



Corporate Office Perspectives

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December 2006 Bay Area office market snapshot: Office vacancies continue their slow downward trending, while in most subregions office rents inch upwards. Office negotiations are still competitive in nature, and smart landlords aggressively lease their projects today versus holding empty space for higher rents in 2008. In San Francisco, more than 1.8 million feet of new office applications have been filed, with the 2.5 million square foot development cap rapidly approaching. Tishman Speyer broke ground on 550,000 sf at 555 Mission St., San Francisco, for late 2008 delivery. Current San Francisco premium view space is going for \$60/sf per year— it wouldn't surprise me if annual premium rents were more than \$70/sf by Fall 2008. In Oakland, Kaiser Center has up to 2 million sf of additional office/residential under planning. Bay Area new office construction, including land, tenant improvements, site and soft costs, range from \$375 to \$600/sf today. Tenant improvements from a warm shell (HVAC and restrooms being part of the building finish) range from \$45-\$60/sf today. There may be new office construction along I-680 for possible 2009 delivery, with estimates of \$50+/sf rents required to make developmental sense (\$4.17/sf per month). Well-located, brand new Class A office space usually commands a significant premium over existing product. New building technology, \$50-\$60/sf tenant improvement allowances included in the base rent, state-of-the-art energy management systems and being “the new kid on the block” help create a rent disparity between new and “experienced” office product. Landlords with existing office buildings should not proforma future rents at new-building levels, but office tenants in all categories should budget rental increases commensurate with their lease expiration exposure. For a quick one-page vacancy summary for the entire San Francisco Bay Area go to www.officetimes.com/GreaterSF.htm.

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Thank you to everyone whom I've had the pleasure to work with as I did receive Commercial Broker of the Year from the *Business Times* – a great honor considering how large a commercial real estate market we have in Contra Costa/Alameda/Solano/San Joaquin Counties, and how many commercial brokers are in the business. Thank you!

Alternative workplace update: “Motivated more by a desire to save money on real estate than to please finicky employees, companies including Motorola, Ernest &

Young and Cisco Systems report that they have cut real estate costs significantly by adopting “alternative workplace” designs. Cisco, for example, has seen 37 to 40 percent savings from its new approach. Capital One Financial Services Corp has made the concept a key part of its “Future of Work” initiative by swapping traditional offices and cubicles for a mixture of unassigned desks, sofas and conference spaces. The company’s cafeteria is designed to accommodate informal meetings, and there are scattered café areas that look remarkably like the local Starbucks. Employees equipped with wireless laptops, Blackberries and cell phones, are free to work wherever they wish. A recent Gallup poll commissioned by CoreNet Global, a corporate real estate association, found that 20 percent of large companies expect to have between 25 and 50 percent of their employees working in unassigned spaces by 2010, and by 2020 the majority of large companies are expected to have adopted the practice to some extent. Alternative workplaces offer an opportunity for deeper (expense) cuts because they represent a shift from thinking about occupancy (how many people a building can accommodate) to utilization (how many people actually use a building or office at any given time). ‘Companies are starting to realize that instead of being satisfied that their building is 95 percent occupied they should instead be worried that it’s only 40 percent utilized because people are often out of the office,’ says Prentice Knight, CEO of CoreNet Global.” *CFO* (October 2006)

“California’s job market is expected to expand faster than the rest of the country’s, a new report says, and analysts believe the East Bay and the rest of the Bay Area could nestle into the vanguard of that growth. Overall, California is expected to increase its job base by 17 percent between now and 2015, while the nation will expand its job totals by 13 percent.” *Contra Costa Times* (10/17/06) “California will add 3 million jobs, 5 million residents and 2 million households by 2015.” *San Francisco Chronicle* (11/14/06) “Jobs are being added in the East Bay at a fast enough pace that it tops regions either touted as today’s boomtowns – such as Sacramento County – or generally viewed as giant pillars of employment – such as San Diego, Los Angeles, Orange County, San Francisco area and Santa Clara County.” *Contra Costa Times* (10/16/06)

“Google recently unveiled plans to build a solar-powered electricity system at its headquarters. The rooftop system – capable of generating 1.6 MW - will rank Google’s facilities as the largest U.S. solar-powered corporate office complex. According to the company, once the system is in place, it will rely on solar power to supply nearly a third of the electricity consumed by office workers at its roughly one-million-square foot headquarters. Most of the solar panels will sit on the rooftops of office buildings in the Googleplex – the nickname for the site. Others will provide shaded parking as part of the newly constructed solar-panel canopies over existing Google car parking lots.” *ElectricalZone* (11/1/06)

Deals & Rumors: Office leasing activity during the past 60 days in **San Francisco** was overwhelming in comparison to the rest of the Bay Area... StubHub leased 38,000 sf at 199 Fremont St.; Office General took 14,000 sf at 580 California St.; Fliesler Meyer signed for 15,000 sf at 650 California St.; Blue Shield expanded by 30,000 sf at 50 Beale St.; Degenkolb Engineers leased 25,000 sf at 235 Montgomery St.; Ironwood Capital Management took 16,000 sf at Stuart Tower; Golden Gate Regional Center leased 33,000 sf at 875 Stevenson St; Bar Association of San Francisco signed for 24,000 sf at 301 Battery St.; Levin Simes Kaiser & Gornick took 16,000 sf at 44 Montgomery St.; Mellon Financial Corp. may have a LOI for 75,000 sf at 50 Fremont St.; Advent Softway leased 104,000 sf at 650 Townsend St.; Sirna Therapeutics expanded by 19,000 sf at

1700 Owens St.; FTI Consulting leased 17,000 sf at One Front St.; where in the same building Wells Fargo expanded by 32,000 sf; Offit Hill Capital Management leased 42,000 sf at One Maritime Plaza; Ingenio leased 38,000 sf at 201 Mission St.; Smith Group took 35,000 sf at 301 Battery St.; Learn It signed for 14,000 sf at 22 New Montgomery St.; and Novo Construction leased 13,000 sf at 608 Folsom St. Down the Peninsula in **San Mateo**, Salesforce.com leased 114,000 sf at 900 Concar Drive and Wameworks took 40,000 sf and Epocrates 60,000 sf, both leases at 1100 Park Place. In **Vacaville**, State Compensation Insurance Fund is planning a 430,000 sf office campus to house 1,200 employees. In **Emeryville**, I represented Environ in their expansion to 22,000 sf at 6001 Shellmound Street. In **Walnut Creek**, I helped TriStar with their 11,393 sf lease renewal at 470 N. Wiget Lane, and AirTouch just expanded by 15,000 sf at Walnut Creek Executive Center. In **Concord**, North American Title is reportedly relocating to 16,000 sf, T-Mobile is renewing and expanding to 67,000 sf and BNC Mortgage signed for 18,000 sf, all three tenants for Concord Gateway at 1855 Gateway Blvd. In **San Ramon**, California Newspapers leased 35,000 sf at 2527 Camino Ramon, and farther down the I-680, Zantaz signed a 67,000 sf office lease at 5794 W. Las Positas Blvd. in **Pleasanton**.

“Gensler, an architecture and design firm based in San Francisco, recently released the results of a survey on the effects of office design on employee performance. Office workers believe they would be 21 percent more effective if given a better working environment. Nine out of ten workers believe that better office design lends to better overall employee performance and makes a company more competitive. Approximately 66 percent of workers believe they are more efficient when working closely with coworkers; 30 percent don’t think their current workspace promotes collaboration.” *Buildings* (October 2006) For more on this, please see our lead story at www.officetimes.com.

A few highlights from *Emerging Trends in Real Estate 2007*, published by Urban Land Institute and Price Waterhouse Coopers “By any measure, capital will continue to pour into real estate markets, but at more restrained volumes in the wake of lowering return expectations. As long as stocks and bonds sputter, the property markets should retain their comparative allure ... Nosebleed pricing levels continue to favor sellers over buyers, who may not be able to achieve significant value gains during holding periods into the next cycle. Long-term curves seem best positioned to benefit from improving property revenues after enjoying fabulous appreciation returns ... Lenders will tighten underwriting standards ... Skyrocketing development-related costs (material, labor, entitlements) temper new commercial construction, helping keep supply in check ... Office markets should improve - vacancies will decline further and advance rents.” For a complete copy of this report go to www.officetimes.com and click on Emerging Trends 2007.

Cisco Systems has a high-end video conferencing system with new technology so lifelike that it could replace corporate travel ... Cisco will cut \$100 million in expenses by reducing travel 20 percent in the next 12 months ... the system uses software the company created and runs on a network powered by the company’s own routers and switches. The pictures are displayed on a 60-inch plasma screen, which is four times better than standard television ... figure on six figures for the build-out of one room. *Tri-Valley Herald* (10/24/06)

People always want something else, Part 631: For a number of years, Bay Area business leaders have bemoaned our high cost of housing as one key reason it is difficult to attract companies and employees to relocate to the Bay Area, and yet when our housing prices begin to decline, it is

headlined as a major economic disaster ...we complain there isn't enough housing supply, but no way would any of us want new development in our communities ... no, we want it built "elsewhere" and then we complain about the increase in traffic congestion due to these long-distance commuters ...

Corporate America and CRM's (Client Relationship Managers) ... "Client relationship management - the hottest buzzword in corporate real estate circles these days - is taking on heightened importance even as several real estate functions are being outsourced.

Combining a corporate background with real estate expertise, CRMs form a bridge between real estate and the C-suite to maximize the overall corporate strategy. The client relationship managers, who know and understand the concerns of their business unit, are able to help the corporate real estate department present the initiative to the business units in a way that answered their concerns and demonstrated the companywide benefits of the plan." *National Real Estate Investor* (September 2006)

I received my BS as well as my MBA from UC Berkeley, so it was great to note: "UC Berkeley's Haas School of Business hit No. 5 on the Wall Street Journal's ranking of graduate programs this year, up from No. 7 last year. It beat out neighboring Stanford University's business school which fell from No. 15 to No. 18 this year" *East Bay Business Times* (11/22/06). Now if we could just figure a way to make the Rose Bowl in 2007. (I played tenor sax in the Cal Marching Band way back when ...)

"Green" furniture and "green" buildings ... Steelcase has a lightweight office chair, called the Think, with 44 percent of the chair coming from recycled materials. After the chair has been used for years, most of its 32 pounds are, in turn, recyclable. Herman Miller sells two "green" chairs, one of which, the Celle, can be 99 percent recycled. Knoll has its Life chair, with 70 to 80 percent of its materials recyclable. *New York Times* (10/22/06). "Tishman Speyer is seeking permission to build a 33-story 'green' office tower at Second and Howard Street, a project San Francisco officials are calling a pioneer in a new program giving priority to sustainable developments ... The 700,000-square foot building, which would cost approximately \$350 million (\$500/sf) based on a current construction rates, would be the first office tower in the city built to comply with 'gold' standards set by Leadership on Energy and Environmental Design (LEED) ... while green construction generally costs 2 percent more than traditional construction, the millions saved in the expedited permitting process more than compensates for the cost." *San Francisco Business Times* (11/3/06). "Only five percent of new commercial buildings built this year are expected to LEED certified. In a 2005 survey of construction and real estate industry executives by Turner Construction Co., 68 percent said they avoided green construction because of concerns about cost ... In June, during the U.S. Conference of Mayors annual gathering, the non-profit organization identified buildings as the largest consumer of fossil fuel in the nation. According to the group, whose more than 300 members represent cities with at least 30,000 residents, between 40 percent and 60 percent of greenhouse gas emissions in the U.S. are created from operating buildings ... Experts point to a recent study by Lawrence Berkeley National Lab that found the financial benefits of green design over the life of the building more than 10 times the additional cost associated with building green." *National Real Estate Investor* (November 2006)

I'm not sure which day is more special for a child, their birthday or Halloween ... our family starts planning Halloween months in advance, with costumes readied – then each school has their own parade, our neighborhood has a late-afternoon block party, and for the main event we take turns going out with the kids or staying home greeting an average of 250 costumed trick-or-treaters each Oct 31st. A very special day, and then mom “buys” their candy so we don't send all the dentists' kids to Ivy League schools ... I was looking in the cupboard this morning at our “sippy cup” collection (remember those?), now obsolete as our 4-year old Madison now has the dexterity not to spill from a regular cup. Jordan, our 9-year old boy, has had an amazing soccer season – he is in a “White Plus” which is not as advanced as the Traveling Red team, which basically play year round, but is still advanced with a number of tournaments added. His league, Mustang, has more than 5,000 players and 380 coaches. Jordan's team, Tigers, played a two-weekend tournament and won every game including a 1 to 1 tie that went into two overtimes, then shootoffs, and Jordan scored a goal, the other team missed one and we won the entire divisional championship ... mixed blessings as those of you who have had children in sports can appreciate, as now we were invited to a multi-city tournament which means more practices, more games and more scheduling conflicts with baseball (yes, the clinics are already in full gear), skiing (resorts are making snow and beginning to open), clarinet, handchimes, religious school, Cub Scouts, homework and free time just to be a kid ... no complaints, and my wife and I are always pointing out the sunsets and special daily moments as we continually stop to “smell the roses” ... Please go to www.officetimes.com/JMDec2006.htm to see their latest escapades. Have a great holiday season!

Sincerely,

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