



The view of the U.S. office market from 50,000 feet ... (just under 10 miles ...) Overall much of the United States is experiencing a slight firming of the office market after four+ years of freefall following the 2007 financial and housing market collapse. Certain submarkets are strong, such as Houston with its oil industry, San Francisco with its tech boom and other subpockets. There are also regions still experiencing office building foreclosures and 35+ percent vacancy factors. Class B office tenants moving up to Class A product have caused this market segment to be the strongest. In particular markets specific landlords' leasing concessions are decreasing as projects near 95 percent occupancy. There are still many regions where lesser-quality office product continues to struggle and investing tenant improvement dollars to fill vacancies sometimes became a questionable use of scarce capital. Back-office jobs still flow for the main part to India, the Philippines and Indonesia although I have heard of a smaller job flow to Utah and other lower-cost states. The near-extinct office construction crane is not anticipated to return to most markets until rents go up 50 to 100 percent from current levels and there are few "big office hiring" industries on the horizon to speed along the evolutionary process.

According to the U.S. Green Building Council, the perceived cost benefits of green building include the following: Operating costs decrease of 13.6 percent for new construction and 8.5 percent for existing buildings; Building value increases 10.9 percent for new construction and 6.8 percent for existing buildings; Occupancy increases of 6.4 percent for new construction and 2.5 percent for existing buildings; Rent increases 6.1 percent for new construction and 1 percent for existing buildings

First it was back-office accounting and data processing jobs being sent overseas to India, Philippines and elsewhere, but the *Los Angeles Times* (July 29, 2012) reports that some health care companies are starting to shift clinical services and decision-making on medical care overseas. "Some of the jobs being sent abroad include so-called pre-service nursing, where nurses at insurance firms, for example, help assess patient needs and determine treatment methods ... WellPoint, which made a profit of \$2.65 billion last year... laid off pre-service nurses in Colorado and Nevada so the work could be done in Manila."

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The new Apple campus will have bus coach shuttle service to and from multiple locations around the Bay Area, coach shuttle service to public transit stations for Caltrain, Altamont Commuter Express and Valley Transportation Authority. The Apple website will match carpool and bike route matching services. There will be a \$100/month transit subsidy per employee and a \$20/month bike subsidy for bicycle commuters who don't use local transit. Bike racks, pumps, lockers and showers will be available at the campus and Apple will have a bicycle sharing program.

A new study about workplace satisfaction done by UC Berkeley (where I received my BS and MBA, hooray!) found that washrooms top the list of common comment themes ... other top issues: Cleaning, either incomplete, disruptive or insufficient; temperature, too hot, too cold; air quality, dust, lack of fresh air, mold, odors; carpet, walls and furniture dirtiness, need for better or more chairs, size and aesthetics of the furniture, *Buildings Magazine* (September 2012).

I have been through a number of market cycles in my 37 years specializing in office space leasing and sales, and what is always an interesting and oftentimes frustrating experience is when a submarket goes through a transitional phase from one end of the spectrum to the other. Sometimes it can take many months for a tenant market to change into a landlord market, with rental rate increases slowing going up and leasing concessions such as free rent or landlord-paid tenant improvements slowly decreasing. As an example, in a totally tanked office market, landlords might be willing to give six to 12 months up-front free rent and throw in \$25 to 35/rsf in tenant improvements just to get the tenant secured in a very soft market. Even though the economics of these types of transactions seem crazy, it may be less crazy than sitting on vacant space for several years and still having to do this type of deal. Case in point, in Walnut Creek Shadelands there are office vacancies that have not been tenanted in more than 10 years!!! The Tri-Valley office market of Pleasanton/Dublin/San Ramon has recently, in my opinion, begun a major shift from tenant to Landlord. In recent tours where I start preparing a month prior to actually taking my client out to look at space, we might start with an available list of 20 spaces. Recently, when it gets closer to tour time, this list has dropped to 10 to 12 spaces, and within days of touring, has dropped further due to space being leased, so we might end up with only 5 to 7 spaces to consider. Then after making proposals on three to four alternatives, one or two spaces again drop out due to being leased or the existing tenant finally telling the landlord they are staying and not moving. Meanwhile, the former six months of free rent has decreased to two to three months and with some landlords with minimal vacancy, no free rent and no decrease from the asking rent. I have heard of multiple tenants competing for the same space, which has not happened since back in 2006. There is no huge influx of new tenancies, but there are a handful of local players undergoing major expansions as well as businesses' finally deciding it is time to expand ... and thus the market change begins ...

In the latest *Morgan Stanley* report on the U.S. office market which surveyed more than 300 brokers nationwide last month, 64 percent of the respondents regard the current environment as a tenant's market and don't expect a near-term shift in negotiating leverage. Only a third of respondents expect rent growth as excess slack remains to be absorbed. There were also huge geographical differences, with 92 percent in San Francisco calling it a strong landlords market, while in Washington D.C., 96 percent of the brokers

called that a strong tenant's market. Other than San Francisco, the other major cities listed were for the most part still 50 percent or more tenants' market, *Morgan Stanley Research North America* (October 8, 2012).

Steelcase, one of the largest office furniture manufacturers in the world, will be 100 years old this year. They have a 23-person research team, including an anthropologist, which conducts interviews, films office activities, and uses sensors to measure worker's use of various rooms and furnishings. Companies are ordering fewer cubicles and filing cabinets, and instead buying benches, tables and café or lounge seating ... they have developed a number of products that fit in hallways or other under-utilized spaces so mobile workers can get power, connectivity and meet with others in many different modes ... and the companies can get more employee capacity without having to take more space ... *Wall Street Journal* (Wednesday, August 8, 2012).

Deals and Rumors: Much of the Bay Area office leasing activity still seems to be centered in **San Francisco** so, let's start there. Square is taking 250,000 sf at 1455 Market St.; Medivation just expanded from 28,000 sf to 86,000 sf at 525 Market St.; Compare America leased 29,000 sf at 1255 Battery St., while Sotheby's took 18,000 sf at 1265 Battery St.; (wonder where Assault St. is...); Stubhub expanded by 18,000 sf at 199 Fremont St.; PCH International leased 30,000 sf at 135 Mississippi St.; Hotel Tonight leased 18,000 sf at 144 Second St.; Castlight Health inked 32,000 sf at 121 Spear St.; Meraki leased 112,000 sf at 500 Terry Francois; RocketLawyer sublet 20,000 sf at 55 Second St.; and OpenTable signed for 48,000 sf at One Montgomery St. Up in **Petaluma**, Sonoma Marin Area Rail Transit (SMART) took 28,000 sf of office space at 5401 Old Redwood Highway. In **Oakland**, GT Nexus sublet 44,000 sf at 1111 Broadway; and CallSocket will occupy 29,000 sf in the Oakland Tribune Tower. Elo Touch Solutions took 75,000 sf at 1033 McCarthy Blvd. in **Milpitas**. In **Hayward**, Aurora Algae expanded to 68,000 sf from 30,000 sf at 3325 Investment Blvd. In **Alameda**, Gracepoint bought a 70,000 sf three-building complex at 1255/1265/1275 Harbor Bay Parkway which will be converted from office to church and Singular inked 52,000 sf at 1701 Harbor Bay Parkway; in **Emeryville** National Mortgage Insurance Corp. took 24,000 sf at 2100 Powell St.; in **Pleasanton** GAP signed for 35,000 sf at 4450 Rosewood Dr.; and in **San Ramon** PG&E leased another 150,000 sf, now totaling 400,000 sf, and Five9 expanded by 16,000 sf.

When contemplating installing a solar panel array on your roof, make sure to evaluate the condition of your roof first as if the roof needs replacing in the next 5 to 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*).

A new data center being built by the Department of Energy will be 94 percent more efficient than the average data center, recycling 70 percent of the waste heat from the computer systems as the primary source of heat for the offices and lab space ... the 220,000-square-foot LEED Platinum facility costing \$10 million buckaroos is expected to save \$200,000 annually in electric costs and reduce carbon emissions by 5 million pounds per year, *Buildings Magazine*.

There is a new wind-powered charging station for electric vehicles coming to the U.S. this year which combines a 42-foot 4 kW vertical wind turbine with a commercial grade Level II WattStation EV charger by GE. Its blades rotate along the vertical axis so the overall footprint is only a 5-foot radius. It can fully charge a Chevy Volt in four

hours, and I can see an invasion of these coming to suburban office parks and shopping centers as well as college campuses ... *Buildings Magazine*.

On the front page of the *New York Times* (October 5, 2012), "When Job-Creation Engines Stop at Just One" is a partial answer to where our job hiring went ... there are many small business owners who have not hired permanent employees or leased office space but instead have virtual companies and keep their total employee head count to ... one ... adding workers on an as-needed real time basis ..." Over the last five years, the number of new employer businesses, including new franchises for existing companies, fell by 20 percent, to 536,445 in 2011 from 667,341 in 2006. But there was tremendous growth in businesses ... that are operated by one person..."

A recent report out showing that San Francisco office landlords are spending hundreds of millions of dollars converting modern office space to high-tech space, removing ceilings and cubicle walls, exposing the electrical and structural systems, removing floor coverings, and making the space ... "cool" ... *San Francisco Business Times*, (September 21 – 27, 2012).

Commercial lending rates for prime properties ... Life companies are doing loans as low as 4 percent amortized over 30 years and due in 10, non-recourse, and conduit lenders are doing 4.5 percent 30 year amortization due in 10 years ... banks have reportedly become more aggressive in commercial real estate lending with 4 to 4.5 percent 7 to 10-year term loans for quality properties.

For years I have been predicting paint that captures solar power and converts to electricity and writing about new solar window inventions ... UCLA researchers have created a polymer solar cell that maintains 70 percent transparency while converting infrared light into an electrical current. It can be produced in high volume at low cost because it is made from lightweight, flexible photoactive plastic ... *Buildings Magazine* (October 2012).

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 ...

Rooftop farms? Although there are less than 20 rooftop agricultural sites nationwide, expect many more in the not-too-distant future ... there are currently 36 million square feet of green roofs in North America, providing insulation, alleviating storm water problems, and according to the *National Real Estate Investor* (October 2012), "boosting a roof's lifespan ..." rooftop farms must be able to withstand extra weight, be accessible to farm workers and provide enough space. Some roof farms even contribute to a building's LEED certification ... but can you imagine the logistics of getting tractors up on the roof and the harvest back down to ground-level?

Not sure how true this is, but according to *Wired Magazine* (October 2012), "If you sit at a desk for more than four hours a day, you increase your risk of death from any cause by nearly 50 percent and boost your risk of heart problems by 125 percent. Dr. James Levine of the Mayo Clinic ... who was so spooked by his own research that he slid a hospital tray over a \$400 treadmill and started walking as he typed." Two workstations that might remedy this include the Locus Workstation, which has a posture halfway between standing and sitting (does this mean you only have a 25 percent risk of death?) and the Ikea DIY Desk which requires additional modifications ...

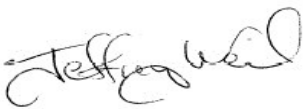
In 2011, Skyscraper prefabricated-Broad Sustainable Building built a 30-story building in 15 days and now plans on constructing the world's tallest skyscraper at 220 stories ... they use prefabricated modular buildings constructed in a factory, and claim much lower construction waste, higher environmental standards, significantly lower overall costs and much safer construction processes ... for more click on <http://nextbigfuture.com/2011/02/broad-sustainable-building-techniques.html> *Wired Magazine* (October 2012).

A different perspective on open plan office concepts, titled "Can Work Make You Sick?" published in the Third Quarter SIOR Professional Report (2012), discusses a 2008 Asia Pacific Journal of Health Management report that concluded that "open plan environments have resulted in many problems, including the loss of privacy and identity, health issues, social overstimulation and low job satisfaction." Not my words and not my viewpoint ... the article discusses how smaller workspaces cause employees to give up their family photos and personal objects, increased employee detachment, and worker complaints from incessant nearby noise, phone conversations etc. when the walls come down between employees ... my opinion? Today's work environment empowers the workforce, increases mobility and freedom to work from a variety of workspaces ... who needs their own wall to hang photos when you can have a 10,000 family photo collection on your iPad or accessible wherever you are from your cloud account?

A new phase with my kids as I just started every-other week custody which sometimes means I am missing half of their life's activities. They are growing up so fast parenting at times seems a blur. Madison just finished her soccer season and is now training for girls softball tryouts, and Jordan's Lacrosse fall league just ended, but he was chosen for a traveling Lacrosse team with tournaments in San Diego and elsewhere so the sports "treadmill of training" never slows down. Their recent pictures can be seen [here](#).

One starts out down life's path with lofty ambitions and goals, and while many of us succeed well beyond our original expectations, age, experience, and reality can temper the "conquer the world" aspirations. I have friends who can bench-press several times my highest weights; others are financially incredibly well off, and still others have amazing hobbies and life adventures, but the folks I admire most are those who stayed grounded, raised their children to be independent and working in a career they love, have passion for and cherish family, God, and community above most other aspects of life. We cannot all make our mark on the world as deep or wide as those science, religious or other leaders now household names, yet the mark we make in molding our children, enhancing our community and our positive impact on friends and family are equally as important.

Please let me know what I can do to enhance your life, whether it be in commercial real estate or some other facet of your world ...



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