still hunkered down while companies under 25,000 square feet (and in our suburban market, 5,000 square feet) are the driving force in office space absorption. This has caused the "100 square foot" employee space usage to still be a thing of the future.

Google's 1.2 million square feet new Mountain View, CA office campus planned for construction will have a number of very unique features. The buildings have been nicknamed "noodles" because they are long, narrow and curved to allow 70 percent of the occupants natural light. There are rumors of rooftop vineyards, extremely low environmental impact features like compost toilets, a zip line, a wind-driven music farm and gourmet cafeterias. As 7 percent of the 12,000 Mountain View employees currently ride their bicycles to work, there will be an extensive elevated bike path system. Can't you just imagine it ... hundreds of Google employees walking around with their Google goggle glass computer screens ... simply googelicious!

Jordan, who turned 16 a few months ago-and is now driving, has been spending part of his summer traveling across the United States on an elite lacrosse team, playing lacrosse tournaments in Denver, Vail, Rhode Island and elsewhere. He is also working on his Boy Scout Eagle project, the last step required to attain Eagle rank. His Dad, one of his troop's Assistant Scoutmasters, will be very relieved once this milestone has been reached as 96 percent of all Scouts drop out before attaining Eagle. Madison, who turns 11 on August 23, has been having a terrific summer, with various sports day camp activities as well as stay-away camps, with at-home adventures to round out her summer experiences. Their recent photos can be seen here: <http://www.officetimes.com/2013/August2013/KidsLocalAugust2013.html>

Our Parents and grandparents survived The Great Depression, and now our generation is the survivor of the Great Recession ... wonder if we get tee shirts or coffee mugs to commiserate but some things are best forgotten. I have friends who lost their homes to foreclosure and are now renting, and other friends who purchased scores of bank-owned homes and made fortunes-fortunately, both groups of friends are still enjoying life and not and not everyone needs to spend months in Europe to have a great summer – local weekend trips, time with family, and keeping everything in perspective ... enjoy your summer whether you are in the South of France or at the local lake or beach and please call me if I or my 15,000 Colliers colleagues can help you with any of your commercial real estate projects!!

Sincerely,



Jeffrey S. Weil, MCR.h, SIOR, CCIM  
Senior Vice President  
Website: [www.officetimes.com](http://www.officetimes.com)  
Blog: [www.blog.officetimes.com](http://www.blog.officetimes.com)

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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)

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