



Let's just start out with the brutal news – this recession will be long and ugly ... those who were hoping for some type of late-2009 or even early 2010 recovery may be sorely disappointed, but look at how many years we spent borrowing and spending beyond our means – it's like life after a wild party where now everyone is trying to shake off their hangovers, except multiply this by 100. Reasons why this recession may be drawn-out? Just think of the lag effect – major financial institutions are merging left and right, with resulting layoff announcements in the hundreds of thousands with additional announcements yet to be made. Severance packages and transitional interim hiring will delay the impact but eventually later in 2009 these folks will stop getting paychecks. Foreclosures are continuing unabated. Many retail experts are predicting 200,000 stores will close just this year alone. How many of these will trigger retail center distressed sales or foreclosures? City, county and state governments have seen the writing on the wall for the past several years, and yet how many of them were able to proactively cut right to the bone to prepare for drastic revenue cuts? Government entities that hired and budgeted based on higher residential property taxes are hit by multiple-whammies – home prices 40 to 60 percent of what they were, anemic sales, and construction companies, real estate, mortgage brokers and others closing shop have decimated government revenues, and yet how many government workers have been laid off in 2007 and 2008? Car dealerships are closing at more than 10 per week and this once-stellar source of tax revenue has all but disappeared. So there may be hundreds of thousands of government workers let go if taxes can't or won't be raised – private industry has saved fortunes by outsourcing and off-shoring back-office work, but governments of all levels may not have this same avenue of cost reduction. I started this paragraph with “brutal” news, not “bad” news, because fortunes are being made now by those finding opportunities unheard of just a few years ago. Companies with solid business plans can lock in low office rents and load up on tenant concessions as landlords compete fiercely to keep occupancy levels up. There are billions of dollars backing investor “vulture” funds circling the sky looking for commercial property opportunities. Bargains will be leased and bought, and fortunes saved and made by those that can and know ...

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The Almost-Daily Commercial Real Estate Blog at <http://jeffreyweil.blogspot.com/> has recently published gems like “Great news for tenants but few are celebrating” – discussion of major office rental decline, “Outsourcing still sizzling” – 50 percent annual growth rate ... “Major REITS with money issues should line up for bailout money” ... “Banks going out of business” ... and dozens of other timely reports on today’s commercial real estate ... please check this blog site out and feel free to post your own comments.

Jon Reynolds, long-time Bay Area developer who has built millions of square feet of office, retail and industrial properties, coined a great name for today’s housing market: “Unintentional Affordable Housing” ...

Office campus perks: Cisco Systems just opened a new \$38 million LifeConnections Center, with an on-site health clinic where patients sign in on wireless tablets. They chat with their doctors in private “care suites” and anterooms are equipped with large, high-definition screens where they can view and discuss their vitals and medical information before entering the exam room. The complex also includes an employee child care center that can accommodate 400 children and a 48,000 square foot gym. A number of large corporations offer on-site clinics as a way to improve their employees’ health, cut medical costs and reduce the amount of time workers spend out of the office for doctor appointments. *San Francisco Chronicle* (12/21/08)

One huge silver-lining for the San Francisco East Bay is the almost total lack of new office building construction during the past five years. There are a few exceptions, such as 2100 Franklin St. in Oakland, but by and large, office rents never rose to the height needed to justify new construction. This has greatly tempered office vacancy rates which could be a lot worse than the 12 to 20 percent currently showing.

Unleasing ... I just made this word up, the opposite of leasing ... we have had waves of this, first with the demise of the subprime lenders and mortgage brokers, then with lenders and investment bankers, and now with mergers, consolidations and corporate cost-cutting in general. American President Lines, headquartered in Oakland for decades, will vacate 140,000 sf at Oakland City Center. Babcock & Brown is trying to sublet a significant chunk of the 155,000 sf it leased at the San Francisco Presidio. SmithBarney might be consolidating with Morgan Stanley which should result in mounds of office sublease space in the near future. Mervyns going bankrupt vacated almost 320,000 square feet of office space (not great office space, but still ...) And across the Country unleasing is expected to continue unabated at least through 2010.

Commercial real estate financing is still available, but much harder to find than before, more expensive, lending criteria much more stringent, loan to value much more conservative and the rent rolls of the property must support the building value. For \$1 million to \$10 million, it appears 60 percent LTV is a ballpark benchmark. One lender told me they had tons of money to lend on commercial property, at 50 percent leverage, personally guaranteed, and you had to be a valued bank client and have more than \$1 million in bank deposits. I heard of one investor who tried to put his real estate broker up as additional collateral, but I’m not sure what good that would have done ...

Everything is great – in spite of reality! Unemployment soars upwards, corporate America hunkers down, city, county and state governments are facing huge budget deficits, and yet office leases are still renewed albeit at tenant-favored terms, and office building owners dangle relocation incentive packages not seen since the early 1990s ... clients ask, should we wait for another year or two in case rents continue downward? Their brokers either agree or point out that in many submarkets, rental rates are already less than half of what they would be for new office product ... and if you are a normal corporation leasing office space, do you then go month-to-month or year-to-year or simply take advantage of today's bargain market and enjoy the landlord concessions of free rent and/or significant tenant improvement packages and a host of other terms not possible in a boom economy? In today's economy, with credit all but frozen, stimulus phrases and bailout packages catch-phrases new to our business vocabulary, the cost of office space may still be important but not even near the top of the CFO concern list ...

The changing workplace ... collaboration is the top trend in furniture, according to Tim Ruffini of izzydesign. He says the movement calls for “flatter, leaner, non-hierarchical structure that encourages collaboration amongst individuals.” Mike Tennity, VP of design at KI, describes the new collaborative workspace: “Divider walls are coming down in height, desks are more likely to be freestanding and adjustable, mobile storage and other items are more often shared, and components need to serve multiple purposes.” Kristin Moore at DIRTT Environmental Solutions explains what's guiding the trend: “Mergers, new technology, outsourcing, telecommuting, and simple economics are just some of the forces at work.” If you already have furniture systems in place with no budget for mixing things up, work with what you have to foster a more collaborative environment. Think about strategically taking down a few walls. Place a few more chairs around offices, make room for impromptu meetings ... *Buildings* (November 2008).

Deals and Rumors: In **Oakland**, Cerexa, Inc. leased 38,000 sf at 2100 Franklin; Alameda County signed for 18,000 sf at 675 Hegenberger Rd.; DMJM & Harris leased 32,000 sf at 2101 Webster St. and CSAA took 10,000 sf at 505 14th St. In **San Francisco**, Chapman Popik & White leased 14,000 sf at 650 California St.; Arup signed for 50,000 sf at 560 Mission St.; First DataBank leased 35,000 sf at 701 Gateway Blvd.; ClimateWorks committed on 15,000 sf at 235 Montgomery St.; Visa USA leased 44,000 sf at 595 Market St.; Squire, Sanders & Dempsey took 66,000 sf at 275 Battery St.; Suntech signed for 15,000 sf at 71 Stevenson St., and at Four Embarcadero Center, Hogan & Hartson sublet 22,000 sf. In **South San Francisco**, Oxigene, Inc. took 12,000 sf at 701 Gateway Blvd. Down in **Redwood City**, Litescape sublet 12,000 sf at 1000 Bridge Parkway, and at Redwood Shores Covington & Burling leased 13,000 sf. Across the Bay in **Fremont**, E-Communications leased 16,000 sf of R&D space at 1045 Mission Court and at 31164 Huntwood Ave. in **Hayward**, Optisolar leased 60,000 sf for admin. and R&D. Farther East in **Pleasanton**, DotNext leased 11,000 sf at 4420 Rosewood Dr. and next door in **Dublin**, Fluor signed for 24,000 sf at 4140 Dublin Blvd. In **Walnut Creek**, I represented Associates In Excellence in an expansion of their 575 Lennon Lane office to 10,000 sf. In **Concord**, Wood Smith signed for 12,000 sf at Concord Metroplex. Over in **Pittsburg**, I represented Fresenius for a 60,000 sf warehouse/office lease at 701 Willow Pass Road, and up in **Fairfield** AAA Northern California will be leasing 55,000 sf.

Back in the late 1920s they labeled those economic times The Great Crash of '29. Now we have The Financial Follies of 2007, The Credit Crisis of 2008 and The Great Bailout of 2009 ...

2008 Green Building Survey: “Conducted by National Real Estate Investor ... nine out of 10 corporate respondents say lower energy costs are a benefit of green design ... eight out of 10 developers say the biggest benefit of green design is lower energy costs ... corporate respondents are willing to pay an average of 4 percent more for LEED-certified buildings ... developer respondents say they can charge an average of 3 percent higher rents for green properties,” *National Real Estate Investor* (November 2008). Interesting to note that the office leasing market is so dynamic in its adjustments to economic conditions that I wonder how a 3 or 4 percent factor fits in when the market is in a super-reactive state ... i.e. we had the dotcom boom with office rents doubling or tripling within just a few years and now during this recession office rates have fallen 15 to 20 percent just since the subprime bubble burst – LEED-certified makes sense regardless but may be harder to justify with hard data in the midst of such significant rental rate decreases and cap rate increases ...

“A recent survey by international law firm DLA Piper shows that 60 percent of U.S. real estate executives identify the current credit crisis as having the most impact on commercial properties than any other factor over the past 20 years. A majority of the survey’s 400 respondents also indicated that they don’t expect real estate markets to stabilize until 2010, with another 22 percent saying it will be 2011 before conditions improve ...” *Real Estate Florida* (October/November 2008).

Wonder if this idea could be converted to use by office landlords or their leasing agents ... when Yahoo announced that it was shedding 1,500 jobs, TokBox CEO Nick Triantos came up with the idea of renting a taco truck and driving over to the Internet search firm’s Sunnyvale campus to offer free tacos to passersby. Along with tacos came a menu of positions available at the San Francisco startup marketing video-phone Internet services. The move paid off, with applications tripling ... *San Francisco Business Times* (December 19, 2008). So office building owners with lots of vacant space might drive their own taco trucks over to above-market office buildings, park at lunch time and offer free tacos wrapped in concession-laden paper advertising their low rates, generous tenant improvement packages and other enticements.

There are so many tradeoffs with government. Those who deal with government contracts know it can sometimes take twice the time and five times the paperwork as compared with the private sector and resulting bids may reflect this. Take office space as an example – many governmental agencies require their office space to be compliant to just about every foreseen event and upgraded to the 9th degree – all documented in 50+ page Request For Proposals. Lease terms that for private sector firms might be five years for government operating on annual budgets might be renewable one-year lease terms, which can be difficult for property financing or sale. A number of agencies don’t use exclusive tenant rep brokers the way Corporate America does, and as a result usually end up paying too much. On the other hand, compared with some third-world countries where the amount of the landlord “tip” to the government official determines which property is selected ...

“A new law on the books means commercial building owners in California are about to see how they stack up against their peers in terms of energy consumption – and so, too, are the buildings’ prospective buyers, financiers and lessees ... Under AB 1103, electric and gas utilities are required to maintain records of the energy consumption data of all nonresidential buildings to which they provide service and, upon request of an owner, upload those records to a secure online interactive energy management tool maintained by the U.S. Environmental Protection Agency that tracks and assess energy and water consumption. The Energy Star program rates buildings on a scale from 1 to 100 against other buildings within its class,” *GlobeSt.com* (November 2008).

Internet telephone technology is allowing U.S. outsourcing companies to have customer service agents who work out of their homes. Home agents work for less but save on commute time and car maintenance, gas and insurance. One Cincinnati outsourcing company has 1,200 home agents and expects to triple that this year. Company firewalls keep information secure, agents communicate with managers and colleagues by instant messages and online chats, and managers can monitor their work online. “Christopher Carrington, chief executive of Alpine Access said the 10-year-old business that specializes in using at-home agents is booming. He said many U.S. companies who outsource prefer to use U.S. employees – called ‘homeshoring’ – instead of those in call centers in India or other countries. ‘Our cost is minimal,’ Carrington said. ‘We don’t have to build a building. We do all the training virtually,’” *San Francisco Chronicle* (Nov. 30, 2008).

December brought snow to the Sierras, and Jordan and Madison finally got out to ski in two feet of fresh powder ... then during the holiday break they joined several other families to spend a week at Punta Cana in the Dominican Republic – lots of body surfing, horseback riding and dune buggy adventures before heading back to school. For photos of recent adventures go to <http://officetimes.com/2009/Feb09/JMFeb09.htm>.

What an upside-down world in which we live! The price of gas falling below \$2/gallon and solar panel companies, the financial rage only a few months ago, are now struggling to exist. California is \$40 billion underwater, the U.S. deficit is more than \$11 trillion and the new definition of liquid assets is when you look at your 201k Statement and start crying. (It was a 401k until September.) Little League season is just around the corner, and if you need a dose of childhood laughter and innocence, find a league where they play for fun and the joy of playing (versus some leagues that play just to win) and for a few hours, you can forget about the economy, politics and whatever else you’d like to forget about. We wish the best for our kids and our future generations, and if our generation doesn’t figure how to fix the mess we got ourselves into, it will be their generation picking up the pieces ... I look at folks of my parent’s generation who made it through not just the Great Depression but World War II, and they came out of it strong and resilient. Hard work, education, diversified savings, realistic debt if any, and prime concern for family, country, community and God, helped our parents get my generation off to a solid foundation. Now we only need to do the same for our children’s generation ...

Stay dry, be safe and before we know it spring will be upon us!

Remember ... please call me for all your commercial real estate needs anywhere in the world!

Sincerely,

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