



## Corporate Office Perspectives

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Global Warming and Eco-Thought ... the California Public Utilities Commission is considering a “zero net energy goal” for new commercial buildings constructed after 2030, where enough electricity is generated by the building to power all of their needed functions. *California Real Estate Journal* (October 15, 2007) ... whether or not it ever gets this extreme is still up for debate. And in the big picture, i.e. even if the U.S. went carbon-neutral, what about what’s happening in the rest of the world? “... both China and India are building a slew of coal-burning plants as their economies explode. Even if every American SUV owner were to buy a hybrid tomorrow, that wouldn’t come close to offsetting the environmental damage being perpetrated around the globe. In fact, all the standards, cap-and-trade limits, and emission reductions that environmentalists have been pushing for may slow, but will never reverse, global warming,” *Wired* (October 2007). “China is in the process of overtaking the United States as the world’s No. 1 source of greenhouse gas emissions. But a closer look at the numbers shows even more startling news – China’s emissions growth will soon outstrip that of the entire industrialized world combined.” *San Francisco Chronicle* (9/28/07). However, as I reflected on this concept, what about a two-prong solution? We were able to fix, for the most part, the use of child labor in Chinese factories making goods destined for the U.S. using a range of economic pressures such as U.S. companies policing their suppliers ... if the only products that were exported to the U.S. were produced through minimally polluting processes or if there was labeling to tell us how much damage to our environment each product was responsible for, kinda like looking on the back of the bag of chips for the fat content ... the second approach would be exporting our ecotechnology to China that will both lower cost while at the same time improve the environment.

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A tale of two (or more) cities: In San Francisco, vacancy rates continue to fall and rental rates continue to rise. According to a recent Colliers study, Financial District Class A office rents have increased 23 percent to \$50.60/sf during the past year and Class B rents have risen about 38 percent to \$35.39/sf. For office building sales, the year-to-date average price paid on Class A assets for 2007 was \$650, up from \$427/sf in 2006 and \$333/sf in 2005. In the San Mateo region, office rents have doubled since 2005. In Southern Marin, average rents jumped 20.1 percent in 2007 as digital arts, cleantech and health care companies all grew. Space available for \$35 a square foot in 2006 at the Larkspur Landing Office

Center is now going for \$48, *SF Business Times* (October 5, 2007). In Oakland and Emeryville, vacancy rates hover in the 10 percent range. However, out in the East Bay suburbs of Concord, San Ramon and Pleasanton, there has been a much bigger impact of the subprime meltdown, with hundreds of thousands of feet of office space, mostly Class A, coming back on the market as lenders and mortgage brokers either negotiate early lease terminations, put their facilities up for sublease, or simply abandon the space. In one submarket of Walnut Creek, Shadelands, with almost 2 million feet of multi-tenant office space and 244,000 sf vacant, during the past six months, in total, only had 6,000 square feet of signed lease deals ... what the burbs are hoping for is what has happened twice in the past 30 years – San Francisco rents went so high that transbay relocations took off, saving corporations millions in lower rent. With Class A rents in Pleasanton and Concord in the \$2.25 to \$2.60/sf range, full-service, and ample free parking, San Francisco already costs twice this amount – the big question: how much more differential is needed to turn the Transbay spigot back on ...

Keeping your employees happy 101: “Memorial Healthcare Systems employees can get an oil change and their clothes dry cleaned without having to leave work. Ernst & Young staffers need only pick up a phone to have someone plan their vacation or research nursing homes for an elderly parent. These workplaces are part of a growing number that are embellishing their benefits packages with concierge services – everything from flower deliveries and car detailing to restaurant reservations and clothes alterations. Google offers a diverse menu of perquisites that include three free meals a day, plus other on-site conveniences like car washes, oil changes, massages, haircuts, dry cleaning, childcare and medical care. The employees have to pay for some services while Google subsidizes others,” *San Francisco Chronicle* (10/28/07).

Green Scene: Intuit’s new 466,000 sf office campus in Carmel Valley is shooting for a Silver LEED certification. The total additional cost for environmentally friendly features such as solar-powered exterior lighting was about \$1.65/sf. Based upon company calculations, these costs will be fully recouped by Intuit from energy, water and other savings in the eighth year of its lease. During construction, the Green Police, watchdogs from the general contractor DPR, made sure that leftover cardboard, lumber and drywall were sorted for recycling, that glues used for sealing air ducts gave off only non-toxic fumes, and that lighting was designed to cut energy use, *San Diego Union-Tribune* (October 13, 2007).

Practical eco-ideas – Ever get catalogs at the office you didn’t order or want but feel guilty just continually tossing them in the trash time after time? How about at home, where one catalog order can trigger your name and address being sold or rented to hundreds of other catalog companies who not only bombard you with their unwanted catalogs, but worse, can in turn resell your name and address, and the chain continues! We are spending so much effort on green buildings to help our environment, but did you know that in the U.S. alone each year, 19 billion paper catalogs are sent out, requiring 53 million trees to be chopped down in the process. I found a great, easy and free service that is sponsored by environmental organizations – [www.catalogchoice.org](http://www.catalogchoice.org), just sign up, click the names of the catalogs you no longer wish to receive and they will get you opt-outed. Please pass this [www.catalogchoice.org](http://www.catalogchoice.org) on to everyone you know so we can save at least a few million trees a year and get our mailboxes a little less cluttered!

Tax deductions for commercial building solar and energy-efficiencies – The Tax Relief and Health Care Act of 2006 offers a 30 percent solar energy tax credit for installed solar energy equipment in 2007 and 2008, including equipment that uses solar energy to generate electricity, to heat or cool a structure, or to provide solar process heat. A \$1.80 per square foot energy-efficiency tax deduction is available for businesses that can reduce energy output by 50 percent. A partial deduction of \$0.60 per square foot is

allowed for businesses that reduce energy output by 16-2/3 percent. Deductions are available primarily to building owners, although tenants may be eligible if they make construction expenditures, *Real Estate Report* (Fourth Quarter 2007).

Outsourcing update: “Falling Dollar Takes Toll on Outsourcing” ... while India’s tech sector is still thriving and so far the dollar’s fall hasn’t appreciably curbed the readiness of most U.S. companies to use Indian technology services, the combination of higher Indian salaries and a rising currency is prompting Indian vendors to play closer attention to their costs and push through small price increases. And U.S. corporations that set up major technology centers in India are finding that they aren’t saving them as much money as they expected. Big Indian software companies are stepping up their hiring of American tech workers, who have suddenly become a lot cheaper to employ. For example, Bangalore technology giant Wipro Technologies recently unveiled a plan for a software development center in the Atlanta area that ultimately could have 500 programmers, *San Francisco Chronicle* (10/2/07). “India’s Tata Consultancy Services LTD said Thursday that it received a \$1.2 billion contract from U.S. market research firm Nielsen Co. – the biggest outsourcing order ever won by an Indian company.” *San Francisco Chronicle* (10/10/07).

Future San Francisco high rises may include integrated wind turbines. “On a good day in the summer, when the wind blows consistently and hard, the combination of PUC (Public Utility Commissions) building’s wind and solar will generate all of the building’s energy demand. An additional five to 10 turbines will be located on the building’s roof ... the solar and wind installations at the PUC site will add 2 percent to the overall construction cost ... if these energy microgenerators pay for themselves in 10 years most people are thinking it’s kind of a no-brainer,” *SF Business Times* (September 21, 2007). Staples, the office supply superstore, plans to install turbines atop its headquarters in Framingham, Mass. to help the corporate giant save energy, *National Real Estate Investor* (September 2007). Hmm ... if they installed wind turbines at the White House and Congress, payback might be less than a year ...

Three Dimensional Telepresence – the new trend in conferencing? “The newest technologies have been designed to make it appear that every member of a team is in the same room, whether they are in the office, at home, or on the other side of the world. Duffie White is the founder of TelePresence Technologies, based in Dallas, Texas. His company develops and manufactures telepresence solutions and has created a three-dimensional system. The system is a completely self contained unit, so it can be placed at the end of a table. The person being communicated with appears to be present from across the table, and people in different locations can make eye contact with one another as if they were in the same room.” BrightCom, another teleconferencing and telepresence provider, is located in Huntington Beach, Calif. They blend together different types of video conferencing to give the illusion that everyone is in the same room,” *Today’s Facility Manager* (September 2007).

The Chicago Climate Exchange (CCX) is a trading system to reduce greenhouse gas emissions. CCX members are required to annually reduce emissions by a specified amount, and if they make reductions beyond that level, they can sell the excess to others. If they fail to meet the target, they must purchase another’s surplus, *National Real Estate Investor* (September 2007).

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Subprime meltdown domino effect: First victims were the subprime lenders shutting down entire office divisions, mortgage brokers laying off workers or closing their doors, title companies downsizing and residential real estate agents seeking other types of employment. Residential development companies trimmed staff, moving companies who had capitalized on the multi-year housing boom are finding themselves not having as many “moving” experiences, and there appears to be a huge downturn in business for pool services, landscapers, home theater installers, home insurance agents and retailers in areas where the huge housing growth has turned into massive foreclosures ... new city, county and state governments are beginning to tighten their belts as property transfer tax income plummets. Home devaluation and reassessments may have a huge negative impact on governmental revenue for the next several years.

Global warming, acute recognition that the Earth has finite and not unlimited resources, and with oil at \$100 a barrel, “cleantech” seems to be the buzzword of the decade. “Cleantech – encompassing alternative energy as well as clean innovations in materials, waste disposal, water purification and the like – accounted for 11 percent of all venture investment last year. That makes it the third-largest North American venture capital investment category, behind only software and biotech. It’s also by far the fastest-growing category to emerge since the dot.com bust, having grown by 343 percent between 2001 and 2006. Nearly half of this investment has gone to just one state: California,” *Big Ideas in Technology* (Fall/Winter 2007). A few of the cleantech products – Verdiem sells power management software for PC networks that allows IT to turn off the machines from a central location. In Berkeley there is a plan for this city to be first in the nation to help thousands of its residents generate solar power without upfront money – the city will finance the cost of solar panels for property owners who agree to pay it back with a 20-year property tax assessment, *San Francisco Chronicle* (10/26/07). The Department of Defense is completing a 15-megawatt solar installation; the nation’s largest, at Nellis Air Force Base. The computerized tracking system will follow the sun’s path and generate up to 30 percent of the electricity needed by the 12,000-person facility. *Wired* (November 2007).

*Deals and Rumors:* Lots of leasing and subleasing activity in **San Mateo**, with MarketLive leasing 21,000 sf at 1001 East Hillsdale Blvd.; at 2215 Bridgepointe Parkway in former Oracle space; Fortify Software leased 30,000 sf; eMeter sublet 30,000 sf; Neurogesx took 26,000 sf; Activate Corp. sublet 83,000 sf and Pain Therapeutics signed for 31,000 sf; while over at 2207 Bridgepointe, Glu Mobile expanded to 52,000 sf and Forterra Systems leased 14,000 sf. In **San Bruno**, Responsys Inc. subleased 17,000 sf at 900 Cherry Ave. Down in **Palo Alto**, Ning leased 11,000 sf at 735 Emerson St. In **South San Francisco**, Monogram Biosciences expanded from 40,000 sf to 80,000 sf at 345/347 Oyster Point Blvd. In **San Francisco**, Frog Design leased 30,000 sf at 660 Third St.; Sega did a biggie for 70,000 sf at 350 Rhode Island; Tucker Ellis & West LLP leased 13,000 sf at 135 Main St.; O’Melreny & Myers leased 170,000 sf at 2 Embarcadero Center; MySpace reportedly has a LOI for 35,000 sf at 625 Second St.; SmithGroup leased 36,000 sf at 301 Battery and Energy Foundation reportedly has a 20,000 sf LOI at the same property; Barg Coffin Lewis & Trapp will be relocating to 14,000 sf at 350 Calif. St.; Marsh & McLennan signed two large leases, one for 110,000 sf at 345 California St. and the other for 85,000 sf at 4 Embarcadero; Pantheon will be expanding to 23,000 sf at 600 Montgomery St.; University of Phoenix leased 17,000 sf at 1 Front St.; Hellman & Friedman is rumored to be taking 21,000 sf at 1 Maritime Place; Success Factors leased 17,000 sf at 655 Montgomery St., and Stock Bridge Capital took 44,000 sf at 4 Embarcadero Center. Up in **Marin**, Dagnet Solutions leased 10,000 sf at Novato Hamilton Landing which is now 100 percent leased. Across the Bay in Emeryville Joint BioEnergy Institute leased 65,000 sf at 5885 Hollis St. In **Oakland**, HealthNet signed for 41,000 sf at 180 Grand Ave. In **Alameda**, Niman Ranch will be

moving their headquarters to 10,000 sf at 1600 Harbor Bay Parkway; Cool Systems subleased 31,000 sf at 201 Marina Parkway, and in **Hayward**, Ultra Clean Technology Systems leased 104,000 sf of R&D space at Corporate Research Center. In **Fremont**, MyOfferPal leased 11,000 sf of office space at 161 Mission Falls. In **Milpitas**, Cisco Systems leased the former Veritas campus of 472,000 sf (reminds me of 2001, when they reportedly took down 8 million square feet of Bay Area office space in one year). To show you how relatively slow (at least in terms of actual signed leases) the Contra Costa/Tri-Valley is, with more than 5 million feet of vacant office/R&D space, the only reported deal is a whopping 15,000 sf Caltrans signed at 2727 Systron Drive in **Concord** although Oracle also applied for a new 181,000 sf office building permit in **Pleasanton**.

Everything is relative ... as an exclusive tenant rep broker still appreciating the great Class A office rents my clients enjoyed following the dot.com meltdown, even a modest increase from \$2.00 to \$2.50/rsf full-service seems like too much, but a \$30/rsf per year rental rate (\$2.50/rsf per month) is an outright bargain compared with New York office rents. "Defying conventional wisdom that \$100 per sq. ft. might be too steep for commercial office rents in the current real estate climate, the Bank of America Tower under construction in Manhattan is 98 percent leased up, according to developers, at rates that exceed \$100 per sq. ft. on lower floors and \$185 per sq. ft. near the top," *National Real Estate Investor* (October 2007). Let's see, at an average employee density of 200 square feet per worker this works out to \$20,000 to \$37,000/year just for the space to house the employee ... this compares with our suburban rate of \$6,000 per year ...

Editor Matt Valley, writing an editorial in *National Real Estate Investor* (October 2007), discussed how in June 2001 he wrote a column arguing that the commercial real estate industry was in denial about the weak state of the economy and its potential debilitating effects on tenant demand. In October 2007, Matt states, "Now we're in the homestretch of what is proving to be a highly volatile year. And despite the subprime meltdown that triggered a wave of corporate layoffs in August affecting some 35,000 workers in the financial sector, I keep hearing that this is a temporary condition, a minor blip ... in the short term office absorption will slow and vacancies will rise. There will be some pain and the industry will adjust. Of course, this reality will be easier to see if we dispense with our rose-colored glasses." As I write this, just in the past week E-loan announced major layoffs, a number of major banks took multi-billion dollar write offs which have to impact employee count, the Governor of California stated that California has to cut \$10 billion in expenses, the Contra Costa Times had an article titled "Some Builders May Go Bankrupt," and this was just during one week ...

How far will the housing slump fall? "The panic has subsided, but the housing market has not hit bottom yet. It will not hit bottom until winter," David Wyss (chief economist of Standard & Poors) said at a press briefing in Mumbai, India. "Housing prices won't hit bottom until next summer and the losses won't peak for another two years, until 2009. We are not halfway through this crisis yet," *San Francisco Chronicle* (10/10/07). "Things are getting exponentially worse," said Jon Haveman, a principal at Beacon Economics in San Rafael. Home prices "have only now started to drop. They have a ways to go." "It took Southern California 10 years to recover from the last housing downturn, and it took the Bay Area six or seven years." said Cynthia Kroll, senior regional economist at the Fisher Center for Real Estate and Urban Economics at U.C. Berkeley. "That's a very realistic expectation," *SF Chronicle* (10/20/07). I've heard of reports predicting a trillion dollars worth of home loans going from low-teaser to fully-variable in the first quarter of 2008 ...

Over my past 30+ years representing corporate office tenants I've noticed that while back-office or call-center type operations have from time to time relocated out of California, for the most part there have



been relatively few headquarters relocations out of California to other U.S. locales but more importantly high-tech headquarters have relocated to the San Francisco Bay Area from across the U.S. and overseas companies have chosen our region to open their U.S. operations. This, in spite of our high cost of housing and overall cost of doing business. As a recent example, Wikimedia Foundation will move its headquarters from St. Petersburg, Florida to San Francisco in early 2008. You can probably buy an estate house in St. Petersburg for the price of one San Francisco condo, but as the board chair of Wikimedia Foundation stated, "San Francisco is the center of high-tech in the United States, and will give the Foundation access to a rich array of resources, including best-in-breed online talent, top-tier universities, world-class support services and major media," said Florence Devouard, *San Francisco Business Times* (October 12, 2007). Another case in point is Suntech, one of the world's largest manufacturer of solar power systems which recently chose San Francisco for its North American headquarters. "Suntech chose San Francisco primarily because of the city's leadership on global warming." Roger Efir, president of Suntech America said, "It was the market, the attitude of the average citizen in San Francisco. I don't know why anybody in our business would not locate themselves in San Francisco. It's perfect," *San Francisco Business Times* (October 19, 2007).

Wireless Local Area Networks are evolving: the latest generation is 802.11g, good for Internet surfing and normal administrative work, but not robust enough for high bandwidth applications. However, the next protocol, 802.11n, which is expected to be ratified by the Institute of Electrical and Electronics Engineers (IEEE) late next year is four times faster with twice the range. There is also a new generation of outdoor WLAN antenna systems able to create mesh networks. This means less connections to the computer network and a dramatic reduction in the cost of installation. For more information please email the author of this article, "The Wireless Facility ... Inside and Out" by Tom Condon, *Today's Facility Manager* (September 2007) at [rcondon@sdienterprises.com](mailto:rcondon@sdienterprises.com) and his article may still be available online at [www.todaysfacilitymanager.com](http://www.todaysfacilitymanager.com).

According to reports from BOMA (Building Owners and Managers Association), income and expenses in both 2005 and 2006 show very little overall change. One change item is the reported increase of security for suburban properties, increasing 13 percent to 43 cents per rsf from 2005 to 2006. Total expense ratio: Fixed Expenses (primarily property taxes): 32 percent; Utilities: 21 percent; Repairs/Maintenance: 15 percent; Cleaning: 12 percent; Administrative: 12 percent; Security: 6 percent ... for more information on this report, please go to [www.boma.org](http://www.boma.org).

"Credit Crunch Pushes Cap Rates Higher. The proof is in. As anticipated, cap rates registered a substantial increase during the 3<sup>rd</sup> Quarter as highlighted in the most recent data from Real Capital Analytics ... suburban office cap rates increased the most, rising 45 basis points to register 7.02 percent ... the biggest surprise, however, was CBD office and mid/highrise apartments which saw cap rates lower, declining by 18 basis points to 5.53 percent and 5.27 percent respectively." *Ross Moore, Director of Market & Economic Research, Colliers* (October 24, 2007).

Check with your legal counsel, but recent bankruptcy law changes for lease workouts appear to favor landlords. "This 2005 change negotiated by the lenders' and landlords' lobby essentially sets a shorter deadline of about six months for tenants to figure out how they can either assume their lease or let it go during bankruptcy proceedings. Previously, tenants often would hold onto their lease for long periods of time while bankruptcy proceedings sorted themselves out. Landlords might not get paid for the full lease amount, even if they file an administrative claim with the court ... tenants have one key benefit – if they agree to retain the lease as an asset, they can even sell the terms to would-be-buyers – a potential plum if the tenant has a lot of time left on a below-market lease," *California Real Estate Journal* (October 15, 2007).

Watching the seasons change, particularly in California, can be a bit misleading at times. We had a bit of winter in October, and then most of November felt like a bonus summer. As a snow skier we want heavy rains in the Bay Area as this usually means snow up in the Sierras, but as a soccer dad with the November and December tournaments, nice weather still has its practicalities. Oh, so confusing, almost like trying to predict how far office rents will go up before the cycle turns ... sometimes just going with the flow offers the least disappointments. Jordan's U-12 Boys White Plus soccer team, the Vipers, had an amazing second half of the season, winning the big Dick King Championship. Our local soccer league, Mustang, has 5,000 kids and more than 350 teams. His team now competes in the regional tournaments in December. Madison is on two soccer "teams," but at her age it is mostly about learning the basics and having fun. Madison is also taking dance and swim lessons, and at night her dad is teaching her to read to him so he can finally relax. Both kids are in Scouts, Jordan, a Webelo and Madison, a Daisy (pre-Brownie) – life is just one happy dash from soccer to Scouts to someone's birthday party and back again, but hey, we wouldn't want it any other way!

Photos of their recent experiences are at [www.officetimes.com/JMDec07.htm](http://www.officetimes.com/JMDec07.htm).

Thank you!

Sincerely,

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