



I am one of the few 100 percent tenant rep and owner-user sales specialists still in business. The majority of commercial brokers primarily represent landlords as well as tenants. Low rents and lots of tenant lease concessions may be great for my clients who are ready and able to commit to new leases or lease extensions but I would much prefer to be in a market where client business was booming, job growth was positive, and companies were looking for increased market share versus simply on how to best survive this Great Recession, even with higher rents. In preparing for an office tour, for example, 15,000 square feet and up in the Tri-Valley East Bay region, there more than 85 available office spaces from to choose. With my client's guidance we preselect the best 10 to 15 to tour, and then I have to deal with calls from other brokers on why we didn't tour their space. I would imagine in many industries, today's sales process is far more extended than in past years. Tour after tour, counter-proposal after counter-proposal and in today's market, the prudent tenant may be asking for the landlord's financial statements and equity position in the building. Investors who bought at the height of the market in 2005 and 2006 at 5 percent cap rates are watching the same investment property retraded today at an 8.5 percent cap rate, which represents a 40 percent discount but those few investors either with all cash or access to scarce commercial real estate financing have the negotiating upper hand when a property must be sold. Those of us long-time professionals just keep our eyes and ears open to be proactive in helping guide our clients through this lengthy economic minefield. What is the alternative?

The Swine Flu outbreak reminded me of the BOMA and other preparation reports done following the Sars outbreak five years ago ... For articles and links on how best to prepare as an office building manager, tenant or landlord please go to: www.officetimes.com/PreparingForAPandemic.htm.

How is the stimulus package actually affecting real corporate America? Just take a look at recent headlines ... Avigen plans to liquidate the biotech company assets ... Google's 200 layoffs biggest yet ... Agilent laying off 2,700 ... GM says 7,500 hourly workers decide to leave ... The New York Times is laying off 100 people ... Jobless claims set new record for the 10th straight week ... and this is just one day's headlines from one local newspaper ... So I guess Corporate America hasn't been "stimulused" quite yet ... I know in my

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conversations with local company presidents this past week that several have told me they had just laid off most of their employees (i.e. one engineering firm had 30 engineers last year and is now down to eight) so I guess the rubber hasn't met the road yet ...

Outside Magazine (one of my personal favorites) highlighted 30 best places to work including Clif Bar, which came in third and provides its 226-person staff such perks as an in-house gym and 2½ hours per week of paid workout time; Mountain Hardwear “came in 19th for extras like the kayak launch pad that gives its 97 employees in Richmond a chance to paddle into the bay” (would that be “on” the bay versus “into” the bay?); and Fitness Anywhere, ranked 22nd and called a “kid-and dog-friendly office” and gives plenty of exercise opportunities to its employees, *San Francisco Chronicle* (4/19/09). I would imagine all the commercial banking “work-out” departments probably don't count as exercise.

One scary economic forecaster who unfortunately has been right more than he has been wrong ... Ken Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at UC Berkeley (where for a number of years I guest-lectured for both the undergraduate and graduate schools) is predicting that unemployment will increase from 8.5 percent to at least 10 percent by the end of the year, that the "great recession" will probably persist until the middle of next year followed by a long and anemic recovery, and that millions of looming job losses will continue to increase residential and commercial property delinquencies and foreclosures. Rosen also thought the government stimulus had a 20 percent chance of upgrading the recession from deep to moderate, but there is also a 10 percent likelihood that the economy could fall into an outright depression. He believes climbing vacancies and softening rents could raise commercial real estate delinquencies, now at around 1.3 percent, to between 20 to 25 percent (no, there are no decimal points missing) if the credit crunch doesn't end. He estimates that office values are already down 35 to 45 percent ...

Greener Leases – “A green lease is just a term for a lease agreement that takes into account sustainability goals that the landlord or the tenant might have and/or the inherent green attributes of a building ...” says Aleka Eisentraut, attorney at Wendel, Rosen, Black & Dean in Oakland, “... a green lease removes the hindrances to: Reducing energy, water and raw-materials consumption commonly found in a commercial lease; Increasing recycling and the use of sustainable materials in tenant improvements; Encouraging sustainable practices by the landlord and the tenant ... Turning existing leases into green leases is possible, but it can be difficult. Multi-tenant buildings can also pose challenges to implementing green leases; leases come up for renewal at different times, tenants are moving in and out, etc. The easiest way to introduce green leases in these situations is to start with the first tenant. But that's not always realistic.” Check out BOMA's Guide to Writing a Commercial Real Estate Lease, including Green Lease Language with instructions to help building owners and managers write green practices into lease agreements. *Buildings* (March 2009).

“Nearly 60 percent of companies have made layoffs in the past year, and more than 50 percent of respondents say they plan a workforce reduction in the next 12 months. The anticipated layoffs – expected to average about six percent of a company's workforce – represent some 7.6 million jobs, according to Campbell Harvey, international professor of finance at Duke's Fuqua School of Business,” *CFO* (April 2009). And as recently as May 7, 2009, a report from Zillow found that 22 percent of all residential property owners owed more than their homes were worth, and Zillow's VP of data Stan Humphries said, “You are going to continue to see home prices fall for the

rest of this year and some portion of next year,” *Contra Costa Times* (5/7/09). So business and residential sectors are still headed south, dragging down with them commercial occupancy and rental rates – and more and more reports are popping up about an impending tsunami of commercial real estate loan defaults as more than \$400 billion in loans mature this year, more than \$800 billion between now and 2011, almost no commercial refinance money anywhere, and with falling rents and falling values, and lenders increasing their equity to loan ratios, the perfect storm is rapidly approaching. OK, no more negative news the rest of this newsletter!

Deals & Rumors: Let’s start in Southern Alameda County for a change ... In **Newark**, Modular Technologies leased 79,000 sf, and in **Fremont**, AnaSpe took 44,000 sf at Ardenwood, relocating from San Jose. Farther north in **San Leandro**, the Regional Center of the East Bay leased 67,000 sf at 500 Davis St. In **Oakland**, Kema took 35,000 sf at 155 Grand Ave.; Itron leased 23,000 sf at 1111 Broadway, Livescribe is rumored to be looking at a large expansion from its Oakland Airport location, and American President Lines is trying to unlease (i.e. sublet) 116,000 sf at 1111 Broadway. In **Pleasant Hill**, John Muir is rumored to be looking at 19,000 sf at Hookston Square, and in **Walnut Creek**, Children’s Hospital just purchased its 80,000 sf office building at 2401 Shadelands and Edificio bought a 16,000 sf office building being converted to medical at 450 N. Wiget Lane. In **Livermore**, LAM may be unleasing 120,000 sf of R&D space it just moved into a year ago at Shea, and in **Dublin**, Calpine Corp. leased 16,000 sf at 4160 Dublin Blvd. while Canon Business Solutions sublet 14,000 sf at 6723 Sierra Court. Across the hills and over the bay, Ring Central leased 13,000 sf at 999 Baker Way, and Gazillion Entertainment leased 50,000 sf at 475 Concar Drive, both done in **San Mateo**. In **San Francisco**, Trulia took 10,000 sf and Workshare Technology leased 16,000 sf, both at 208 Utah St., the FBI is looking all over the Bay Area for its San Francisco regional headquarters requirement of 215,000 sf; the U.S. EPA is out in San Francisco for 300,000 sf; HDR Engineering leased 12,000 sf at Market Center, where Real Girls Media Network took 12,000 sf and Tetra Tech leased 11,000 sf; Reed Smith may be signing for 100,000 sf at 101 Second St.; and EMG Mortgage leased 12,000 sf at 22 4th St.

“Results of the 17th Annual Survey taken by members of the Washington, D.C. based Association of Foreign Investors in Real Estate indicate that a building with green attributes is worth a greater rental premium. Foreign real estate lenders said they plan to increase lending by 54 percent globally, and by 58 percent in the United States. The survey also listed Washington D.C.; New York City; San Francisco; Los Angeles; and Houston as the top five U.S. cities for real estate investment dollars. Respondents said that, on average, at least 45 percent of their portfolios are invested in U.S. real estate,” *Buildings* (March 2009). And isn’t Washington, D.C. currently the financial capital of the U.S.?

Robot droids are slowly taking over warehousing jobs; robotic “drive units” organize and deliver shelves of goods, navigating via barcodes stuck to the floor and commands from a central server. Kiva Systems, the company that created them, is working with Staples and Gap so expect to see more of these invade the workforce, *Wired* (April 2009). Visualizing commercial real estate of the future, will there be office leasing droids touring real estate director droids around the market?

With massive layoffs causing remaining employees to pick up the workload and taking on more responsibilities and duties, consider improving ergonomics by replacing static workplaces with a height adjustable surface and looking for other cost-effective ways to make work easier for those

overworked remaining employees. For more information, go to www.workriteergo.com. *Today's Facility Manager* (March 2009)

Unoutsourced in India ... Delta Air Lines no longer forwards its calls to India as customers have complained for years about the difficulty of understanding the call center agents. Foreign call centers remain in Jamaica and South Africa, *San Francisco Chronicle* (4/18/09). A recent article "Outsourcing" in *CFO* (March 2009) might be worth getting your hands on if you have concerns following the recent Satyam Computer Services scandal – nearly 200 Fortune 500 companies did business with Satyam – "Experts predict that recent events will spur more comprehensive scenario planning regarding potential offshoring vulnerabilities, including performance problems, power outages, terrorism and fraud ... Outsourcing experts urge finance executives to get more involved in a decision-making process that is often left to their technology-minded counterparts. Diversify, spreading outsourcing risk among several service providers. Do more due diligence. Update contracts. Know the Exit Signs."

"Workplace theft is a huge problem; according to a survey by CNN, it's the cause of failure for one in three businesses," says Joe Mac McConnell, vice president of small business at ADT Security Services ... And, alarmingly, the U.S. Chamber of Commerce estimates that 75 percent of employees steal from the workplace, and that most do so repeatedly. (note: somehow I find this stat hard to believe – Jeff). Tips for a safer workplace: Keep your purse, wallet, keys etc. with you at all times or locked in a drawer or closet; check the identity of any strangers who are in your office – do not allow visitors to be alone in your office space; be discreet – don't advertise your social life or vacation plans to people visiting or calling; don't use the stairs alone; don't get into elevators with people who look out of place or behave in a strange manner; don't work late alone – create a buddy system – never open the door to a stranger after hours, *Buildings* (April 2009).

"Historically, termination clauses are exercised relatively rarely because businesses are expanding and the cost of exercising the option may still be significant. A study in the United Kingdom indicated that nearly 80 percent of termination clauses were not exercised," *Real Estate Forum* (February/March 2009). It does seem that even with a termination option, timing becomes problematic – for example, if you have the right to terminate a seven-year lease at the end of the fourth year with a one-year written notice, this means you will know three years into the lease that in one more year you won't be needing the space. In a perfect world this is terrific but in our real imperfect world, the termination option window rarely lines up with the tenant's actual needs. Landlords usually do not like these options as lenders may view the lease term only up to the termination point. If the landlord has other opportunities such as an expanding tenancy elsewhere in the project who could utilize this space if it were actually available, the landlord's hands are tied until this termination option window has passed.

"The U.S. Green Building Council has updated its LEED green building rating system to reflect increasing global concerns over climate change and the fact that environmental issues, just like real estate itself, are tied to location ... For example, buildings located in more arid areas might receive extra credits for water conservation," *Realtor* (March 2009).

Jordan just turned 12 last week, and Madison is 7 at the end of August. Jordan had a great season playing Majors little league with the A's, and life doesn't get much better than watching two great teams battle on a Saturday afternoon with temperatures in the 80's and beautiful Mt. Diablo looming above the playing field as the backdrop. At this level the boys are quick, stealing bases, sliding, slick double-plays and the occasional leaping catch that turns players into heroes. I manage a girl's softball team, all 5 and 6 year olds, and cute is an understatement! Sometimes the ball rolls between the pitchers legs, then through the 2nd baseplayer's legs, and then through the centerfielder's legs before traveling on into the outfield. The key factor here is fun, and the smiles and laughter of these girls is something to treasure. Stimulus shimulus, stock market, what is that!? Kid's sports takes you into another place, the games are over far too soon and reality is ever-looming over the horizon, but I think I have smiled and laughed more during these periods than any positive announcement from Wall Street. Jordan and Madison's recent photos are here: www.officetimes.com/2009/June09/JMjun09.htm.

Please call me if I can help in any of your commercial real estate needs – if it isn't something I specifically do, with 33 years of networking I can almost always recommend the right agent anywhere, any size, any commercial property type, who can do the best job.

Thanks and have a great rest of Spring!

Sincerely,

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