



Corporate Office Perspectives

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Office rents up, office rents down – and it all depends on the very specific location and circumstance. I know there are similar examples all across the country to the ones I see here in the Bay Area. A large Class A office complex aggressively markets its vacant space until they get to 95 percent leased, and then up go the asking rents. Down the street, the Class B office building owner looks at vacant office space which may have sat empty for three to four years, and then significantly drops the rental rate to where it barely covers building operating expenses, which can still be better than no rental at all. Well-capitalized owners with low or no debt renovate their common areas or add new project amenities such as conference rooms and exercise facilities offered at no additional charge to tenants, while across the street, a cash-strapped mortgage-encumbered landlord may be challenged just to keep the heat and air conditioning systems operational. Trophy-leased properties with great tenancies and premier locations sell at unbelievably high prices, while across town, the partially or totally vacant commercial building that has “issues” and challenges may be selling for a small fraction of its former or replacement value. Your experienced commercial real estate broker knows the difference and can guide you through these opportunities and quicksand bags, and if you need a great broker, anyplace in the world, just call me as I have spent the past 35+ years maintaining these connections in almost every part of the world.

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Google made the top spot in the annual Fortune Magazine “100 Best Companies To Work For,” and among the employees perks at its Mountain View headquarters are bocce courts, a bowling alley, 25 cafes stocked with free food, but another reason for this high level of employee satisfaction might be its intense focus on the work environment air quality as it scrutinizes all building materials to make sure they are free of chemicals with any health impact. The resulting air quality “rivals a hospital rather than an office building” – ah, Googlelicious!

You don’t have to agree ... Mark Gilbreath, CEO of LiquidSpace, Inc., a company that connects people with workspaces where they can rent a desk, office or office complex for as short as 15 minutes, was interviewed in the first quarter 2012 *TheRegistrySF* ... “How is the workplace changing the way it uses space? One of the trends now clearly documented is the move to less square footage per employee. Where the norm would have been 250 square feet or more per employee, you are now seeing companies driving that number below 100 square feet. The simple calculus is that there is enough capacity already built to service us for the remainder of our lives. The massive disruption that is going to

occur is that we are not going to need more capacity.” And in this same issue, Jeremy Neuner, CEO of NextSpace Coworking & Innovation stated, “Companies need less space. If the owners of commercial real estate aren’t freaked out, they should be. We talked with one of the heads of workplace services for Accenture. They are looking to create a workplace footprint to accommodate, at most, 30 percent of their head count. Whatever that square footage is, it is a lot less than the owners of commercial real estate might want it to be. There are still plenty of times when you are going to want that headquarters footprint. But over the next couple of decades, commercial real estate is really going to have to rethink the product it provides.” *www.theregistrars.com* (December 2011)

There is a new wireway system that is less than an inch high, has ADA-compliant sloping ramps that integrates with carpeting, runs eight-wire four-circuit hardwire connections for modular furniture, training and conference rooms that can eliminate costly core drilling. Go to **www.connectrac.com** for more info. *Today’s Facility Manager* (December 2011)

Ah, the good old days for commercial real estate lending, when a borrower could secure a 75 to 80 percent loan to value mortgage ... nowadays the 80 percent financing tier is down to around 65 percent, and the 75 percent tier down to around 50 percent due to extreme lender caution and continued uncertainty about our economy. Money, money, everywhere, but for most commercial real estate, not a drop to spare ... however, it appears the number of troubled banks has leveled off ...

The Kingsley Associates third quarter 2011 *Office Industry Trends* reports that almost 65 percent of office tenants feel positive about the value of their office space, 14 percent need more office space and almost 42 percent anticipate adding headcount at their current location (which means there is a lot of excess space hidden within existing corporate facilities) ... however, in looking more closely at the chart, 50 percent of their respondents plan no change to their headcount, and 5 percent actually plan to cut jobs ... the importance of Green Building Practices slipped from a high of 61.3 percent in mid-2010 to 58.6 percent ... Kingsley surveys office tenants representing 1 billion square feet of clients annually. This report can be accessed at **<http://officetimes.com/2012/Feb2012/KingsleyQ311.pdf>**

Want one quick key benchmark that usually works if you want to tell how an office building is maintained and managed, at least from the physical upkeep side? Take a look at the restrooms to see if they are clean, no cobwebs or deferred maintenance, upkeep ... sometimes when the common areas look good this is the overlooked section of an office building that can quickly give you another indication of how well you will be treated as a tenant ... any other quick tricks like this, please post them or send them to me! **jeff.weil@colliers.com**

“Move while you work” culture improves employee’s health, lowers medical costs ... One company in Minneapolis, Salo, a financial staffing firm, has treadmill desks set up in a conference room facing each other so employees can walk, talk and take care of business at the same time. In a separate room they have six treadmill desks set up, complete with computers, and employees can use them for sessions of walking and working ... there is also a ping pong table set up in the office. They have monitored results and over six months, their 18 employees collectively lost 150 pounds and lowered cholesterol counts ... *Contra Costa Times* (December 11, 2011)

Some think that the U.S. hiring is tied to the residential real estate recovery and as long as home prices are still headed downward, consumers will be reluctant to spend, retailers will be reluctant to expand, and in general companies will be reluctant to hire ... as of December 10, 2011, residential

real estate prices for the past 12 months ... went down 7.8 percent in Sacramento, down 5.1 percent in San Francisco, and down 6 percent in Los Angeles ... not good news if indeed there is a connection to job growth ...

U.S. Corporations have sent millions and millions of office jobs that were formerly based in American office buildings over to India ... substantial cost savings, more flexibility (i.e. have you read the recent employer rules on what is required when you terminate an employee, and compare this with changing outsource offshore providers?) ... and for those of you who are hopeful that maybe the overseas labor pool will get fully utilized at some point and become more expensive, possibly sending jobs back to America ... think again! The *LA Times* (12-11-11) reported that in the past 11 years, India has added more than 240 million people ... future call center and back office workers?

Oh what a grind ... 2012 commercial real estate, according to the Urban Land Institute and PricewaterhouseCoopers ... Based upon a survey of hundreds of respondents the industry is expected to continue the grind, with seven major obstacles to slow real estate recovery, including the global financial mess, the lack of job growth, the cost of productivity, and the correction of profit expectations in the professional sector ... the bottom line? Commercial real estate fundamentals, and thus demand, are not expected to get better in 2012 ... might as well head to Hawaii or Italy for a year or two and enjoy the slow times ...

The cubicle is on its way out ... cubicles have come a long way from the first "personalized space" with movable walls surrounding a desk to the sleek models we see today with everything wired to the hilt, lots of overhead bins and movable drawers, flexible "stuff," and even private offices made out of cubicles (without a ceiling) ... but now with iPads, laptops, cloud storage and anywhere and anyplace employees don't necessarily have to be tied to one specific workspace ... and companies like the direction this is headed, with less space required per employee, in some cases going from 225 square feet per person down to 135 square feet per person while at the same time increasing informal meeting areas ... (credit to John Campbell for these thoughts, he can be contacted at jcampbell@franciscauffman.com) ... Younger employees who are used to collaboration find the traditional cubicle stifling ... and as Mr. Campbell concludes in an article published in *Today's Facility Manager* (November 2011) "... It's clear that facility managers are finding that cubicles may impede business needs, and these corporate cornerstones may soon be a relic of the past."

Deals and Rumors: Marin County is our starting point in this issue, where at 100 Smith Ranch Rd. in **San Rafael**, Kaiser Permanente leased 25,000 sf and Electrified Games signed for 10,000 sf. In **San Francisco**, the major event was the \$340 million 400,000 sf lease Salesforce signed at 50 Fremont St.; Medivation inked 57,000 sf at 525 Market St.; StumbleUpon leased 63,000 sf at 301 Brannan St. and the San Francisco County Transportation Authority leased 24,000 sf at 1455 Market St. Moving further south, in **San Mateo**, Activate leased 60,000 sf at 951 Mariner's Way and in **Palo Alto's** Stanford Research Park, SAP signed for 135,000. Jumping across the Bay and hills, in **Pleasanton**, Maddies Fund may be purchasing the 140,000 sf office building at 4280 Hacienda Drive (David Duffield, founder of PeopleSoft, endowed this charitable foundation with \$300 million focusing on animal welfare). In **Dublin**, Ross Stores just purchased 414,000 sf of Class A office buildings at 5120/5130/5140 Hacienda Dr. for reportedly \$68 mil for their new HQ. In **San Ramon**, Black & Veatch leased 15,000 sf, Five9 is relocating to 50,000 sf and PG&E is rumored to be close to signing for 150,000 sf; In **Walnut Creek**, I represented Berding & Weil in their new 20,000 sf lease at 2175 N. California Blvd. and in **Concord**, I represented Pacific Service Credit Union in their purchase of 3000 Clayton Rd., a 30,000 sf office building for their new HQ. Also in Concord, TriStar purchased the 26,000 sf building at 2325 Clayton Rd. and both Pacific Service and TriStar will be

relocating from Walnut Creek Shadelands; Ausenco PSI leased 23,000 sf at 1320 Willow Pass Rd. and Farmers Insurance inked 14,000 sf at Concord Metroplex 1401 Willow Pass Rd. Last but not least, in **Emeryville**, Children's Hospital signed for 19,000 sf at 6425 Christie Ave.

The new commercial real estate normal ... Class A properties are in much better shape, usually, and sometimes in great shape and at premium values, compared with the "Zombie Owners" (thanks Matt Thompson from our Colliers Dallas office for coining this) of Class B and for sure Class C that may be devalued due to loss of occupancy, lowered rental rates, tenant credit risk, lack of capital for necessary capital repairs or upgrades, or tenant improvements. And as Matt concludes in his *Real Estate Forum* (November 2011) article, "Zombie owners over the next five years who don't have the money for capital budgets, tenant improvements and a basis that allows them to be competitive will be buried. Then, and most likely only then, will we have the road to recovery cleared and we can begin to deal with the vampires that are too big to fail."

The future of the workplace ... in a recent article authored by Sharon Simonson in ... www.theregistrysf.com (Nov/Dec 2011), Philip Ross, chief executive of www.unwork.com, a UK-based consultant that looks at the future of work. "The current practice where huge numbers of people commute daily to and from workplaces often located in a central location, spending hours traveling will no longer suffice ... Yet, only 12 percent of people say they want to work from home. Rather, people want to go to a formal work location at least some of the time, and their ideal commute lasts 15 minutes or less. The demand for office property will fall precipitously, Ross said ... 71 percent of respondents from the largest companies — those with 1,000 workers or more — said they do not believe the next generation of workers, those 70 million or so digital natives born from 1980 to 2000, will accept the traditional workplace. Not quite 60 percent of those same respondents said the need for office space will shrink as work styles change and activity-based office use takes hold."

Here is a terrific snapshot on all kinds of segments of our economy from the latest changes in employment rates, what job categories are getting laid off, home appreciation updates, commercial real estate breaking news on a national basis, and lots more ... for the report go to <http://officetimes.com/2012/Feb2012/WMR112311.pdf>

As an example of how office rental rates can suddenly spike upwards, in the South of Market region in San Francisco office rents shot up 24 percent in just the past 12 months.

On January 21, 2011 at a speech I gave to the Contra Costa County Bar Association, I stuck my neck out and predicted that the East Bay office market would officially recover on February 22, 2012. So far this prediction is headed for accuracy, with some of the stronger submarkets like downtown Walnut Creek and San Ramon firming their Class A office rates, beginning to reduce concessions, while other submarkets such as Pleasanton and Concord are still concession-laden but there are undercurrents that it is only a matter of time before rents go up. In further support of this was the announcement this week that PS Business Parks just purchased nine Bay Area business parks totaling 5.3 million square feet, paying over a half-billion dollars (\$520 million) and the comment from the buyer, "It expects rents to rise in the coming years."

Partial list of potential benefits in having your office building LEED certified: Increased value due to accessing a larger pool of prospective tenants, as there are government and other office users who are mandated they have to be in a LEED-certified building: potential lower expenses due to greener systems lowering costs, and thus increasing net operating income; investors may view the building as more valuable in the long-run, easier to sell in the future ...

“Adults ages 18-54 are more likely to favor working in and doing business with environmentally certified buildings than those 55 and older.” *Buildings* (Jan. 2012)

Saving money on your facilities the easy way – Los Angeles County is saving tens of millions a year under an efficiency program, including such basics as buying better light bulbs, disconnecting unused phone, fax and data lines, reprogramming computers to go on sleep mode overnight, Installing tankless water heaters and limiting mass printing by sending documents digitally.

My associate, Coy Davidson, who does office leasing out of our Houston Colliers office, has a great website and blog, and in a recent posting reported on the Teknion “Workplace of the Future” which surveyed 30 large U.S. employers and design firms and concluded: By 2015, workplace utilization is expected to increase from levels currently 35 to 50 percent to 85 percent as the desk-to-employee ratio continues to change ... 77 percent more open, collaborative workspace with fewer offices, 62 percent more dense workspaces, 54 percent reduce square footage through disposition, 46 percent more employees working remotely, and 31 percent mobile working programs including desk-sharing, office hoteling or co-working ... some industry experts are predicting that the average workspace allocations per employee will be reduced from 200 square feet to 100 square feet per person by 2015 ... what does this mean for the office industry, how will parking and HVAC systems accommodate this increased density, and what will this do to projected office leasing absorption figures? Stay tuned ...

One of the biggest areas of office building complaints is the interior temperature. Too hot, too cold, windowline at one temperature while the interior space is at another – *Buildings* (Jan. 2012) defined four underlying causes of thermal discomfort:

1. Temperature Wars – the room temperature may be at one setting but the occupant senses a totally different temperature – discover why.
2. Air Diffusion – Are vents directed correctly, is the air movement being blocked by partitions, are there air drafts interfering?
3. Windows – Do they leak heat or cooling, can you solar retrofit, replace with double-pane, are the window shades blocking needed sunlight, can you use weather-stripping?
4. HVAC Tweaks – Over time HVAC systems can become unbalanced, repair work may have caused a vent to be turned off that was never turned back on, are there any mechanical failures of meters, valves, etc.?

Facility managers for the most part are still dealing with budgets affected by a challenged economy. While most are not having their budgets cut, according to the (January 2012) *Buildings Magazine* editorial, for the most part few are enjoying budget increases. The focus is on sustainability, training and energy investments.

GSA might be shedding office space in 2012 ... Last year President Obama sent out a memo to agencies directing them to save \$3 billion through fiscal 2012 by disposing of excess property and consolidating leased space. New construction funding in fiscal 2011 dropped 91 percent. Renovation funding was cut 32 percent, with the 2012 outlook even bleaker ... in addition, the subcommittee in charge is working on an office space standard of 150 to 157 square feet per employee (10 years ago the standard was 200 square feet per employee) ... but hey, it could be a lot worse if GSA was allowed to do what most U.S. corporations do, which is to send millions of jobs to India and get rid of both office space and employees ...

I have been commenting for many years that one of the obstacles to reducing government expenses is their lack of flexibility versus the private sector. One case in point is the millions and millions of jobs that corporate America has shipped to India, Philippines and elsewhere at a fraction of the cost compared with if they had to keep these functions here. I don't know how many government components can be sent overseas with all the regulations, union restrictions, and political tethering that the politicians who control these actions are stuck with ... San Francisco just came out with a terrific concept that might spread elsewhere: a "civic accelerator" where startups are housed, mentored and funded to focus on technology to improve government efficiency. This is aimed at streamlining government processes, like small business applications or locating property records. Not tech related but still another wasted government expense category ... as my specialty is Exclusive Tenant Rep I have often been frustrated that many local, county and other governments don't follow the route most of the Fortune 1000 take in their lease renewals or space acquisitions ... hiring their own expert to negotiate the best lease renewal or relocation terms versus what usually seems to happen, exercising an option based on current market rent and almost always paying a significant premium over what the private sector negotiates ...

In a recent article in *Today's Facility Manager* (November 2011), new physical measuring tools such as <http://www.trimble.com>. TIMMS can help facility managers accurately measure office and industrial space, and this can be highly valuable. "Frequently, fms (facility managers) find spaces differ from the owner's information anywhere from 5 percent to 7 percent. In a large building, this extra space can be worth millions." The new technologies measure in many directions to create a 3D virtual image and accurate measurements. For more info on this, Tom Condon, the author, can be reached at tcondon@sdenterprises.com.

Want to own your own commercial building, be in charge of what rent to charge tenants, able to add more floors to your commercial tower, and do it with no money of your own? Tiny Tower is available through the Apple App store for iPhone and iPad, and it is currently one of the hottest "games" in town ... it is free (at least initially) but you can spend real money adding stuff to your tower ... and over 1 million people have downloaded the game in just the first four days ... maybe they will come out with a version where you purchase an office building at the height of the market (i.e. 2006) for \$400/rsf, and then figure how to pay the mortgage in 2012 when rents barely cover expenses and new tenants are few and far behind ... then again, maybe Tiny Tower would be a lot more fun!!

Jordan and Madison took full advantage of the unusually clear California weather with outdoor lacrosse, girl's softball practice, rollerblading, go kart racing and more, but they both can't wait to put their skis on and head up to the Lake Tahoe slopes to take on all the new powder. Their recent adventures can be seen at www.officetimes.com/2012/Feb2012/JMFeb2012.htm

Some of my friends and business associates are swamped by information overload, email inboxes continually filled to capacity and far more material input than humanly possible to process. Others waltz through their day filing, deleting and handling the input by striving to empty their inbox on a daily basis. Of course there are different circumstances for each individual, and those of us who are active on charity boards, PTA, Girl or Boy Scout leadership, college alumni, children sports or the 43,251 other organization involvements know how much email those can generate. Others have personal assistants who ensure all is taken care of and emails do not remain in the inbox. We get thousands (hundreds of thousands) more information barrages daily than our grandparents ever did, when their main resources were the local paper, a handful of monthly business magazines and

watching the daily news. I plugged "How To Lease Office Space" into Google and 5,880,000 results came up. At two reviews per minute working non-stop with no breaks I will be able to see them all in 22 years, but I'll always be behind due to the daily avalanche of new material. There is no easy answer to this, nor to the other major questions, like, "How to maintain a positive attitude no matter what" "live healthy but still eat and drink what you want" or my favorite, "The guaranteed foolproof way to raise teenagers without angst" ... and with that, stay dry, love and be loved, and call me for anything regarding commercial real estate or understanding the meaning of life!

Sincerely,

A handwritten signature in cursive script that reads "Jeffrey Weil".

Jeffrey S. Weil

Blog: www.blog.officetimes.com

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