COLLIERS INTERNATIONAL

officetimes.com

Corporate Office Perspectives

June 1, 2007 Issue: 163

"After three years of steady increases, asking rates have started to jump at an accelerated rate in the first quarter of 2007, according to market reports. As of a week before the end of the first quarter, landlords in San Francisco's central business district ratcheted up average asking rates from $40 to nearly $42.75. If the trend continues for the rest of the year, the downtown core could see a 30 percent increase in 2007, with average asking rates hitting $50. The asking rates are the most aggressive in the most coveted portion of the 3.9 million-square-foot portfolio that Morgan Stanley is in the process of buying from the Blackstone Group, which bought it from Equity Office Properties. This includes the Accenture space at One Market St., which can be taken for $90 a square foot, and the top of One Maritime Plaza, offered at $100. Tove Nilsen, market research director at Colliers International, said she is preparing a study on whether owners are getting what they are asking. 'The asking rates and the effective rates are two very different things,' Nilsen. 'But so far it seems like they are getting close to what they are asking.' The Equity Office sale to The Blackstone Group resulted in the sale of pieces of the portfolio at significantly higher prices. 'New owners likely will increase rents to justify purchase price … But once the tower flipping stops, the office tenants most likely will end up creating the value for the new owners through higher rents. … Bob Safai, a principal with Madison Partners, expects rents to increase by 20 percent to 25 percent within 18 months on the Westside in Los Angeles to pay for the recent transactions. Those companies are not getting cash-on-cash returns until they increase the rents. In certain cases, in some submarkets, they can increase rents 30, 40 or 50 percent." *California Real Estate Journal* (April 30, 2007) I've also heard of building remeasurements for portions of this portfolio which have "grown" existing buildings by 10 percent or more, and will additionally increase tenant occupancy costs … *SF Business Times* (March 30, 2007)

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Commercial Real Estate Bubble? "There is a cap rate disconnect from interest rates caused by global liquidity, which is magnified by favorable debt terms." Brian Newman, who most recently co-ran Global Capital Investment, Merrill Lynch's multi-billion-dollar proprietary real estate investment vehicle, said. "You can manufacture a relatively high equity return." He pointed to real estate investment trust mergers and acquisition activity that has pushed real estate investment trust share valuations to all-time highs and capitalization rates that have dropped to an average 6 percent for all property types after averaging 8.5

percent for two decades. Newman said that many investors base their decisions on replacement-cost analysis, which is problematic as the cost of land, construction materials and labor have skyrocketed in recent years. “We’ve seen periods like this, where people justified high real estate with high replacement costs, and people have been disappointed,” he said. *California Real Estate Journal* (May 7, 2007)

Going Green: According to the U.S. Green Building Council (USGBC), there are currently 5,562 LEED–registered projects and 735 LEED-certified buildings in the Country; that compares to just 635 registered developments and 38 certified buildings a mere five years ago … One of the most recent and widely referenced studies in the field, Capital E (a clean energy advisory firm based in Washington, D.C.) 2003 “Green Building Certs and Financial Benefits” reported the average premium to build green was slightly less than 2 percent, or $3 to $5 per sf … Now there are over 35,000 LEED-accredited professionals … cost keeps coming down … the earlier green building features are incorporated into the design process, the lower the costs … Nationally, the average premium on standard LEED certification is between zero and 0.5 percent, LEED Silver is between 1 and 2 percent, LEED Gold is around 2 percent, and LEED Platinum is somewhere between 3 and 7 percent.” The federal government’s Energy Policy Tax Act of 2005 provides tax deductions for commercial developments and renovations designed to reduce energy costs by 50 percent or more; Maryland, Nevada, New York and Oregon all have some form of tax breaks for sustainable commercial development. Washington, D.C. and Boston have proposed mandates requiring adherence to sustainable design methods. Florida, California and Washington promote green building through the accelerated expedition of permit applications. *Real Estate Forum* (April 2007)

Commercial Color Trends for 2007: Buildings will look and feel more like home (comforting colors that feel truly warm, but never hot); “Green” Rules – softer botanical greens, blues the color of sky and water, neutrals like beiges, browns and tans, and bright accents, like deep, rich ethnic reds and warm glowing oranges. For more info, go to **www.colormarketing.org.** *Buildings* (December 2006)

Ralph Witherspoon, who is a security consultant, wrote two excellent articles, “Office Building Security” and “Parking Lot and Garage Security”, which are located at the following website, go to **http://officetimes.com/OfficeBuildingpknglot.htm**.

“Two years after its founding in Boulder, Colorado, Sirna Therapeutics Inc. picked up and moved to San Francisco in 2005. While most CFOs might have balked at the idea of relocating to one of the most expensive real estate markets in the country, Finance Chief Greg Weaver saw the move as critical for Sirna’s growth. “What we need to drive this company forward is to attract and retain the highest quality talent,” says Weaver. “We needed a large, biotechnology-specialized employee and executive pool.” According to a 2002 Brookings Institution Study, five metropolitan areas, Boston, San Francisco, San Diego, Seattle and Raleigh-Durham, accounted for 75 percent of the new venture capital invested in biopharmaceuticals between 1995 and 2001. Likewise, those areas received 74 percent of the value of research contracts from pharmaceutical firms, and 56 percent of the new biotech businesses formed during the 1990s … Tempting as incentive (state allocated) packages may be, they are rarely the deciding factor in where a biotech business decide to locate. A highly skilled labor pool is the most critical element in choosing a location, say many industry experts. “We could tell our scientist that we get a better deal to move to Iowa, and they say ‘Great, but I’m not going.’ Because certain locations have a 30-year head start in developing talent and financing networks, aspiring biotech meccas may be unable to close the gap.” *CEO* (December 2006)

North American Office Real Estate Highlights—First Quarter 2007, vacancy rates, rental rates, changes from last year, for 55 U.S. cities from Atlanta, GA to West Palm Beach, FL and everything in-between, see "*North American Office Real Estate Highlights*" at **http://officetimes.com/OfficeMarketInformation.htm**. Another "hot of the press" report is the National Association of Realtors *"The Commercial Real Estate Market Report"* at **http://officetimes.com/PressReleases/CommercialREMarketReport.ppt**.

Deals and Rumors: In **Walnut Creek**, I represented UFCW in the expansion and long-term lease for 30,000 sf at 1277 Treat Blvd., and next door at 1255 Treat Blvd. Portal Group Holdings sublet 16,000 sf. In **Concord**, Pipeline Systems expanded from 14,000 sf to 30,000 sf at 5099 North Commercial. Along the I-680 Corridor, currently there are a number of bargain-priced Class A 50-100,000 sf Plug & Play office subleases thanks to the subprime meltdown (please call me for details). In **San Ramon**, Novartis Pharmaceuticals leased 14,000 sf. Down in **Livermore**, Alloptic just inked a 27,000 sf lease at Shea Center. In **Downtown Oakland**, Bechtel leased 24,000 sf at 1111 Broadway, and in **Richmond,** the California Department of Justice leased 25,000 sf at 1003 Cutting Blvd. Crossing over to Marin at **Novato's** Hamilton Landing, Disney ImageMovers Digital is looking at 90,000 sf, and at the same project, Activision is reportedly looking at 12,000 sf, while Kaiser Foundation Health Plan leased 16,000 sf at 7200 Redwood Blvd. In **San Francisco**, Anshen & Allen Architects expanded by 12,000 sf to 43,000 sf at 901 Market St.; Bloomberg may have a LOI for 35,000 sf at One Maritime Plaza; The City and County of San Francisco might be purchasing the 508,000 sf One South Van Ness and the 132,000 sf 1650 Mission St. properties; Seismicom leased 15,000 sf at 525 Market St.; Babcock & Brown will be relocating to 155,000 sf at Presidio Letterman Digital Arts Center; Riverbed Technologies expanded to 80,000 sf at 199 Fremont St.; Cox, Castle & Nicholson sublet 29,000 sf at 555 California St.; Marsh & McLennan may have recently signed a LOI for 125,000 sf at 345 California St.; Majestic Insurance leased one floor at 101 California St.; Lockton Insurance is expanding into 25,000 sf at Two Embarcadero, and Hellman & Friedman inked 21,000 sf at One Maritime Plaza. In **Brisbane**, Shopping.com expanded by 14,000 sf to 37,000 sf at 8000 Marina Blvd. In **Redwood City**, Broadvision signed for 25,000 sf at Pacific Shores, and across the Bay in **Fremont**, Semicat, Inc. leased 22,000 sf at 47540 Seabridge Drive and Volterra Semiconductor Inc. is expanding into 57,000 sf on Fremont Blvd.

Churn – "The process of moving employees and assets – as individuals or as large groups. IFMA (International Facility Management Association) defines churn rate as the number of moves in a year expressed as a percentage of the total number of offices occupied. In the 2002 IFMA Project Management Benchmarks report, the main churn rate across the surveyed organizations was 41 percent. For example, if an organization has 2,000 occupants on site and a churn rate of 50 percent, this equates to moving 1,000 people each year at the site. If the average cost per move is $300 that is an expense of $300,000 per year. But there's more. That cost per move only takes into account direct costs. What about the indirect cost of the moved person's interrupted productivity? With a conservative estimate of four hours downtime and an average fully loaded cost of $50 per hour for an employee, this adds another $200 to the move. The cost rises to $500,000 per year, along with nearly Two person years of lost productivity! There are really two ways to combat the impact of churn: better strategic planning to reduce churn rates or better move coordination to reduce the financial and productivity impact of each move. Reducing churn rates is the best bet, since no move costs less than the move that is avoided through better planning. The problem is that most facility professionals get too caught up in the day-to-day challenges of managing moves and their other duties to produce and

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maintain a usable strategic plan. According to the 2002 IFMA Benchmark report, only 54 percent of organizations have a current, written strategic plan." *Today's Facility Manager* (March 2007)

Building Emergency Planning: "San Francisco-based Market Tools conducted a national survey of more than 500 tenants for Prepared Response, a Seattle developer of tenant safety systems for a variety of building types. While more than 70 percent of respondents said they've had emergencies in their buildings, over 50 percent said they did not know where their emergency plan was located, and 54 percent had never even looked at the plan. 'Preparedness is the key to saving lives and property during emergencies,' says Peter Lucarelli, retired assistant fire chief to the Los Angeles City Fire Department. 'It's paramount that property managers educate tenants about safety procedures and provide all occupants with a method to quickly access emergency procedures.' The survey results found that building owners don't always have comprehensive emergency plans … most of the drills conducted are fire drills (86 percent); while power outages represent 73 percent of all building emergencies, only 23 percent of surveyed buildings conduct drills focused on power outages." *Buildings* (April 2007)

Telecommuting: Some 9.5 million people telecommuted in the United States in 2006, up slightly from 8.9 million in 2001, according to research firm IDC. Another survey by CDW, a technology company, found that 33 percent of employees in the private sector and 75 percent of employees in federal jobs said they would be able to continue to work by telecommuting if a disaster closed their office. Businesses need to prepare by having plans for employees to keep working if they can't get to their offices. … Telecommuters have also started to take advantage of a new generation of Internet collaboration tools, such as Second Life, and web sites that allow multiple users to share and edit documents online. Cisco Systems developed TelePresence, so that users appear life-size on the screen and the participants sit around a single virtual conference table. JotSpot, acquired by Google earlier this year, uses wiki technology, much like that of the popular online encyclopedia Wikipedia, to allow people to make changes in documents as they work on projects online. Redwood City's Saba offers tools that let users edit documents online, brainstorm on a virtual whiteboard and draw diagrams. *San Francisco Chronicle* (May 6, 2007)

"The Trade-offs of Offshoring. Fortune 500 companies could save a combined $58 billion annually or $116 million per company, by offshoring many of the back-office activities currently being handled domestically, according to research from The Hackett Group. The strategic advisory forum found that companies could save $32 million a year in the finance department alone. However, Hackett estimates that the increased use of offshoring could affect 1.47 million jobs in the United States." *CEO* (December 2006) Of course, on the other hand with the low unemployment rates in most of the U.S. submarkets, like the 5.5 percent rate in the Bay Area, think how pleased many HR departments would be at this large labor pool availability … this type of bad news-good news reminds me of the CFOs complaining through the years about how the high cost of Bay Area housing made it difficult to attract new employees, and then when our housing market finally takes a dive, everyone is worried about foreclosures and loss of housing industry jobs …

"4.7 billion pounds of carpeting enters the waste stream annually. The most environmentally responsible alternative to disposing of carpet is to choose carpet from a manufacturer that will buy back the old product and recycle it into something new. A closed loop process like this ensures the life cycle of the carpet never ends." *Today's Facility Manager* (March 2007) Can you imagine if it was possible to track these, and 100 years later your grandkids could proudly say they were walking on what used to be their grandfather's carpet … naww …

Loss factor, also called load factor or gross-up, is essentially the difference between rentable square footage and usable square footage. Rentable usually includes lobbies, hallways, restrooms, etc. and usable usually is the actual office space the tenant occupies. Just to show both rent rate and load factor differentials within the United States, Tampa Bay, Florida averages 8 percent load factor and $22.70/sf per year usable rent, while Midtown Manhattan, has a 27 percent load factor and $112.93/sf per year usable rent figure. *Colliers Research* (April 25, 2007)

Colliers International has more than 10,000 employees, 266 offices in 56 countries and manages more than 828,815,406 square feet of commercial real estate. I just know you had that in the forefront of your mind …

For the first time, the Haas School of Business at U.C. Berkeley was ranked in 2006 as one of the 10 business schools in the United States by *The Wall Street Journal, Business Week and U.S. News & World Report*. The undergraduate program was ranked number three by *U.S. News & World Report,* and the full-time MBA program ranked number five by *The Wall Street Journal*. *CalBusiness* (Winter 2007) I give a lot of credit to my undergraduate business degree and MBA from this great business school to being able to help my clients obtain incredible results with their corporate real estate. Thanks, and if you want to help me help Cal, for all new clients in 2007 and 2008, I will donate a portion of my fees, in your name, to Cal!

Non-industrial businesses produce the same amount of greenhouse gases per year in California as that produced by 2.6 million cars. Here are a few ideas towards saving energy: Choose compact fluorescent bulbs instead of incandescent, keep desks near windows, don't let high cubicle walls block the light, install motion sensors to automatically shut off lights when everyone leaves the room, use Energy Star certified office equipment (**www.energystar.gov**), turn off your computers at night, (don't just log off), convert your company car fleet to Toyota Prius or other hybrids, have your landlord install solar panels, insulate window panes, get a free PG&E (or your local utility provider) energy audit, and check out our new web page, "How To Save Energy In Offices" at **http://officetimes.com/howtosaveenergyinoffices.htm** *San Francisco Chronicle* (April 20, 2007)

"Against great odds, the Bay Area continues to be one of the most dynamic economies on the planet, serving its role as the 'idea factory' in biotech, clean tech and several other fields, while receiving more venture capital and R&D financing than any part of the country, if not the world. The nine countries that touch the bay and constitute the 'official' Bay Area are in fact only a part of an increasingly far-flung 'megaregion' that extends in the south from Monterey north to Santa Rosa; west past Sacramento and perhaps to Reno. This area now has over 13.5 million people and 5.5 million jobs. By 2030 the population will be nearly 19 million." Gabriel Metcalf, executive director of San Francisco Planning and Urban Research. *SF Business Times* (April 13, 2007)

Balance. Priorities. Blessings. Today … Most people I know are always striving for balance. We race from place to place, volunteer our time and energy in almost too-many directions, going from work to home to committee to gym to errands to and to and to, sometimes working too much at the expense of family time, but all of us doing our best to try to keep a healthy "balance". Priorities are those either we set for ourselves or others set for us (boss, spouse) or those set from early childhood imbedded in our subconscious (work harder, pray harder, save harder or …). Blessings – I just finished reading "The Ultimate Gift" by Jim Stovall and in one chapter, the advice to the lead character was, before getting out of bed each morning, count all the blessings you were grateful for, and how many of us breeze right through life without taking even a few moments daily to do this? Today – that is all we have. Yesterday is history, and tomorrow is not guaranteed, so all we really have to work with is how we think, act and live, today… Okay, enough of that … Jordan who turned 10 last week on his and his mother's birthday, May 26th, has been very immersed in Little League, and has turned out to be a terrific pitcher, 1st and 3rd baseman and a pretty consistent hitter. Most of all, he is having a blast, and his photo action shots as well as those of his almost 5-year-old sister, Madison are at **www.officetimes.com/JMJune2007.htm**.

I'm blessed to be able to specialize in tenant representation and commercial real estate, blessed to be with Colliers International, blessed to be living and working in the San Francisco Bay Area, let alone the United States, and blessed by my wife, two kids, my family, my friends, and you, who took the time out of your day to read this newsletter. Thank you!

Sincerely,

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