



February 22, 2012 ... for several years now this is the date I've been predicting when the office market will officially change from Tenant to Landlord ... no robust recovery expected as no major hiring engines are in sight, and we need massive hiring to fill all the office vacancies to push rental rates back up ... where we are now is Transition Time ... billions of dollars in institutional capital chasing premier trophy properties, pushing cap rates for these few back down, while at the same time Class A suburban office buildings in excellent locations but only partially leased are selling for 25 to 30 percent of replacement cost due to the low rental rates and costs of retency. Certain submarkets have already recovered, with single-digit vacancy rates and rental rates headed back towards dot.com plateaus, while other less fortunate submarkets languish with 35 percent vacancy and anemic leasing activity. Commercial loans are out there for long-term credit tenanted premier properties, but not so easy if you have leases rolling and your tenant roster is less than stellar.

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There is a free interactive program that can save building owners 30 percent or more on their energy costs without sacrificing on illumination ... the Department of Energy has a web-based lighting tool that lets facility managers do accurate, quick calculations for energy-efficient lighting applications. Check this out at www.lightingsolutions.energy.gov. *Buildings* (September 2010)

Rick Buziak, regional director of leasing with Equity Office was quoted about his Walnut Creek office project's 92,000 square feet in new office leases ... "It's a tenant's market. It's a great time for quality tenants that know they are going to survive this economic downturn. They can take advantage of what's going on in the office market." Now that is what us tenant reps like to hear from major landlords! Rick continues ... "we are seeing some activity in 2010, compared with none in 2009. It's not a sign of improvement. But it is a sign of life." *San Ramon Valley Times* (10/12/10)

New systems out that in the event of an emergency, employees can be notified by email, home phone, work phone, mobile phone, pagers and any other communication devices registered with the system. The system periodically sends more messages to those who don't report back. So, in the case of a flood,

earthquake, terrorist threat or whenever you absolutely need to get a hold of a large group of people asap ... any questions on this, please go to www.MIR3.com. *Buildings* (September 2010)

I recently met with a consultant involved in the relocation of hundreds of thousands of corporate America office jobs and the future prognosis is - more of the same ... as long as India and other countries can provide a quality workforce for the job at hand, and at a substantially lower cost with more flexibility in being able to cancel the project versus having to offer generous termination and early retirement packages, this trend will continue. There are more than a billion people in less fortunate countries waiting for their opportunity to be part of this ...

North America Third Quarter Office Report is just out. Office markets show first signs of beginning a long slow road to recovery, U.S. office vacancy rate down marginally, two quarters of positive absorption shows the U.S. office market is now stabilizing after a two-year period of persistent weakness, office occupancies up for the second consecutive quarter, rent picture increasingly mixed, office construction pipeline continues to empty out ... for the entire report go to <http://officetimes.com/MarketReports/office3q2010.pdf>.

There is new technology out by SpiderCloud, based in Santa Clara (www.spidercloud.com) that makes indoor cell service easier to get and much more reliable. I know many of my friends have been cancelling their hard line home phones to save money and just use their cell number ... and companies like Cisco have many of their employees on just one cell number without any hard-wired phones ... will this further the trend to doing away with traditional hard-wire business phones? *San Ramon Valley Times* (10/17/10)

Deals and rumors: Over in **Livermore**, Lam Research is taking 120,000 sf of R&D space at the Tri-Valley Technology Park. I represented Individual Software in their 18,000 sf lease renewal at 4255 Hopyard Road in **Pleasanton**, and in **San Ramon**, Kaiser Permanente bought the 67,000 sf 2300 Camino Ramon vacant office building, New York Life Insurance is relocating to 18,000 sf at 2633 Camino Ramon, and CCI Financial & Insurance leased 12,000 sf on Executive Parkway. In **Walnut Creek**, I assisted Colliers International in its 13,000 sf office lease renewal at 1850 Mt. Diablo Blvd. Up in **Concord**, Hub Insurance took 13,000 sf at 2300 Clayton Rd. In **Emeryville**, Tethys Biosciences expanded to 35,000 sf at 5858 Horton St., Amyris Biotechnologies grew by 28,000 sf to 136,000 sf at 5885 Hollis St., and the Lawrence Berkeley National Laboratory added 60,000 sf to total 120,000 sf at Aquatic Park Center in **Berkeley**. At the **Oakland** Airport, Higher One Payment leased 12,000 sf at 80 Swan Way. Sierra Wireless leased 26,000 sf of R&D space at 39677 Eureka Drive in **Newark**. Across the Bay in **San Carlos**, Wells Fargo signed for 40,000 sf at 959 Skyway Rd., and in **Redwood City**, Pano Logic took 34,000 sf and NIKU 51,000 sf, both at 2000 Seaport Blvd., Tera Recon leased 30,000 sf at Bayside Towers in **Foster City**, and Glam Media took 20,000 sf at 2000 Sierra Point Parkway in **Brisbane**. In **San Francisco**, home of the World Champion Giants, Fitness Anywhere leased 28,000 sf of office space at 755 Sansome St., Cisco expanded to 32,000 sf at 185 Berry St., Zynga did the monster office lease of the year, taking 270,000 sf at 650 Townsend St., Google expanded by 63,000 sf to 263,000 sf at 345 Spear St., Ubisoft leased 42,000 sf at 625 Third St., Wikipedia signed for an expansion to 75,000 sf at 149 New Montgomery, Twitter is still out for 150,000 to 200,000 sf, Macys.com is expanding by 38,000 sf at 685 Market St.,

Knobbe, Martens, Olson & Bear leased 23,000 sf at 333 Bush St., Salesforce.com purchased 14 acres of Mission Bay waterfront land and plans to build a 2 million-square foot headquarters and SunRun, Inc. sublet 19,000 sf at 45 Fremont St.

More not-so-good news but fits with the forecasts I have been making over the past two years ... an article in the *Contra Costa Times* a few days ago predicts our Bay Area job recovery will be very slow and may take years before the area regains where it was back in February 2008. The East Bay unemployment rate is higher than South Bay, but even so they are not predicting recovery for the East Bay until 2015 and South Bay 2014 ... I am still holding to my February 22, 2012 date of when the office market will officially turn the corner ... but this in no way implies any return to frothy pricing we experienced in 2006 and 2007 ...

I was interviewed by a national real estate magazine last month, and the editor and I were discussing some of the differences between the real estate melt-down of the late 1980s/early 1990s and today ... back then, the RTC was formed on the Federal level to force commercial foreclosures by the thousands ... in the submarket of Contra Costa where I work an estimated 25 to 30 percent of all the Class A office buildings were foreclosed and then auctioned off to new buyers at rock-bottom discount prices. I remember 100,000 square foot wood-frame suburban office buildings with 80 percent occupancy and 10-year seller carry-back financing going for \$45 a square foot ... and only one bidder brave enough to pay this price ... today we have delay and pray, blend and extend, and basically the big "put off" ... put off whatever you can until tomorrow, and then put it off some more and maybe at some point rents will go up, financing will come back, cap rates will go down and life will be good ... but what has happened is to make this recovery process a long, drawn out event that is taking its toll not through a giant tsunami but one slow grind after another ...

Cisco Systems has a high-definition video conferencing system out for only \$599 plus \$25/month for unlimited calling ... something affordable for the home, but also a low-cost system that might make telecommuting even more palatable ... just think, you can link in all your telecommuters for on-line real-time meetings, have face-to-face even when they are not all at the same office location, and maybe there will be template backgrounds ... i.e. the coffee bar of the office, so it looks like you are actually meeting at the proverbial "water-cooler" ... *SF Chronicle* (10/7/10)

Based upon unofficial research of corporate telecommuters, I have been amazed at the positive response by those who get to work from home in their jogging sweats, take off at lunch for a noon-time run, and save all the commute time, let alone the "get dressed and get ready" time. I am also amazed at how many extra hours some of these folks who are on salary put into their job which is a huge benefit to their employer ... I have heard of international consultants who routinely put in 12-14 hour days, get on international conference calls at 4 a.m. and work through the weekend to get their projects completed on time ... so this sounds like a great win-win to both employee and employer, and a definite loss for getting vacant office space leased ...

When I am at national commercial real estate conventions or any event where there are economic development directors or brokers trying to woo California companies to their great states, whether it be on their lower utility costs, lower housing, county or state tax incentives, cheaper land, or a whole host of reasons, they are surprised when I tell them, go ahead and take whatever companies you want ... historically the smart companies have stayed and prospered in California, and while we have lost out in manufacturing and may not even be the garlic capital of the world anymore, we dominate in brain-powered businesses like Apple, Google, Salesforce, Oracle, HP, Twitter, Facebook, Intel, and on and on ... and these tech firms are pampering their workforce in ways Nebraska and Alabama can only dream about ... many of these firms have high-end shuttle buses pick up their employees who live in San Francisco and transport them, while they are working away on their bus “cubes” that are connected on the internet, to the campuses where a number of companies provide free gourmet restaurants, volleyball, health clubs, pet services, and you name it ... and the employees commuting in from San Francisco say, “There is more to do; things are walkable; you don’t need a car. There is a lot of great food, a lot of good parties, and you really have everything you need in a really small area.” *Contra Costa Times* (11/9/10) ... and there has been a 51 percent increase in computer workers living in San Francisco ... I know it can get pretty chilly in San Francisco during the winter, dropping all the way down into the 50s, but compared to Omaha ...

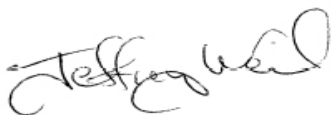
You can check back on my past blogs and comments in *OfficeTimes.com* but it always seemed strange to me that the State of California would do sale-leasebacks at one of the worst times to be selling commercial property, as the rate of return they had to offer was way way way higher than it would have been had they sold the properties back in 2006 or 2007 ... according to the *Contra Costa Times* (Nov. 11, 2010). “The analysis released this week says the state will pay an effective interest rate of 10.2 percent to lease back the parcels, which include 24 separate buildings ... this is about double what the state pays on existing bonds used to build its offices ... It’s going to cost a lot more in the long run.” Can’t we just outsource half of the state’s back office operations to India to save \$20 to \$30 billion a year? (Those are my made-up numbers, not based on anything factual ...)

One of the preeminent economists in the U.S. today is Tony Downs, and in *Buildings* (October 2010) he stated “ ... for several more years the unemployment rate will stay much higher than its annual average of 5.7 percent over the 62 years from 1948 through 2010. Such a long period of high unemployment will also have adverse impacts on all types of commercial property ... the national office vacancy is now over 17 percent, and vacancies have also risen notably in the hotel and retail sectors as households cut back due to rising unemployment ... ”

It is Googlelicious ... its Mountain View headquarters has 4 million square feet of office space filled with Googlers, and the company has plans to add another 1.2 million feet of office space plus employee housing ...

Jordan, my 13-year-old son, and Madison, his 8-year-old sister, spent the past three months playing soccer as part of the 5,000 youth Mustang Soccer League. I've been coaching or managing teams for eight years and what a treat! Two highlights of Jordan and Madison's just completed soccer seasons: In a tournament game, Jordan scored the game's only goal with an almost mid-field penalty kick that went straight into the goal, and Madison, at only 8 years old, had a corner kick unassisted that somehow bent the ball curve right into the goal, to everyone's amazement! Now if I can just figure out the equivalent feat with a commercial real estate transaction ... Jordan has switched over to lacrosse and loves it, and Madison is about to go to upper-level girls softball tryouts in early December. To see their latest adventures go to <http://www.officetimes.com/2010/Dec2010/JMDec10.htm>. This past year has been one of the most challenging 12 months of my life and unfortunately not all related to the real estate industry. It has been amazing to find so much strength in friends, in God and at crucial times, within myself and know that "this too shall pass." My clients and kids have been at the top of the priority list so rest assured, I am ready to service your account at a 150 percent level, and the times (thank goodness they are frequent) where my 8 year-old-daughter leaves "I love you dad" notes or my son out of nowhere gives me a deep, sincere hug make it all worthwhile. May your holidays be blessed and your family be strong. Stay healthy and with friends, and you can't go wrong! Peace!

Sincerely,



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