



Corporate Office Perspectives

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I recently wrote an article titled “The East Bay office market is in balance (temporarily)” published in the May 12, 2006 *East Bay Business Times* www.officetimes.com/EBOfficeMarket.htm. In general, throughout not just the East Bay, but much of the Bay Area, both office landlords and tenants feel the market is in their favor. Landlords point to lowering vacancy rates, rising rents and lack of new product in the horizon, and believe it is now a landlord’s market. Office tenants point to the millions (or in the case of San Jose, tens of millions) of square feet of available office space, recent downsize announcements whether it be Sun, HP or AT&T, and still maintain it a tenant’s market. In my opinion, both sides are correct, and we are balancing on top of the landlord/tenant negotiating fence after spending the past four to five years solidly in a tenant’s market. Smart landlords are still aggressively pursuing lease transactions, and if it still takes free rent or extra TI’s to secure a tenancy, this may well be financially better for the landlord than to sit on vacant space for another 12 to 24 months to get a higher rental rate. For the first time since dotcom days, I find myself increasingly competing on behalf of my clients for the same space another tenant is pursuing, and recently I’ve run into multiple other brokers touring the same space with their different clients. It is only a matter of time before the pendulum swings more firmly into the landlord camp, but until then we are in a balanced office market.

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How much of a factor are tax incentives in luring corporations to a particular state? According to corporate real estate executives and their advisers, tax breaks have a negligible impact on where a company sets up shop. A survey conducted last year by CoreNet Global and Northwestern University with a cross sampling from NAIOP, bears out that assertion. After polling 107 companies, the top three factors in location decisions were rental rates, on-site employee parking and availability of skilled or trainable workers. State and local tax incentives ranked 12th and 13th, respectively. *Real Estate Forum* (March 2006)

New technology innovations in video surveillance called Video Content Analysis allows computers to interpret shapes seen in the video image and understand what they are. They can tell when a person enters an area designated as restricted, if people are loitering in the area, or moving in the wrong direction. *Today’s Facility Manager* (March 2006) Next the cameras will be programmed to spot brokers canvassing existing tenants ...

It's not all bad news for the U.S. ... "The United States overtook Singapore as the No. 1 country for the development of information and communications technology, according to the "Networked Readiness Index" from the World Economic Forum. The report highlighted the technical infrastructure and business environment in the United States, as well as its technological innovation, higher education system and the availability of venture capital. The index of 115 economies is based on a survey of business executives." *Expansion Management* (2006)

The future of offshoring and its impact on U.S. office space: "...officials revealed that a \$3 billion semiconductor plant, known as Fab City, would be built in rival Hyderabad (India). The plant is expected to house more than 200 companies and employ 1.5 million people, and will be the first modern semiconductor plant in India." *San Francisco Chronicle* (5/7/06) Using a rate of 200 square feet per employee, this translates to 300 million square feet of R&D space. Impact on U.S. – if fab jobs are offshored due to this, availability of former U.S. fab plants that are convertible to office space – 300 million feet of new construction is a lot of concrete, so continued high prices in U.S. for construction materials.

Deals & Rumors: Starting with **Emeryville**, which after the dotbomb in 2002 had a nickname of Emptyville is now Excitementville, where Leapfrog just expanded by 35,000 sf at 6401 Hollis St.; Electronic Arts leased 11,000 sf at Heritage Square; Pixar leased 20,000 sf at 1250 45th St. and Backbone Entertainment took 15,000 sf at 1375 55th St. Over in **Concord**, I represented First American Title Company in a 22,000 sf office lease extension at 1355 Willow Way, while another First American division will be downsizing from 21,000 sf and relocating to 15,000 sf at 1855 Gateway Blvd. Over the hill in **Pittsburg**, I represented GWF in their 17,000 sf office lease renewal at 4300 Railroad Ave. Along the I-680 corridor, T-Mobile is out looking for 75 to 90,000 sf; North American Title is hunting on the North portion of I-680 for 20,000 sf, as are GMAC and Safeco Insurance, each for 18,000 sf, and down in the **Pleasanton/San Ramon** area, Innovative Claims Solutions is out for 13,000 sf. In **Point Richmond**, Transoral Pharmaceuticals leased 12,000 sf at Point Richmond Tech Center. Over in Alameda FKI Logistex leased 21,000 sf at 1650 Harbor Bay Parkway. Just across the Bay in **San Rafael**, Autodesk leased 29,000 sf at 4040 Civic Center Drive, and in **Novato**, BioMarin Pharmaceuticals bought a 70,000 sf building at 46 Galli Drive. In **San Francisco**, the City and County of San Francisco leased 19,000 sf at One Market St.; where Capital Group leased 93,000 sf, Salesforce expanded by 37,000 sf and Duane Morris expanded by 31,000 sf; Method leased 23,000 sf at 637 Commercial St.; Cowen & Co. took 29,000 sf at 555 Calif. St.; SEIU Local 790 will be moving to 25,000 sf at 350 Rhode Island; GUBA leased 12,000 sf at 1 Front St., where in the same building FTI Consulting took 37,000 sf; Davis Wright Tremaine leased 30,000 sf at 505 Montgomery St.; Autodesk signed for 46,000 sf at One Market St.; Skadden, Arps, Slate, Meagher & Flom committed for 36,000 sf at Four Embarcadero; Baker & McKenzie took 40,000 sf at Embarcadero Center, Morrison & Foerster leased 48,000 sf at 555 Market St.; Duff & Phelps sublet 10,000 sf at 345 Calif. St.; MindJet took 47,000 sf at Levi's Plaza One, 1160 Battery; at 275 Battery West O'Melveny & Myers expanded by 23,000 sf, MKThink leased 20,000 sf at 1500 Sansome St.; and Brydon Hugo Parker took 20,000 sf at 135 Main St. (Whew!) Down the Peninsula, in **Redwood City** U3 Inc. leased 21,000 sf and SurgRx Inc. took 30,000 sf at 101 Saginaw Drive. In **Foster City**, Honeywell International took 10,000 sf at 353 Vintage Park Drive, The O'Brien Group leased 11,000 sf at 950 Tower Lane, and Latham & Watkins will be expanding from 58,000 sf to 80,000 sf in **Menlo Park**. Lots more deals in the works so stay tuned!

According to Hugh Kelly in a recent article titled “Defying the Speculation Bubble Theorists” in the *Society of Industrial & Office Realtors* (Spring 2006), the United States has a Gross Domestic Product of more than \$12 trillion, a workforce of 150 million, more than 4 billion square feet of Class A and B office space and more than 12 billion square feet of industrial space. Now you are ready for playing the next game of Trivial Pursuit, commercial real estate edition ...

Contradicting reports on offshoring abound: In the same newspaper, *East Bay Business Times* (4/7/06), one headline reads “Higher costs, old woes erode offshoring savings ... Higher wages and staffing competition has hit India’s outsourcing centers. These problems, added to the difficulties of moving vital business functions halfway around the globe, are making other locations around the world increasingly attractive.” Then on the very next page, different story, “Apple Computer Inc. is setting up a technical support center in Bangalore, India ... Apple will hire 1,500 people to staff the technical center by the end of the year, and have 3,000 staff at the end of next year.” And the next article: “U.S. security software maker McAfee Inc. has announced plans to invest \$80 million in India and hire 400 people by 2008 in a bid to expand operation in the world’s outsourcing hub.” What, don’t they read the papers?

Interesting San Francisco Bay Area office market, with large blocks of space coming onto the marketplace like Oracle’s rumored 800,000 sf of prime office space in San Mateo or Sun’s 1.2 million square foot Newark office campus coming available, and yet when large office opportunities like these have hit the market, more often than not we have had multiple users vying for the same space. I remember a few months ago as I was driving to tour a client through a 75,000 sf sublease that had just hit the market, the listing agent paged me and told me that even though the space had only been on the market for a few days, they had a subtenant prospect far enough along to cancel my tour. The 370,000 sf PeopleSoft Pleasanton office campus was rumored to have more than 25 bidders competing, so many of us in the business aren’t too worried about these upcoming large office availabilities.

Mobile office redefined (for the executive on the road with an unlimited budget) – Becker Automotive Design provides a customized private office with a 32 inch PC screen, soundproofing, window curtains, wireless internet, and lots of other bells and whistles in this \$250,000 Ford Excursion conversion ... and if you have to ask what the gas mileage is, this office is not for you ...

“Job Market ‘best in years’ ... the Bay Area job market is strong enough that employers are poised to hire more people than at any time in the past five years, and some companies have begun to wrestle with shortages of qualified workers. Of the roughly 500 chief executives and top executives surveyed, 43 percent said they plan to increase their Bay Area work force in the next six months. Just 8 percent plan job cuts, and 48 percent intend to maintain current staffing levels.” *Contra Costa Times* (5/18/06) And of course, this will translate into increased demand for additional office space ...

Offshoring update: “For many years, the outsourcing favorites were in Asia. India, China, the Philippines, Singapore and Malaysia still top the list. But Eastern European countries such as Bulgaria, Romania, Slovakia and the Czech Republic are quickly gaining steam by playing up a newer twist – “nearshoring,” which essentially shifts work from the United States and Western Europe to countries with less expensive labor that are closer than Asia.” *San Francisco Chronicle* (5/16/06)

“After three straight years of dropping vacancy rates and rising rents, developers are quietly lining up to join San Francisco’s next wave of office construction ... Charles Malet, director of leasing for Shorenstein said the office market “is getting pretty close” to justifying new spec construction. He said the company has not made a decision yet on whether to proceed without an anchor tenant.” *San Francisco Business Times* (4/7/06) There are also several East Bay office developers blowing dust off development plans that were shelved after the 2001 dotcom crash. New construction costs have escalated dramatically during the past 18 months, both for the building shell as well as tenant improvement costs in general. Price escalations of 20 to 30 percent in just the past year are blamed on demand in China, India, the Katrina rebuilding, the spiraling cost of gas and even the industry-specific frenzy currently going on with the health care new construction and hospital earthquake retrofit. Timing is everything ... the developer who picks the perfect starting date to be completed when rents have escalated into profit stratosphere looks like the genius, while the ones who build too early or too late get caught in the wrong part of the curve ...

According to *Expansion Management* (January/February 2006), the top “Knowledge Competitive” economies in the world are as follows: #1 San Jose, Calif.; #2 Boston; #3 San Francisco; #4 Hartford, Conn.; #5 Seattle; #6 Grand Rapids, Mich.; #7 San Diego; #8 Stockholm, Sweden; #9 Rochester, Minn.; #10 Los Angeles. The World Knowledge Competitiveness Index (WKCI) is a benchmark of the knowledge capacity, capability and sustainability of 125 regions around the world, and the extent to which the knowledge is translated into economic value and transferred into the wealth of the citizens of these regions. It utilizes 19 knowledge economy benchmarks, including employment levels in the knowledge economy, patent registrations, research and development investment by the private and public sectors, education expenditures, information and communication technology infrastructure, and access to private equity.”

A recent article on security in *Buildings*, February 2006, “Security: A Blueprint for Reducing Risk,” “Building owners are not expected to guarantee the safety of their tenants, visitors, and guests, but they are required to exercise reasonable care to protect them from foreseeable events. Courts are imposing increasingly higher duties on building owners and managers to protect tenants,” notes Stephen G. Bushnell, product director, real estate, for Fireman’s Fund Insurance Company. Here are the key elements: #1 Physical Systems: What systems do you have in place? #2 Operations: How are you applying the systems to effectively provide security? #3 Education and Training: Are you explaining security systems and procedures correctly to employees and tenants? Geoff Craighead, vice president Securitas Security, stated that in the last four out of five years 1,000 security directors listed workplace violence as the number 1 threat, ranking it higher than terrorism. “Look at your program and your building,” he says. “Assess potential threats in building and perimeter control, tenant and visitor access, package acceptance and mail delivery, security staffing and training, and tenant security awareness.”

The latest United States Office Overview prepared by Colliers International is available at www.office-times.com/USOfficeOverview.ppt. No big surprises, vacancies down, rents up, sublease space down, new office construction up 45 percent since Q1 2005, and cap rates continue downwards ... up, down, up, down, makes one dizzy ...

With the deluge Northern California experienced in March and April many of our nine-year old son Jordan's little league games were rained out and then rescheduled during the past few weeks. What a blur, with three to four games per week, practices, Cub Scouts and everything else kids are involved in ... his playoffs start the first week of June and then, POW, it's over, but now the soccer notices have started ... Our almost-four year old daughter, Madison, will be ready next year for cubbie girls softball and soccer, and on it goes. Many of my friends children are either in college or out with families of their own, and I hear it over and over, "Enjoy being involved with your children's activities while you can as it will be over far too quickly" ... Jordan and Madison's latest escapades can be viewed at www.officetimes.com/JMJune2006.htm.

With the sun finally shining and rain and snow an almost distant memory, have a great Spring transition into Summer!

Sincerely,

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