



I recently attended the national Society of Industrial and Office Realtors (SIOR) conference in Washington, D.C. where 800 of the top office and industrial brokers in the Country gathered to learn how to provide better corporate client service, what new trends are coming our way, new advances in green office redevelopment and much more. It gave me a chance to take a quick pulse of what these experienced office brokers thought was going to happen with our economy, office leasing velocity and with rental rates. In summary, the office market in most regions is slowing down, it will get worse for landlords but better for tenants and it may get much “worse” before it gets better. Batten down the hatches, make sure your seat belt is securely fastened and enjoy the ride down ... we will hit bottom and recover but it may take a bit more time than expected, as it always seems to work this way in the past ...

*Editor:*

**Jeffrey S. Weil,**  
MCR,h, CCIM, SIOR  
Senior Vice President

1850 Mt. Diablo Blvd.  
Suite 200  
Walnut Creek, CA 94596

Phone: 925.279.5590  
Fax: 925.279.0450  
jweil@colliersparrish.com  
[www.OfficeTimes.com](http://www.OfficeTimes.com)

The “Lag Effect” on office space: In an ideal world we would have just enough office space so there was plenty for office tenants to occupy and expand into but not so much that landlords were carrying costly inventories of vacant space. In an ideal world, tenants would lease precisely the amount of space required for the entire term and their business model or the economy or their local business environment would not change during their entire leasehold. However, we have the concept of “reality” which affects office realty ... Companies merge their companies or downsize during their term, surprises like dotbombs or subprime meltdowns cause space usage to dramatically change for some industries in unexpected ways. The “Lag Effect” is the time between the actual cause of change, i.e. subprime meltdown and the resulting effect, i.e. financial institutions laying off tens of thousands of office workers. This lag can be anywhere from near-immediate (i.e. at least a few mortgage brokers shut their doors within months of last summer’s subprime meltdown) or it can take several years to take effect, when business units are sold, transitioned elsewhere, employees are given severance or optimistic management thinks recovery is just around the corner when it isn’t. Thus the office market will continue to soften even after our recovery begins. There is also a ramp-up lag once businesses are certain we are out of the financial woods – business plan budgets need to be approved before workers need to be hired and at some future point, office space is once again in demand, vacancy rates begin to fall and effective rents start their inevitable upward climb ...

“Telepresence videoconferencing gains popularity as fuel prices go up ...

Telepresence systems differ from traditional videoconferencing in that they require specially designed rooms with multiple cameras, sound-dampening equipment and high-definition video screens. They simulate the sensation of two groups of people at identical tables facing each other through windows. Participants appear life-size and more smoothly, there is little or no lag time, documents can be shared, and people in more than two locations can participate in the same meeting. The equipment can be costly, ranging from \$200,000 to \$500,000, but Marriott and Regus Group are installing this system at a number of their locations to appeal to small and midsize businesses,” *San Francisco Chronicle* (5/12/08).

“Telecommuting offers huge gas savings potential and, according to a recent Robert Half survey, is the second-best recruiting inducement after salary. An estimated 1.35 billion gallons of gasoline could be conserved annually if every U.S. worker with the ability to telecommute do so 1.6 days per week, according to a report by the American Electronics Association,” *San Francisco Chronicle* (4/22/08).

Intelligent Buildings – 2008 ... what defines an “intelligent” building? Open-standards-based building systems allowing multiple vendors future flexibility in adding or changing applications and having just one interface for security, HVAC, and other building systems. More accurate monitoring of HVAC and lighting keeps operating costs lower. Tenants can file work orders in a Web-based tenant services system. Engineers carry web tablets and pocket PC’s to eliminate much of the paperwork formerly associated with work orders, and with accelerated response times. Maintenance crews don’t have to take pressure readings or adjust valves by hand but can make adjustments from the network operations center with a few simple keystrokes. Life safety and security may be integrated with other building systems, i.e. in a fire situation alarms sound, exhaust dampers open, IP paging and intercom systems issue instructions to occupants, access-control system unlocks doors for evacuation and closed-circuit TV cameras provide emergency responders with a view of the fire. *Buildings* (March 2008)

“Solar Power – ProLogis, the world’s largest owner of industrial properties, will install rooftop solar panels as part of a 65 million square foot commercial building roof power-generating initiative with Southern California Edison. Electricity generated by the panels does not supply the building, but goes to surrounding residential areas,” *GlobeSt.com* (4/3/08).

Hard to believe this 169<sup>th</sup> issue marks the beginning of the 28<sup>th</sup> year I have been writing and publishing this OfficeTimes newsletter! In the beginning I used to sign each newsletter and make individual comments but as the list grew this became a bit unwieldy ... thanks for reading it and we welcome your comments to [jweil@colliersparrish.com](mailto:jweil@colliersparrish.com).

Every few years some politician in California raises the “split-roll” tax structure issue, which sends shivers of fear down commercial landlord backs ... This would raise \$3 to \$7 billion in additional taxes if a split-roll proposal successfully passes, with higher commercial property taxes being passed onto tenants and possibly resulting in some companies relocating out of California. *California Real Estate Journal* (April 7, 2008)

*Deals & Rumors:* Quite a bit of medium-size office tenant leasing activity in **San Francisco** these past two months ... ValueClick leased 16,000 sf and Playfirst took 25,000 sf, both leases at 160 Spear St.; GE Real Estate leased 10,000 sf at 101 California St.; McCann-Erickson Worldwide expanded by 18,000 sf to 115,000 sf at 600 Battery St.; Liberty Mutual Insurance took 23,000 sf at 71 Stevenson; The Energy Foundation took 19,000 sf at 301 Battery St.; Ogletree, Deakins, Nash, Smoak & Stewart signed for 11,000 sf at One Market Plaza; Yelp expanded by 27,000 sf at 706 Mission St.; Ameriprise Financial

leased 18,000 sf at 180 Montgomery St.; J. David Gladstone Institute may be expanding by 10,000 sf at 1700 Owens St.; Level 3 Communications leased 23,000 sf, Common Sense Media 14,000 sf and Rhythm Technologies 11,000 sf, all three at 650 Townsend St.; Frog Design leased 30,000 sf at 660 3<sup>rd</sup> St. South of Market; Zinio Systems leased 12,000 sf at 114 Sansome St. in the financial district; Quantcast took 26,000 sf at 300 Second St.; Monster Worldwide, Inc. expanded by 34,000 sf at 799 Market St.; Splunk took 35,000 sf at 250 Brannon St.; MetLife inked for 26,000 sf at 425 Market St.; Artisan Partners expanded by 16,000 sf at 100 Pine St; LoopNet expanded by 15,000 sf to 47,000 sf at China Basin and Weisscom Partners leased 16,000 sf at Waterfront Plaza. Down in **South San Francisco**, BioSeek Inc. leased 15,000 sf at 863-C Millen Road and Fundamental Applied Biology leased 25,000 sf at Edgewater Business Park. Responsys expanded by 20,000 sf at 900 Cherry Ave., and Adify sublet 28,000 sf at 1000 Cherry Ave., both in **San Bruno**, and Akamai Technologies leased 50,000 sf at 3125 Clearview Way in **San Mateo**. Across the bay in **Milpitas**, Nanogram took 36,000 sf at 157-165 Topaz St.; Asus Computer Inc. leased 153,000 sf of R&D space at 800 Corporate Way and in **Newark**, Revance Therapeutics leased 90,000 sf at 7775 Gateway Blvd. In **Pleasanton**, BKF Engineers expanded to 10,000 sf at 4670 Willow Rd., and in **San Ramon**, Achievo sublet 17,000 sf, and SellPoint 19,000 sf both at 2633 Camino Ramon from Summerville and UC Davis leased 10,000 sf; Fluor leased 12,000 sf at 2300 Clayton Rd. in **Concord** and in **Alameda**, BioTime, Inc. leased 11,000 sf at 1301 Harbor Bay Parkway.

According to Anthony Downs, senior fellow at the Brookings Institute, commercial real estate may experience property value decline. "... property values will decline because the lenders financing commercial property purchases will demand higher yields on their loans than they did when property prices soared between 1993 and 2006. The federal government also is likely to impose new regulations limiting the degree of securitization that lenders can undertake and requiring much more transparency concerning what specific properties underlie each issuance of securitized paper ..."

*National Real Estate Investor* (April 2008).

"Mandatory 'lights out in office buildings' at night law was recently proposed for San Francisco, with fines for each floor left on that increase with each subsequent violation. Also, businesses undergoing major renovation would be required to have automatic sensor devices that shut off the lights when nobody is in a room," *San Francisco Chronicle* (3/26/08).

"After months of steady decline, the economic outlook can now only be described as bleak. Speaking at CFO's annual CFO Rising conference last month, veteran finance chief Jerry York said, 'It's going to be a very bad recession, perhaps the worst I've seen in the 46 years I've been working.' More than half of finance executives say the United States is now in a recession, and another quarter say the country will be in a recession by the end of the year ... 60 percent of CFOs have postponed expansion plans," *CFO* (April 2008). What this means for office tenants – if you're not already, you soon will be solidly back in the drivers seat as office vacancies continue to slowly increase – however, not all landlords may want to aggressively court your tenancy, so the more flexible you are in terms of renew vs. relocate, the better your bottom-line negotiations.

"Offshoring has become a fact of life for Corporate America. According to a new CFO survey, 36 percent of financial executives say their companies use offshore outsourcing. That's twice as many in 2004. Among companies with annual revenues of more than \$1 billion, the number of offshorers rises to 49 percent. Meanwhile, research firm Gartner estimated the size of the market for offshore IT and business process outsourcing at nearly \$35 billion in 2006, and forecasts a market of \$70 billion to

\$100 billion by 2011,” *CFO* (March 2008). That means a lot more back-office space may be vacated if offshoring is expected to double or triple in just five years ...

A year ago I use to read children’s books to my five-year old daughter, Madison, at bedtime and she would get drowsy and begin to fall asleep. About six months ago, I taught Madison how to read using simple books and then giving her increasingly more difficult books as her skills improved. She is now reading at a 2<sup>nd</sup>/3<sup>rd</sup> grade level and as I usually get up well before 5 a.m. to start my workday it is not unusual for Madison to be reading and I end up falling asleep ... (she wakes me if she gets stuck on a new word). Last month our 10 year old son, Jordan, joined me in Washington D.C. and we had a blast visiting Congress, the various Smithsonian museums, the International Spy Museum and the newly opened Newseum. Jordan’s Little League team, The Red Sox, is 14 and 1 with the playoffs just around the corner. I have been coaching my daughter’s girl’s softball team, The Red Hot Chili Peppers, and recent photos of all the kids past two months adventures can be seen at <http://officetimes.com/2008/June2008/JMJune08.htm>. Just a few weeks ago I chaperoned my son’s 5<sup>th</sup> grade elementary school class on a three-day trip to Yosemite and another dad and I were lamenting that in less than six years all the kids would be driving, and in eight years if we had done our parenting right, our sons would be out of the house living at college. I truly love my job in representing office tenants in their lease renewals and relocations, but as much as I’m passionate about “work” (sometimes hard to call the fun of commercial brokerage “work”) I’m ten times more passionate about our quality of family life. Oh, to have an 850 hour week instead of the measly 168 hours we actually have! May your spring be rewarding both business and personal, and may whatever path you are currently following lead you to your desired destination! Thank you!

Sincerely,

Jeffrey S. Weil, MCR.h, CCIM, SIOR  
Senior Vice President



Jeffrey S. Weil, MCR.h, CCIM, SIOR  
Senior Vice President  
1850 Mt. Diablo Blvd., Suite 200  
Walnut Creek, CA 94596  
(925) 279-5590  
[www.OfficeTimes.com](http://www.OfficeTimes.com)

**Newsletter**  
**June 2008**