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## Corporate Office Perspectives

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Welcome to 2002 and the 131<sup>st</sup> edition of this OfficeTimes newsletter! Almost 22 straight years of unbiased reporting and predicting on the office market industry, and with written evidence (i.e. copies of every past issue) most of the time, our predictions have come true.

Great article in *Pike Net Dispatch* (12/13/2001) on corporate real estate and technology: "Only 27 percent of corporate real estate departments indicate significant usage of technology. Fifty-three percent rate their current usage of technology limited or none!" That's according to David Kamen of Ernst & Young, who reported these findings from a joint E&Y/Nacore study, "Corporate Real Estate Technology Benchmarking Survey," at the December 2001 Nacore Symposium in Nashville (which I attended, and as always, was jam-packed with corporate real estate cutting-edge programs). Some software program examples of tech-utilization: Wells Fargo Home Mortgage (1,750 facilities): Strategen for lease administration, ProCalc for cash flow analysis, Autocad for facilities management, Oracle's eCRE suite (Oracle's now available to the public suite which handles Space Acquisition, Lease/Space Administration, Facility Management and Strategic Planning), Washington Mutual Bank's FIS for lease administration, Bricnet for project management, Boeing Realty Corp's. Visual Lease for lease administration, and Peregrine's suite of products for property and facility management.

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*Real Estate Forum* (September 2001), an article titled "Soft Landing Won't Happen This Year; Study Points to Turnaround in 2004." "Don't look for the current market slump to turn around before 2004, reveals a recently released study from PricewaterhouseCoopers. The report, titled "*Real Estate Value Cycles*," states that most markets will continue to contract for at least the next 18 months before conditions start to improve. 'Leasing has almost stopped and rents are going down,' says Peter Korpacz, director of PwC's financial advisory services' global strategic research group. This is not going to right itself by the end of the year."

In a special *Buildings* (November 2001) report on disaster planning, the key steps are: Develop an Emergency Preparedness Plan; Conduct a Vulnerability Analysis; Maximize Protection Through Security Preparedness; Prepare for Evacuation; Plan for Occupants with Special Needs; Training is the Best Preparation in Emergencies; Direct a Security Audit; Disaster Recovery; Ensure Your Company's Business Continuity; Communicate. For more information, check on disaster recovery articles and guidelines at [www.boma.org](http://www.boma.org), [www.irem.org](http://www.irem.org) and [www.osha.gov](http://www.osha.gov)...

*Diablo Magazine* (February 2002) featured an article on the biotech industry. "In fact, the Bay Area is the birthplace and epicenter of the biotech industry, and more than 500 biotech companies call Northern California home... 'The East Bay is probably where we're seeing most of the growth now, simply because people can afford to live there,' says Sue Markland Day, president of the Bay Area Bioscience Center, estimating that there are 154 biotech companies in Alameda, Contra Costa, and Solano counties." Reported in the *San Francisco Business Times* (January 25, 2002), "The biomedical world is coming of age in the Bay Area. In just a few short decades, the industry (biomedical) has grown to employ more than 85,000, paying \$5.8 billion in wages, and exporting

\$2.7 billion in biomedical products annually.”

In *Wired* (December 2001): “It’s true: the Twin Towers could have been built to withstand the impact of a 767. But they would be made of 4-foot-thick concrete and have no windows,” says Ron Klemencic, a structural engineer and president of the firm that worked on the World Trade Center.

Another article on disaster planning published in the *California Real Estate Journal* (December 3, 2001) highlighted the following: The key to corporate survival after a terrorist attack is planning, not panic. The recovery plan should address business interruptions caused by fire, earthquake, flood, severe weather, hazardous material spills and contamination, terrorism, digital sabotage, workplace violence, theft and disruptions in public utility services. Are there facilities in or next to high-rise buildings, or next to major power plants? Storing spare, critical equipment and reliable, audited backups of company data at an off-site location or more than one location is absolutely essential. Allowing employees to work from home temporarily often can be helpful in quickly resuming business operations following a disaster. Equipment lists, vendor directories, and company credit information might be also stored off-site, along with home telephone numbers of key staff and a copy of the disaster recovery plan.

Total office wireless networks are on their way, and while there are a few success stories of companies who did not hard-wire Cat 6 but connected desktop and laptops with a wireless LAN, in *Internet World* (January 2002), several concerns were raised: Buildings are different, and different construction materials may dictate the degree of feasibility; there are different technologies available – which will become the industry standard? (Anyone want a used Betamax in great shape, cheap?); security issues are still in resolution stage, and there is a new breed of “car hackers” who drive until they spot a vulnerable wireless network, then bam...; so, no clear verdict yet, other than within the next few years wireless LAN should be a very viable corporate option.

*Real Estate Forum* (September 2001) reported its interview with David Twardock, president, Prudential Mortgage Capital, which was prior to Sept. 11 and prior to the ENRON and K-Mart bankruptcies. *Question: To what degree is the slowdown in the U.S. economy being manifested in commercial real estate, particularly in your business segment?* Answer: “Insurance company delinquencies are at about a 30-year low and the CMBS delinquency rate has edged up from half-percent to one percent. In the depths of the real estate recession of the 1990’s delinquency rates were approaching 7 percent. So, all and all, we’re still in pretty good shape. The thing that we are watching carefully is corporate delinquency rates in the public markets. They have increased dramatically. That tends to be a precursor to problems in the real estate market. If the economy doesn’t come back and if tenant credits don’t improve, ultimately, that will hit the real estate market.”

*Deals and Rumors:* In **San Ramon**, I represented SBE, Inc. in a 63,000 sf office/flex lease assignment to Cyra Technologies, and then I sublet SBE 15,000 sf at 2305 Camino Ramon. In **Pleasanton**, Sanarus Medical leased 12,000 sf at 5880 West Las Positas. Up in **Richmond**, Kaiser Permanente leased 38,000 sf of R&D space at Regatta Business Park. Title One leased 13,000 sf at 6201 Doyle in **Emeryville**; Wham-O leased 13,000 sf at 5903 Christie Ave.; Title Nine Sports is relocating its corporate offices to 13,000 sf at 6201 Doyle Drive; Zip Realty is moving from Richmond to 16,000 sf at 2000 Powell Street; and Chiron is planning to break ground this summer on a 365,000 sf lab/office complex. In **Oakland**, the San Francisco Estuary Institute leased 10,000 sf at 7770 Pardee Lane. In **Hayward**, Impax Laboratories committed to 50,000 sf at 31153 San Antonio Street. In **Novato**, BioMarin Pharmaceuticals leased 25,000 sf at 25 Leveroni Court. In **San Francisco**, Farella Braun & Martel expanded by 18,000 sf at 235 Montgomery Street; Signature Biosciences is taking 65,000 sf at 475 Brannan Street; and Critical Path leased 63,000 sf at 2 Harrison Street. In **Redwood City**, Recourse Technology sublet 37,000 sf from Broadvision at Pacific Shores, Support.com is rumored to be seeking 40 to 60,000 sf in the same region, and Abbott Labs just announced its plan to build a 1 million-square-foot research and development campus on the 35-acre former Cargil Salt site. Dreamworks is also rumored to be looking for 80,000 sf in the **San Mateo** area. In **San Carlos**, Manugistics leased 60,000 sf at Skyway Landing.

According to Lynn Sedway of the Sedway Group, speaking at the first Northern California CoreNet Global event (merging Nacore and IDRC – if you’re interested in membership, please send me an e-mail), last year’s business downturn signaled the end of nine years of expansion. The downturn should be taken in perspective, as last year Silicon Valley lost 25,000 jobs, but between 1995 and 2000 gained 40 to 60,000 jobs per year. The value-added per Bay Area employee is \$170,000 versus the national average of \$56,000, and after subtracting for the higher cost of living, we still come out 35 percent higher than the rest of the country. In terms of venture capital funding: #1, San Jose; #2, Massachusetts; #3, Texas; #4, San Francisco, so, there are a few rays of sunshine within the economically cloudy skies...(still weird that our individual cities are compared to entire states, and California as a country would be the seventh largest economy in the world.

As reported in *Commercial Investment Real Estate* (January/February 2002), “The 3.6-billion-square-foot U.S. office market systematically worked its way down from a 20 percent vacancy rate in the early 1990s into single digit vacancy by the end of the decade. New construction activity has been disciplined, but the crash of the dot-com sector and the incipient economic slowdown had pushed vacancy back up to 10.6 percent by mid-2001. An approximate 226 million square feet of new space coming on the market in the next few years most likely will exceed absorption by nearly 150 million sf, moving the vacancy rate to about 12 percent in 2002, then to nearly 14 percent by 2004.”

One economic impact on office buildings from the Sept. 11 World Trade Center disaster is increased commercial property insurance, and possible exemptions for terrorist attacks. Congress is working on a bill which would commit the government to cover 90 percent of losses from another major terror attack, with insurance companies paying the rest. As cited in *The Argus* (11/30/01), “Companies that write policies protecting property were hit hard by the Sept. 11 attacks, with losses estimated at \$30 billion to \$70 billion. The industry remains healthy overall.” One week later, in the *Tri-Valley Herald* (12/6/01), “Many insurance companies are raising prices far beyond what is warranted by the impact of the Sept. 11 attacks, a consumer group said Wednesday as Congress considers helping the industry.”

Anthony Downs, wrote in the *National Real Estate Investor* (December 2001), “Despite events of Sept. 11, industry will prove resilient...what’s in store for skyscrapers? We already are seeing an unwillingness of big businesses to concentrate large numbers of employees at single locations on the higher floors of super-tall buildings. Occupancy rates for all types of tenants above the 50<sup>th</sup> or 60<sup>th</sup> floors will decline, and rents for those floors will fall. Many large firms may decide to divide their key personnel into smaller groups dispersed around a region or in several regions. I believe this will prove to be more than a temporary change in strategy among large firms.”

Wow, from power famine to feast...31 proposed California generators which would add more than 3,200 megawatts (enough to power 3.2 million residents) may be put on hold due to three recent events. First, California learned how to conserve in 2001, secondly, new plants are already coming on-line, and thirdly, the entire power shortage may have been an illusion...

According to Marty Wilson, president of CIC Construction ([www.cicassociates.com](http://www.cicassociates.com)), a San Francisco Bay Area tenant contractor, Fast Tracking can add 7 to 10 percent to the overall cost of a tenant improvement job due to extra shifts, expedited delivery, accelerated but less-efficient phasing and other construction aspects avoidable with sufficient lead-time and proper planning. As an example, on a 50,000 sf TI job this additional cost could be \$150,000, which could have otherwise been used on tenant upgrades, amenities, etc.

At [www.officetimes.com](http://www.officetimes.com), our February 2002 featured articles include: 2002 Predictions For The Office Market, A Discussion Of Why The Office Market Might Not Turn Around Until 2004 (or later), and Disaster Recovery 2002 and Beyond.

One sometimes overlooked but extremely critical component of a corporate disaster recovery plan: Having multiple copies of the plan on several off-site locations so that if the corporate office and/or several key individuals are inaccessible, the plan can still be carried out. What about a password-protected internet site as well?

According to [www.youcanworkfromanywhere.com](http://www.youcanworkfromanywhere.com), on October 23, 2001, the International Telework Association and Council released its annual survey, sponsored by AT&T: 17 percent more adults telework from home or satellite center than reported in 2000; two-thirds of teleworkers surveyed expressed increased job satisfaction, 80 percent feel a greater commitment to their employer’s, 75 percent of home workers reported a quantifiable increase in productivity and work quality! Sure, this source is biased, but every teleworker I know reports the same positive feedback...

In the December 2001 report by Kenneth Rosen and Jeanine Kranitz (Rosen Consulting Group) titled “The Bay Area Recession: How Long and How Deep?” “The Bay Area, defined as the San Francisco, San Jose, and Oakland metropolitan areas, has experienced large net job losses, soaring vacancy rates, and falling rents during 2001...We expect the Bay Area recession to last a year longer than the national recession because of the severity of job losses relative to the employment base in the area. Bay Area real estate markets will experience steeper rises in vacancy rates and more pronounced declines in rental rates and prices than the U.S. average as tenants correct over-absorption and strong construction activity adds significantly to supply in the face of weak demand.” This is a very detailed report and if you’d like a copy, please contact Rosen Consulting Group, at [www.rosenconsulting.com](http://www.rosenconsulting.com).

IBM and Steelcase have teamed to develop a cubicle that uses sensors and wireless devices to make sharing information more effective. Called BlueSpace, the partially open desk area would let users control their lighting, heat and privacy. Information

projected onto walls, desktops or the floor could be changed with a finger used like a cursor. The design is aimed at people working together to develop ideas or products.

The past 60 days have continued to be exciting times for Jordan Weil, now 4½. In December he went on his first mountain snowmobiling trip in the Sierras above Lake Tahoe, and last month Jordan flew with his family to New Mexico where he went to school to learn to ski on the awesome Taos terrain (9,000 foot base elevation). I had butterflies watching him ski down the mountain all by himself (nice, slow snowplow turns). Jordans' latest adventures can be viewed at [www.officetimes.com/JordanFeb.2002.htm](http://www.officetimes.com/JordanFeb.2002.htm). Coming back home reminded me once again how awesome we Americans have it, with freedom to travel, an incredibly beautiful country, and an economic system that allows most of our population such variety of where and how to live, travel, be educated and in general, get as much out of life as we choose. Compare this with most of Asia, South America, the Mid-East, Africa and Eastern Europe, and you know we are truly blessed to be who and where we are. Have a safe, healthy winter, and feel free to send me any comments at [jweil@colliersparrish.com](mailto:jweil@colliersparrish.com).

Sincerely,

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