



Almost all of the office sector industry experts seem to agree that the worst is past and that we are near or at the bottom of the market. What is still up for debate is how long we will bounce along the bottom, and what kind of recovery will we have for the office market. There will always be market subpockets like downtown Palo Alto where the office vacancy rate may be close to 2 percent and rental rates are hitting \$70/rsf per year, or on the other end of the spectrum, there are still office submarkets challenged by 30+ percent vacancies and a dearth of real prospects. You want my opinion? Well, first of all, thank you for asking! (Ya gotta smile at a guy who talks and writes to himself ...) This office recovery will be far from robust for a number of reasons: **Shadow space** – companies have 5 to 20 percent of office facilities still vacant from past layoffs or unfulfilled growth expectations and either lease terms or layout configurations make downsizing a costly alternative. **Corporate downsizing** – the worst is past and yet I am aware of several unannounced major corporate layoffs which will add significant blocks of Class A office space so expect this trend to continue, albeit at a much slower pace than in the past. **Offshoring** – not to be redundant from past comments but do you think that Corporate America will be bringing back, anytime soon, any of the millions of jobs they have sent overseas to India or the Philippines? Do you think this will also increasingly affect small and medium businesses in varying ways of reducing costs by transferring functions through intermediary coordinators offshore? Do you think America's future labor laws or legal system will make it easier to immediately terminate employees or avoid hefty severance costs? **Technology** – how many administrative or middle management positions have been reduced or eliminated due to Android or iPhone capabilities? **Cloud computing** – where corporate America offloads at least part of their IT infrastructure to third-party services will lessen the demand for office space currently housing those functions. **Workforce mobility** – In a recent Gensler 2010 Annual Report "Leading global companies based in the U.S. are embracing mobility worldwide, with a high-tech workspace per person target of 50 square feet. The 10' x 10' workstations of the 70s which shrank to 10' x 8' in the 80s and 8' x 8' in the 90s are now headed to 8' x 6' for this decade. Entire start-up companies run their entire operation without any physical "office" space, using technology to link their employees and workflow." **Fear** – while many companies have grinded their way painfully back to profitability, the world has changed – whereas in the past the small business owner might be able

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to go to his banker in a pinch to ride out tough times, those days may be over with bank loans available mostly to those who don't need them. Big corporations flush with cash are acquiring other companies or just stockpiling more cash, and see these as better strategies than hiring new employees. It seems while most think the worst is over, it still may take decades to undue emotional feelings of how we felt watching the stock market crash, our business and personal net worth disappear overnight, and in cases like commercial real estate, 40 to 50 percent of valuation just vanish. Lastly, we are lacking a new technology or "**New Big Thing**" – no dotcom boom to suck up office space, no new industry like software or computers, and green technologies has not had the huge appetite for office space. There are only so many Googles and Facebooks to go around ... for lots more on this last topic, check out my daily commercial RE blog at [www.blog.officetimes.com](http://www.blog.officetimes.com). Click on the "subscribe" button so it is delivered to you daily.

At a recent presentation to the Bar Association, I offered links to a number of articles and market reports, such as new design and layout trends for law offices, the latest market reports on office, retail, industrial and investment real estate and more. You can download any of these by going to <http://officetimes.com/ccbar/ccbar2011.htm>.

For those of us in the office leasing industry it is interesting to see the size of the firms for some of our market segments ... for law firms, according to the American Bar Association, most U.S. law firms are small, with 76 percent having between two to five attorneys, 13 percent from six to 10 attorneys, and only 5 percent having more than 20 attorneys as of 2000. Let me know if you hear of a more recent report on this or what these same statistics are for CPAs ...

In *Business Facilities* (October 2010), "This year's Business Facilities Biotechnology Strength ranking illustrated that this red-hot growth sector is showing no signs of slowing down ... California, the undisputed birthplace of biotech, has successfully defended its crown as the heavyweight champion, remaining home to more than a third of the nation's leading biotech firms and continues to leverage its huge university system, moving forward with the establishment of a network of world-class genomics labs."

Recent news reports tout retail sales being up, and one Associated Press headline even predicted that CEOs were ready to hire ... with which I agree, but in discussions with corporate executives from around the country, new hiring will be conservative and meaningful ... there were a lot of layoffs leaving positions that may not be filled in the near-term and some positions that due to technology, offshoring, change of business efficiencies, etc. that may not be needed moving forward. There is also some degree of uncertainty as to the longevity of the current recovery. As the CFO of American Woodmark, Jonathan Wolk commented in the December 2010 *CFO*, "Companies like ours want to see the whites of the recovery's eyes before we hire."

*Deals and Rumors:* **Oakland** was comparatively hot these past 60 days, with FBI leasing 77,000 sf at 2101 Webster St. where Kaiser Foundation signed for 24,000 sf; U.S. Dept. of Agriculture taking 18,000 sf at 1333 Broadway; Continuing Education of the Bar leasing 24,000 sf at 2100 Franklin St. Next door in **Emeryville**, MedeAnalytics leased 26,000 sf at 5858 Horton St. and Scientific Certification Systems took 24,000 sf at 2000 Powell St. Northwestern Polytechnic University bought a 31,000 sf office/R&D building

at 47613 Warm Springs and Boehringer Ingelheim is buying the 100,000 sf R&D facility from Amgen in **Fremont**. Gurnick Academy of Medical Arts leased 11,000 sf at 1401 Willow Pass Rd. in **Concord**. HSBA will be relocating to 27,000 sf at 4160 Dublin Blvd., **Dublin**. In **San Ramon**, I helped sell a 10,000 sf owner/user office building to Dr. William W. and Flora H. Ting, and in **Pleasanton**, Crossmark leased 12,000 sf at 3875 Hopyard Rd.; CFOs leased 10,000 sf at 4457 Willow Rd. and Ericsson expanded to 41,000 sf at 6160 Stoneridge Mall Rd. Over in **Livermore**, Cool Earth Solar doubled in size to 26,000 sf at 4659 Las Positas. Across the Bay in **Menlo Park**, Facebook is rumored to be negotiating on the 900,000 sf former Sun Microsystems campus; Sheppard, Mullin, Richter & Hampton expanded from 13,000 sf to 30,000 sf. In **Redwood City**, Contractual leased 12,000 sf at 1000 Bridge Parkway and Genomic Health, Inc. expanded into 30,000 sf at 301 Chesapeake Drive and in **South San Francisco**, TOBI leased 60,000 sf of office and distribution at SFO Business Center. In **San Francisco**, Outcast Communications leased 21,000 sf at 123 Townsend St.; Adaptive Path took 18,000 sf at 1 Pier Ave; Federated Media leased 28,000 sf at 72 Townsend St.; Eventbrite leased 27,000 sf at 651 Brannan St.; ChemRisk signed for 17,000 sf at 101 2<sup>nd</sup> St.; Recommind leased 15,000 sf at 650 California St. and Macy's expanded by 28,000 sf to now total 100,000 sf at 685 Market St.

Oh, come on, where is the good news about jobs during this holiday period? In the *CC Times* (12/18/10) "Bay Area Shedding Jobs Again," with California currently saddled with a 12.4 percent jobless rate, the second worst in the U.S. ... during the past 12 months the state has added 12,400 jobs, which at the current pace will take California only 108 years to get back to where they were before the recession ... as Michael Bernick, with the Milken Institute stated, "Employment is not improving. Its clear private employers are cautious. They have no confidence in where we are going."

Going green in commercial buildings ... in a recent 2010 Green Building Survey, 75 percent of corporate respondents said lower operating costs are the biggest benefit of going green, followed by 39 percent who stated that tenant retention was the key factor. Only 5 percent cited a higher sale price ... The two biggest areas for energy-saving are lighting (84 percent) and HVAC systems (61 percent) ... In a number of cities such as San Francisco and Washington D.C. green building standards are being mandated. Rebates and tax incentives are still key, with 77 percent of corporate respondents saying tax incentives are most beneficial among enticement to retrofit, and 66 percent saying rebates and discounts on environmental products would help them out. *National Real Estate Investor* (Nov/Dec 2010)

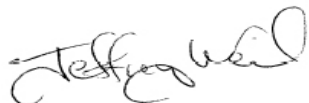
Commercial Mortgage Backed Securities (CMBS) ... "CMBS defaults ... has now cumulatively climbed above the 10 percent mark ... new loan defaults year-to-date are already at \$21.66 billion and have already surpassed the 12-month total of \$17.75 billion for 2009. Assuming two years-plus since the technical end to the recession in June 2009, that could mean defaults continuing to crest well past the midpoint of next year, especially as the jobless rate is expected to remain high into 2012." *Real Estate Forum* (November 2010)

New technology using light-emitting diodes in a standard light fixture that transmits data to specially equipped computers on desks below by flickering faster than the eye can see ... and opening up new expressways for short-range communications ... this LVX System allows workers to connect to the Internet wirelessly .... but for some reason, I flash back on some of the scary movies from the past where the flickering lights meant evil things were about to take place ...

Jordan, my 13-year-old son, finally grew taller than me, which seems to be a trend among his and my peers. Of course, now I can finally wear his cool clothes ... After eight seasons of Little League and soccer, Jordan has focused on lacrosse and joined the Diablo Scorpions. He is also training for a 370-mile road bike trip this summer he and I are doing with his Boy Scout Troop, as well as a 50-mile Scout backpack adventure in Yosemite, which is supposed to be spectacular. Jordan, with 31 merit badges, is still working on completing his last three required badges and his Eagle project. Madison will start her 4<sup>th</sup> season of girls softball shortly, is in Girl Scouts and is practicing piano. Her big hobby now is self-recording musical videos and uploading these to YouTube to share with her second grade friends. See their adventures on the website at <http://officetimes.com/2011/Feb2011/JMFeb11.htm>.

"I try to end these newsletters on an upbeat note, but with the war, recession, credit crunch and some of my favorite fellow brokers and developers leaving the industry, it is sometimes a challenge to be cheerful." This quote is, of course, from me, but way back on February 1, 1991! And on October 1, 1991 I wrote, "A number of very experienced brokers and developers with 40 – 50 years in the business tell me we are in a real estate depression, the worst since the Great Depression. People keep asking me when it will end. My answer is, when you open the daily paper and start seeing consistent job hirings instead of massive layoffs." Sometimes the more things seem to change, the more they just stay the same. Talk about history repeating itself! One thing that may not have stayed the same over these past 20 years is our physical bodies, so please all of you out there, take good care of yourselves so we can laugh about today in my February 1, 2031 OfficeTimes newsletter!

Sincerely,



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# Newsletter

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