COLLIERS INTERNATIONAL

officetimes.com

Corporate Office Perspectives

February 1, 2001 ISSUE: 125

According to *Business Xpansion Journal* (November 2000), the American Electronics Association (AEA) tracks state-by-state growth trends of the various sectors of the industry. The employment rankings in selected electronics manufacturing categories include: Computers and office equipment: 1) California 2) Texas 3) Massachusetts; Consumer electronics: 1) California 2) New York 3) Indiana; Communications equipment: 1) California 2) Illinois 3) Texas; Electronics components and accessories: 1) California 2) Illinois 3) Texas; Electromedical equipment: 1) California 2) Minnesota 3) Florida; Defense electronics: 1) California 2) New York 3) Texas. Notice any pattern here?

www.officetimes.com was featured in the January 5, 2001, *East Bay Business Times*! "**Target audience:** CFO's, corporate real estate executives and business start-ups looking for comprehensive information on various aspects of office leasing. **Why use site:** Fast access to information on Bay Area office rents, housing prices, business taxes, local government contacts, listings of all the East Bay hotels and articles on setting up telecommuters. I especially like the listings of all the golf courses with direct links to their websites and the links to transit information. I can get current BART schedules instantly. **What's on site: officetimes.com** publishes a newsletter on trends in the office market, what sub-regions are hot, predictions of where the market is headed based on 25 years of experience. You can get a free subscription to the newsletter right off the site. **Accolades:** I've book marked the site. It has hundreds of links and it's a one-stop shop for just about any piece of information I need on the office leasing industry, as well as great links helpful to doing business in the East Bay. It seems they update the site every few days as I'm always finding new stuff." Thanks, East Bay Business Times!

Editor:

Jeffrey S. Weil,
MCRS.h, CCIM, SIOR
Senior Vice President

1850 Mt. Diablo Blvd.
Suite 200
Walnut Creek, CA 94596

Phone: 925.279.5590
Fax: 925.279.0450
www.officetimes.com
jweil@colliersparrish.com

Good news/bad news. On the one hand, San Francisco has experienced a tremendous vacancy increase in South of Market office buildings ranging from between 2 to 3 million square feet of office space currently available. Rental rates have reportedly dropped $15 to $25/sf per annum in just the past 60 days, now currently ranging from $40 to $50/sf. Financial district rents are still in the $75 to 100/sf range, and I have heard of recent nosebleed rents that belay any market downturn. However, you can't put 2 to 3 million feet back on the market, even if it is non-financial-district space, and not expect an impact on the entire office market. So, good news for tenants, bad news for office building owners, especially SoMa.

In the *San Francisco Business Times* (12/15/00), "S.F. beauty contest turns ugly for developers," two developers have locked up rights to build almost all the space the city can allow. Catellus is first in line for 475,000 sf, and Wilson/Equity would account for most of the remaining 1.2 million square feet of capacity. With a potential of declining rents, this might be good news to developers who might otherwise be off and running to build more space, but long-term, this is bad news for tenants as it will once again restrict future office supply… and we know what happens once our dotcom space gets released…

A Synthetic Lease overview, thanks to *Business Xpansion Journal* (November 2000), "Simply stated, a synthetic lease is a financing arrangement that is classified as a lease for financial accounting purposes and as a loan for tax purposes. This type of financing arrangement is attractive to a lessee/borrower because the lessee achieves off-balance sheet accounting treatment for its debt, but retains the tax benefits associated with the ownership of the property. The lessee's purchase option also permits the lessee to capture any appreciation on the property. From the lessor's standpoint, the lessee retains the residual risk of any decline in value of the property, contrary to a typical lease arrangement." For further information, please contact the author, Nancy

Little, partner in the law-firm of Mcguire Woods LLP at nrlittle@mcguirewods.com.

In addition to the dotcom demise, mainstream America is beginning to tighten its belt. On December 9, 2000, the *Tri-Valley Herald* listed the following layoffs: Gillette: 2,700; Aetna: 5,000; Motorola: 2,870; Unisys: 1,500; General Motors: 13,500; Whirlpool: 6,000. On January 25, 2001, the *Tri-Valley Herald* said Lucent Technologies is laying off 16,000 people. On January 27, 2001, the *San Francisco Chronicle* reported WorldCom's plans to lay off 10,000 employees. Most expect this list to grow.

I don't know if the U.S. has seen another industry like the dotcommers soar so fast, so high and crash so quickly in such a short period of time.

In the *Tri-Valley Herald* (1/19/01), "Last year, Spieker's (Spieker Properties Inc., the largest commercial real estate investment trust on the West Coast) shares returned 46 percent including dividends…The gains stemmed from rising demand for office space in Spieker's markets. Rents on the company's expiring leases rose an average of 83.4 percent in the third quarter of 2000…The company, which owns more than 40 million square feet of commercial space in California and the Pacific Northwest, in the third quarter signed a lead tenant for a building it's developing in Reduced Shares to a lease that pays $93/sf. The sense is that the good times are quickly coming to an end."

In a potential boon for biomedical research in the Bay Area, Gov. Gray Davis picked a consortium led by the University of California at San Francisco yesterday to spearhead a $900 million push to "help invent the future." The QB3 Project (California Institute for Bioengineering, Biotechnology and Quantitative Biomedical Research, in case you were curious…) will be anchored at San Francisco Mission Bay.

The new 215,000 square foot Emeryville Pixar headquarters features volleyball and basketball courts, a lap pool, three screening rooms, a gym with free personal trainers, and plans call for a swimming pool and apple orchard on the rolling lawn of the 16-acre campus. The *Contra Costa Times* (12/9/00) reported site acquisition costs of $5.8 million, capital expenditures of $54.2 million, and an additional $34.2 million to be spent to complete the project. Let's see, dividing these figures by 215,000 sf comes out to only $438/sf…

The *San Francisco Chronicle* (1/5/01), reported a UC Berkeley forecast predicting 23,000 or more Bay Area jobs could be lost during the next two years. "The new economy is not going away. Some of the companies are going away," said Ken Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at UC Berkeley and the study's lead author…"The slow down could reduce real estate prices as some companies die and their employees leave the area. Office rental prices could decline 15 to 20 percent in San Francisco, although annual costs could remain high - on average $63 per square foot." Here's my two cents on this- whoopee… office rents might go down to only $63/sf, but it was only a handful of years ago when they were in the mid-$20s for great office space. My corporate friends who are currently trying to hire new employees report that these laid -off dotcommers must be in hiding because they are still having hiring difficulties. So, here is a silver-lining in this potential office sector downturn…more available employees, more available office space, more parking spaces, potentially lower rental rates – all wonderful reasons to stay and grow your business in Northern California! (*p.s.,* as of December 2000, the East Bay unemployment rate fell to 2.2 percent…)

Deals and Rumors: In **Pleasant Hill** at 3478 Buskirk Avenue, I leased PG&E 19,000 sf, and in Walnut Creek I represented Teradyne, Inc. in a 37,000 sf lease at 2401 Shadelands Drive. Also in **Walnut Creek**, Genysis Telecommunications leased 27,000 sf at 1255 Treat Boulevard. AlphaSoft sublet 39,000 sf at 2121 North California Boulevard, and PMI has announced its intent to purchase a 195,000 sf office building under construction at the Pleasant Hill Bart Station. In **Concord**, Knight Ridder leased 15,000 sf of flex space at 940 Detroit. MetLife leased 10,000 sf at 92 La Gonda Way in **Danville**. In **San Ramon**, Exodus took 11,000 sf at BR3, and AIG leased 40,000 sf in the same project. **Pleasanton** continued to be dynamic, with Regus rumored to be taking 70,000 sf at Inglewood Place, Charles Schwab possibly backfilling the 50,000 sf Regus space at the Hines project, and Intel leased 55,000 sf at 5794 West Las Positas. FiberStreet took 15,000 sf at 4637 Chabot Drive; Honeywell leased 12,000 sf at Bernal Center; Crossmark leased 17,000 sf at 5653 Stoneridge Drive. Hatch Mott MacDonald will be relocating 12,000 sf at Hacienda West, and Hines just purchased the 560,000 sf Stoneridge Office Park. In **Livermore**, Adept signed a 250,000 sf lease at Tri-Valley Tech Park, NextCard will be moving to 40,000 sf at the same business park, and Shurex might be leasing 22,000 sf at Shea's new project. In **Oakland,** I helped one of my corporate clients acquire an 11-unit live-work complex at 1175 59th Street, and in downtown **Oakland**, Kaiser Permanente leased 60,000 sf at 2000 Broadway, and MMI Group rented 14,000 sf at 505 14th street at Oakland City Center. In **Berkeley**, Intel leased 12,000 sf at 2150 Shattuck. Over in **Alameda,** Good Guys will be relocating its headquarters to 30,000 sf at Harbor Bay, and Avigin leased 60,000 sf at 1301 Harbor Bay. In **San Francisco**, it was mostly an "unleasing" market. Northpoint downsized 112,000 sf at 303 Second Street; ixL Enterprises put 100,000 sf of sublease space on the market at 575 Market Street and MarchFirst terminated its 270,000 sf office lease at Catellus Mission Bay project. There was some positive news with Gap announcing a 283,000 sf lease at Mission Bay, and

WPPGroup leasing 73,000 sf at 303 Second Street; Adams, Karkness & Hill leasing 22,000 sf at Four Embarcadero and Sun Microsystems taking 20,000 sf at 631 Howard Street. Inktomi announced it was proceeding with its 381,000 sf in **Foster City**, but Electronics for Imaging announced it was putting 400,000 sf of space on the market for sublease. Siebel Systems expanded by another 135,000 sf at Bay Meadows in **San Mateo**. Do you also get the feeling we are a market in flux?

A four-page article I authored "Wielding Broker-to-Broker Web-Enabled Tools" was just published in the Jan/Feb 2001 issue of *Corporate Real Estate Executive*. I spent several months interviewing top corporate real estate brokers in a variety of national and regional firms from around the country, asking them what web-enabled tools they utilized to better service their corporate clients. If you're interested in a copy of this article check out www.nacore.com.

The world's foremost corporate real estate organization, NACORE (anticipated to merge with IDRC January, 2002) held a number of educational forums at its annual symposium last September. One two-hour program featured a number of e-commerce "platform providers" offering to digitalize corporate America, including lease documents, space plans, lease administration, transaction management and the rest of the ball of wax. One astute speaker made this forecast way back at the end of last summer, "Be very wary of which b-to-b Web-enabled CRE tool and knowledge company you sign with. You will be investing a lot of time and money getting your system in place, and once you are enabled the return on your investment may be incredible <u>if</u> your Web-enabler remains in business!" What this person was referring to is that the multitude of corporate real estate Web-enablers for the most part do not share similar platforms, so if yours goes out of business you might be in major trouble. Fast-forward to today, only four long months later, and many of these folks are already out of business…

In a previous newsletter a few years ago, I had remarked on an emerging trend of companies allowing employees to bring their dogs to work. Well, in the *Contra Costa Times* (1/14/01) titled "Office dogs getting the boot" it seems firms are beginning to reverse this trend. "There were too many dogs running around and barking…The dogs put off job candidates who were afraid of animals or allergic to them…Landlords are worried that tenants who welcome pets will upset those who don't… more institutional and experienced landlords won't allow dogs and will go ahead and put something in the lease barring them… companies are discovering that dogs will be dogs – and that means everything from fights in the halls to unexpected 'presents' left by pups with poor potty training."

An October survey of 155 foreign companies by the Washington, D.C.-based Association of Foreign Investors in Real Estate showed that San Francisco ranks number 2 in U.S. cities for investment (New York is ranked number one). The city has been ranked number 3 since 1997.

I chuckled over the quote in the *San Francisco Business Times* (1/19/01) by Paul Stein, a San Francisco South of Market office developer when questioned "about the economy going down the tank." "The market is returning to normalcy," he replied.

According to a study conducted by the Building Owners and Managers Association in late 1999 and reported in *Small Business Computing* (January 2001), "80 percent of building owners reported receiving flat-fee payments from providers in exchange for access. And in some highly competitive markets, providers offered revenue sharing as an incentive. But businesses may want to keep a watchful eye on property management's choices." According to Jeff Moore, senior analyst for a network consulting group, Current Analysis, "an industry shakeout is inevitable. While buildings have the right to choose which providers get access to their property, it's the tenants who stand to lose if the connection gets lost."

In San Francisco more than 1 million square feet of dotcom space was classified as "business services" to get around the city office development limits. However, it is uncertain if these buildings can be re-habited with non-dotcom firms. As landlord Mike Kelly stated in the *San Francisco Business Times* (1/12/01), "Every night when I go to bed I worry, and every day when I wake up I worry."

As mentioned in the *Contra Costa Times* (1/7/01), "Telecommuting, the hot trend of the 1990's, that promised to give relief to commuters and working parents, has lost its luster in the workforce…Although no one tracks the precise number of telecommuters, most personnel managers and experts in the field say the ranks of telecommuters nationally are declining and that a majority of companies are planning to allow fewer people to work from home in the future." However, the International Telework Association of Council estimates that 24 million now work occasionally from home and that millions more want to but doubt their bosses would go for it. Executive Director Gail Martin said any negative feedback on telecommuting likely comes from employees who are either not committed to it, have tried it "on a whim and failed, or have not carefully thought the whole process through." In *Kiplinger's* (February 2001), "The ranks of telecommuters will continue to swell this year, albeit at a slower pace than last year's torrid 20% growth rate. Although it's usually presumed that employees are the driving force behind telecommuting, businesses have selfish reasons of their own for letting employees work from home, says Gil Gordon, a consultant who has researched telecommuting. Independent studies show that employees are more productive when they work off-site, and in tight labor markets employers rely on telecommuting to attract and retain workers." So your guess is as good as mine whether the trend is up or down, but I know a lot of telecommuting folks who rave about productivity and its many benefits.

I did a number of media interviews during the past few weeks regarding California's "Energy Crisis" I am sure we will get past this as we have with all previous crises including a seven-year drought, a gas crisis, a phase-out of Freon (oh no, no more HVAC…), asbestos, PCB's, earthquakes, and everything else that occupies headline news until the problems are solved. I, like many of my Northern California fellow office workers had to suffer through a few rolling blackouts, but once they get the power situation figured out we'll be fine. Meanwhile, I have clients back East and elsewhere who get snowed in, have flights cancelled, roads closed and life goes on for them as well. I do expect an increase in our energy prices, at least short-term, so if you're an office user get ready for operating expense pass-through bumps. In the San Francisco East Bay our normal utilities which used to run $.15 to .17/sf per month for standard business hours might double or triple so you might revise your budget. However, this crisis will spur new expedited power plant construction, which should lead to lower energy prices in the future.

According to Jonathan Schein, publisher of *Real Estate Forum* (December 2000), "It's amazing how many different "E" Strategies have been announced, formed and established. Having attended both PikeNet and RealComm this year, it's amazing to see the different business models that have sprung up. Unfortunately, at least one half of the companies that exhibited this year want to be around next year. But there are at least three new companies to take the place of the one that doesn't make it."

My son Jordan is well on his way to his 4^{th} birthday on May 26. It is interesting that with a newborn you count the age by days, then weeks, but after three years you begin rounding off to the nearest half-year. In December, Jordan passed the 40" height threshold, so off went father and son to race two-seater go-carts in Livermore. Later that same month, I enrolled Jordan into ski school at Lake Tahoe, finally realizing that he would advance quicker and have more fun in a class of his own age group versus dad straining his back guiding the little guy down the hill. Parents might smile when they read this, but each child has his or her own characteristics. Jordan has an unbelievable memory, and will remember places he visited when he was 1 ½ years old. My wife and I now ask Jordan when we can't find something, and 9 out of 10 times he'll know exactly where it is. To see his current photos just go to **www.officetimes.com**, current newsletter, and click on his name. Drive safely these upcoming winter months!

Sincerely,

Jeffrey S. Weil, MCRS.h, CCIM, SIOR

Jeffrey S. Weil, MCRS.h, CCIM, SIOR
Senior Vice President
1850 Mt. Diablo Blvd., Suite 200
Walnut Creek, CA 94596

Newsletter

February 1, 2001