

## Corporate Office Perspectives

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Commercial real estate investment market update: “A number of unfavorable market forces are closing in on commercial real estate investors, threatening to compromise asset values in 2008. After a tremendous run in which commercial real estate values in the U.S. rose 90 percent over a five-year period, prices fell 1.2 percent on average from August to September 2007,” according to Moody’s Investors Services. “Transaction volume has taken a much bigger hit, plummeting 70 percent to \$4.4 billion in October versus the same period a year ago, reports Real Capital Analytics ... Owners and managers who fail to adapt to the changing economic climate may have difficulty increasing rent to meet revenue projections as the market shifts to favor tenants,” *National Real Estate Investor* (December 2007). Oh, such sweet words to a tenant representative broker such as myself dedicated to helping office tenants get the best transactions possible ... “as the market shifts to favor tenants.” There, worthy enough to repeat ... As an actual case in point, in preparation for a presentation to the BOMA Oakland/East Bay I totaled all available office and flex space, in excess of 10,000 square feet, both direct as well as sublease, in Oakland/Emeryville; Tri-Valley including Dublin, San Ramon, Pleasanton and Livermore; and the I-680 Corridor – Danville North to Martinez – the grand total: 267 office spaces with more than 10,000 sf currently available! Yet in setting up office tours, a number of listing agents told me they had just raised the asking rates for their vacant space ... go figure!

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For a number of years, the OfficeTimes Newsletter has focused in part on offshoring and its effect on the U.S. office market. There was a huge concern that offshoring would “suck the jobs right out of the U.S.!” “Jobs to India? Sure, when *Wired* issue 12.02 went to press, U.S. tech jobs were pouring overseas faster than ever ... Well, we survived – prospered, even. In fact the reason there aren’t more tech jobs in the U.S. is a shortage of talent,” *Wired* (January 2008). “Majority of Silicon Valley’s Top Firms Offshore in India ... A study by the Zinnov research group of the top 50 Silicon Valley companies, comprised of 15 software developers, 27 hardware developers, and eight conventional or non-information-technology companies found that 33 had operations in India. The software companies, including Oracle and Symantec, are leading the offshoring trend in India, with 14 out of 15 from the Silicon Valley operating there ... More than one million U.S. jobs have already been moved offshore, and that figure is projected to jump to 3.3 million by 2015, according to Forrester Research Inc.

By then, nearly six percent of today's U.S. jobs will be moved overseas ... offshoring by U.S. companies will only become more common, researchers say, and the services being outsourced will continue to become more sophisticated," *Business Facilities* (December 2007).

A few highlights from the 2007 Green Building Survey just out from *National Real Estate Investor* ... 8 out of 10 developers say low operating costs are the greatest benefit of green buildings ... corporate respondents are willing to pay an average of 4 percent more for LEED-certified buildings ... one in four developers indicate that green building adds 10 percent or more to construction costs ... 4 out of 10 developers say they cannot charge higher rents for green rental properties.

"A study financed by the American Solar Energy Society released this month forecast almost unprecedented job growth in solar and other clean-tech industries. From eight million jobs and \$933 billion in revenues generated by renewable energy and energy-efficiency industries in 2006, the numbers are predicted to rise to perhaps more than 40 million jobs and \$4.5 trillion by 2030," *Contra Costa Times* (12/9/07).

Wireless networks – "What if an organization's information were floating in the air, accessible to anybody with a few simple software tools? This is the perception that is common among facility managers about wireless technology ... wireless technology can also make wired connections less secure. What can facility managers do to ensure their wireless networks are safe? Amit Sinha, chief technology officer for Atlanta, GA based AirDefence, a company that provides wireless security and monitoring, offers the following advice: "Security best practices always mandate that facility professionals use a layered approach to security. The first layer is to create a secure infrastructure. The second step is to monitor air space 24 hours a day, seven days a week. Cisco's Unified Wireless Network is one solution that is capable of accomplishing this. 'In addition to having core security measures,' explains Cisco senior manager Chris Kozup, 'all of our access points have the ability to scan the radio frequency environment, and when someone does bring in a rogue access point, our access point will detect that through the air.' Many are still dubious, however, about their facility's ability to guard against the dangers that wireless presents. Kozup, on the other hand, is quite confident about wireless networks as the basis for mission critical applications ... 'We now have the tools to have a great level of confidence in the security of wireless systems.' The wireless industry is currently in transition. The next generation of Wi-Fi will have speeds approaching wired throughput. Ultimately wire and wireless will unite," *Today's Facility Manager* (November 2007).

*Deals and Rumors:* In **Antioch**, Wells Fargo & Co. leased 16,000 sf of office space at Bluerock Center. In **Concord**, Anka just signed for 15,000 sf at 1850 Gateway Blvd. There are a number of rumors about a 100 to 140k San Francisco tenant looking to relocate to **San Ramon**. In **Pleasanton**, Coopervision leased 30,000 sf at 5870 Stoneridge. Over in **Alameda**, Penumbra, Inc. took 73,000 sf at 1351 Harbor Bay Parkway. In **Hayward**, Intarcia Therapeutics leased 41,000 sf at 24600-24680 Industrial Blvd. In **Newark**, Risk Management Solutions leased 102,000 sf at Pacific Research Center and Sierra Wireless America signed for 26,000 sf at 39655 Eureka Drive. In **Fremont**, Micro Lambda Wireless took 19,000 sf at 46515 Landing Parkway. Across the Bay in **San Mateo**, TradeBeam Holdings leased 27,000 sf at 2 Waters Park Drive, and in **Foster City**, Rearden Commerce, Inc. expanded by 91,000 sf for a total of 133,000 sf at 1001 E. Hillsdale Blvd. In **San Francisco**, Hotwire, Inc. leased 44,000 sf at 655 Montgomery St.; California Pacific Medical Center leased a whopping 171,000 sf at 633 Folsom St.; DLA Piper reportedly has an LOI for 85,000 sf at 555 Mission St.; Omniture leased 35,000 sf at 250 Brannan

St.; Macys.com leased 57,000 sf at 685 Market St.; H5 Technologies took 53,000 sf at 71 Stevenson; Hood & Strong LLP signed for 19,000 sf at 100 First St.; Barclays Global Investors expanded by 90,000 sf at 405 Howard St.; UCSF committed for 38,000 sf at 220 Montgomery St.; Wells Fargo expanded by 32,000 sf; Judicial Council of California leased 45,000 sf, and Tech Target took 15,000 sf, all three office leases at 303 Mission St.; ServiceSource leased 46,000 sf at 634 Second St.; and Hartford Insurance took 10,000 sf at 33 New Montgomery St.

Will office rental rates stay high as vacancies increase? In various submarkets of the San Francisco Bay Area, leasing is still pushing vacancy rates downward, particularly in Silicon Valley where four years ago more than 70 million square feet of office and office/flex was available and now only about 40 million square feet remains vacant ... San Mateo is still experiencing good leasing activity, with office rents doubling during the past three years ... however, a few of the submarkets which, during the past five years attracted major mortgage brokers, back office banking, and other residential real estate-related office tenancies, have seen hundreds and hundreds of thousands of square feet of office space go dark – terminated, vacated and abandoned or on the sublease market. This has pushed vacancies up 10 percent as compared with one year ago. However, many of the properties in those subregions such as Concord, Pleasanton and San Ramon have felt the “Blackstone” effect. This is when office buildings are sold at super-low cap rates, i.e. 4 percent, and then the new owners immediately raise the rental rate to justify the high purchase price. However, market rents might be lower, demand might be less than brisk, and in those affected regions the question remains, “Will office rental rates stay high as vacancies increase?”

Smart Buildings – “Elevators with brains ... the elevators at San Francisco’s One Rincon are dispatched with an artificial intelligence control system that allows the computers to figure out a pattern for passenger use. This means that an elevator would be stationed, for example, on the 30<sup>th</sup> floor in the morning because passengers there seem to want an elevator at 9 a.m.,” *San Francisco Chronicle* (12/9/07). “Architects now speak of developing intelligent buildings, properties that use technology to operate a range of functions more efficiently. What’s more, their efforts are being aided by a new generation of web-based technology. “With the introduction of wireless systems, buildings are becoming more intelligent than ever,” says Eric Bowles, vice president of CoreNet Global. “Now a single system can control air temperature, lighting, and building security. A manager sitting at home can use his personal computer to tell whether the temperature is too cold on the fifth floor of an office building. Using the same system, a security guard stationed 1,000 miles away can detect an intruder who has broken into an office building,” *National Real Estate Investor* (November 2007). Imagine the future of intelligent buildings ... sensors identify a telecom or photocopier salesperson entering a building – alarms go off, security is notified and the brainy elevator dumps him or her into the disposal unit ...

“The World Is Flat ... The Center Is Here” headlined *San Jose Mercury News* (November 25, 2007) ... “Just a few years after a tech crash wiped out 200,000 jobs in the valley, the region is riding high on a global market it helped create. The rise of tech hubs in China, India, Israel and elsewhere has reinforced the valley’s leadership, not threatened it.”

Practical Office Tenant Sustainability Ideas – check out this link [www.officetimes.com/2008/Feb2008/Practical.htm](http://www.officetimes.com/2008/Feb2008/Practical.htm) for practical, day-to-day ways office occupants can help the environment and please send me your ideas to add to the list!

We publish an almost-daily blog on commercial real estate at <http://jeffreyweil.blogspot.com/>

- Up-to-the-minute big news, forecasts and comments on where the office leasing and investment market is going

“An estimated 2 million sub-prime mortgages are scheduled to reset to much higher levels by the end of 2008,” *Contra Costa Times* (December 4, 2007). Teaser to taser... Let’s say that almost half of these figure a way to work it out and stay current. This would leave an estimated 1 million homes that might be foreclosed. The domino effect would impact local pool services, landscaping, pet food stores, newspaper delivery, home insurance agents, nail shops etc. and etc. Already in sub-suburbs (i.e. Fairfield, Tracy, Antioch and other outlying burbs), weaker mom and pop retailers are struggling, with strip shopping center landlords reporting increases of slow pay and no pay as customer bases dry up. Side by side headlines, “Washington Mutual to close 190 offices,” and “State may see biggest downturn experts say,” *San Francisco Chronicle* (December 11, 2007). With major lenders writing off billions can additional employee layoffs be that far behind? So I write this on a Sunday and then two days later in the *San Francisco Chronicle*, “Citigroup Inc. plans to eliminate more than 20,000 jobs ...” A few days later IndyMac announces it will slash its workforce by 24 percent, the day after that headlines read, “Deeper mortgage job cuts planned” and this continuing saga of job cuts may continue unabated for some time to come.

Telecommuting update: “A recent survey by the Society for Human Resource Management found that 21 percent of all companies offer a full-time telecommuting option, 33 percent offer a part-time option, and 48 percent permit it on an ad hoc basis, with larger companies far more likely to list it among their perks than smaller companies. These figures have remained almost constant for five years. In 2002, 7.7 million employees worked from home at least one day a month. Now this figure is up to 12.4 million employees.” *CEO* (November 2007)

More than 2 million square feet of new office space is in the San Francisco development pipeline, and now Oakland has announced more than 900,000 square feet of new office projects, with the first completions scheduled for early next year.

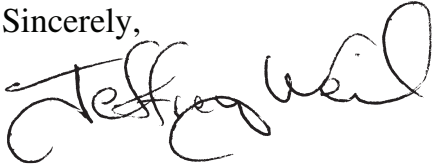
Someone recently asked me if this was a good time to buy a house at a bargain price. Let’s see, with possibly 1 million home foreclosures between now and next year, are we anywhere close to hitting bottom? The Fairfield or Tracy or Brentwood house purchased in 2005 for \$600,000 which was valued at \$800,000 in early 2007 but could only appraise for \$500,000 today might be taken back by the lender next year and dumped at \$350,000 ... so do you want a bargain, or are you willing to wait for a steal?

Jordan, our 10 year old son, seems to be going through a growth spurt, outgrowing clothes and sports equipment at a ridiculous rate. “What, we just bought these for you... what do you mean they don’t fit?” And those of you who have been through this know how fun it is trying to squeeze a size 5 foot into a size 4½ ski boot that should have fit (nope, didn’t work, so had to rent). Both kids went to Tahoe the last week of December, skiing Squaw Valley and Alpine Meadows. Madison, who turned 5 last August, is now a level five skier and she loves the sport. The first week of January both kids went

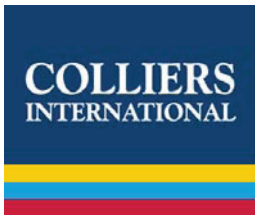
to Puerto Vallarta, chasing the waves, and releasing baby sea turtles back to the ocean. Jordan went ziplining 200 feet above a river, shooting across quarter-mile long wires through the jungle. Now it's back to the school routine, homework aplenty but so many other childhood distractions like birthday parties, baseball practice (oh, California weather!), biking and sleepovers. Photos of their recent experiences are at [www.officetimes.com/2008/Feb2008/JMFeb08.htm](http://www.officetimes.com/2008/Feb2008/JMFeb08.htm).

At least on a weekly basis, if not more frequently, our entire family clan reaffirms what we are thankful for, both individually, and as a family. Not necessarily in order of importance, but: living in the United States, having each other as family members, living in the Walnut Creek/Alamo area, our extended family, our religion, and the foundation our parents built for us through teaching us morals and work ethics, making sure we were educated, all of which allowed us to do the same for our children ... thank you!

Sincerely,

A handwritten signature in black ink that reads "Jeffrey Weil". The signature is fluid and cursive, with the first name "Jeffrey" written in a larger, more prominent script than the last name "Weil".

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