



Corporate Office Perspectives

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Charles Dickens once said, "It was the best of times, it was the worst of times ..." and this is so true regarding today's office market. There are office building owners who either purchased at the market heights of 2006/2007, over-leveraged, lost their major tenants or otherwise fell into that dark tunnel that causes financial and emotional pain, and we are still seeing office building foreclosures as a result. I know smaller and medium-sized companies which are struggling just to cover expenses, and U.S. bankruptcy filings are nearing a five-year high. On the other side of this equation, office tenants still have a field day in most U.S. submarkets with substantial landlord concessions such as free rent, lowered rent, generous tenant improvement allowances and other inducements still the name of the game. Several stronger submarkets such as San Francisco's South of the Market have experienced substantial office rental rate increases and building sales prices approaching the high-water mark of the 2006/2007 "frothy times." Investors fortunate enough to buy at the bottom of the market in 2007/2008 are making huge profits when they sell in 2011. In short, it is either a great time, or a terrible time to be in the office market industry, depending on where and when you got in, and your particular circumstances. To put more wrinkles in this fluid equation, factors totally out of our control dictate the stock market, lending practices and the corporate hiring appetite. Greece or Italy's fiscal policy mood can send Wall Street sharply up or down but how can companies make long-term business decisions based on such short-term volatility? Perhaps we will look back one day and make more sense out of what we are going through, but until then...

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What a cool idea! Researchers from the University of California San Diego have concluded that solar panels on your building's roof not only provide clean power, they cool your workplace as well. They determined that during the day the building's ceiling was 5 degrees cooler under solar panels than under an exposed roof, and at night the panels helped hold heat in, reducing heating costs in the winter ... like getting a 5 percent discount on the solar panel's price over the panels' lifetime ... *Buildings Magazine* (Sept. 2011)

What would a skyscraper office building tower look like if it were all spread out as low-rise suburban development ... in *Wired*, (November 2011) they dissected a typical 1.3 million square foot mixed-use skyscraper, which in New York would cover 60 percent of the average block ... but spread out in a suburban setting with open parking the same amount of mixed-use construction would eat up more than 21 blocks ... yeah, I know you have been staying up all night wondering about this ...

Office buildings have seen utility and fixed expenses decline between 2009 and 2010 for U.S. private-sector office buildings, with a 5.5 percent decrease in utility expenses and a 9.2 percent decrease in fixed expenses, according to the Building Owners and Management Association's 2011 recent report. One reason behind these decreasing costs is more low and no-cost energy reduction strategies on the part of property managers to cut costs and more expense management ... so if you are an office tenant and you are still getting billed for operating expense passthrough increases ... *Buildings Magazine* (October 2011)

Boosting employee productivity and happiness through telecommuting ... a recent survey by Staples showed that 40 percent of respondents claim they would rather take a pay cut than give up telecommuting. "About 86 percent of respondents say they are more productive when they work from home, with 73 percent adding that they even eat healthier when working from the home office. More than 80 percent say they now have a better work/life balance even though nearly as many – 76 percent also said they are more willing to put in extra time at work." *Buildings Magazine* (September 2011)

TM way back in the 1970s stood for Transcendental Meditation and please don't ask me what that means, but today it more aptly describes our national office scene – Transitional Market – Subregions such as San Francisco are experiencing "frothy" sales prices and spiking rent rate increases, while only 30 miles away, other subregions have Class A identity office buildings selling for \$80 to \$120/square foot and rental rates so low that after expenses, tenant improvements and leasing costs, there is barely any return to pay the mortgage. Commercial development is almost nonexistent with the exception of apartment house construction, there are still millions of homes yet to be foreclosed, an estimated 25 percent of all U.S. homes with mortgages are underwater, and yet for our young folks with good jobs there may not be a better time to buy a home with 30-year fixed rate financing in the mid-4 percent range. Other than major office campuses such as Apple (2 million square feet), Salesforce and a handful of others, office development is in long-term hibernation. In many regions, office rates will have to double before new construction begins to make sense. Corporate America appears in no hurry to increase permanent payroll, instead relying on off-shoring, technology and contract hiring. The stock market jumps up or dives down 300 points in a day, decisions made in Greece or Italy impacts American business confidence almost at random, and when all is said and done, business basics remain critical. Hiring the right workforce, marketing your product or service effectively, taking advantage of low office rents to lock in long-term quality office space that synergizes your employees, helps with retention and takes advantage of new trends in worker mobility and teaming. My daily commercial real estate blog at www.blog.officetimes.com addresses issues of the moment, and thank you for reading this 190th issue of OfficeTimes!

The future of teleconferencing ... just out is the new Polycom system which brings web-based videoconferencing to iPad and other tablets ... it may not be too long when almost any conference room can be turned into a teleconference center, with a future iPad wireless doing the connectivity to the wall-mounted large flat screen in real time for teleconferencing at super-low cost, and smaller teleconferencing off iPads anyplace and anywhere (except while driving ... can you see the next driving citation- not just "Don't text and drive" but "Don't teleconference and drive ...") *Bay Area News Group* (October 11, 2011)

Deals and Rumors: This time for a change we'll start on the San Francisco Peninsula ... In **San Mateo**, BookRenter.com leased 32,000 sf at 177 Bovet Rd.; Zazzle leased 120,000 sf at 1800 Seaport Blvd.; Siebel took 70,000 sf at 1300 Seaport Blvd. and the big deal was Sony, who took 450,000 sf at 2207/2211/2215 Bridgepointe Parkway where in the same complex Perfect World

leased 100,000 sf. In **Redwood City**, Trion Worlds Inc. leased 40,000 sf at 1200 Bridge Parkway and Kabam is rumored to be taking 60,000 sf. In **Brisbane**, The Department of General Services leased 11,000 sf at 150 North Hill Drive. In **San Bruno**, Google expanded by 170,000 sf at 900 Cherry Ave., and in **Mountain View**, Synopsys Inc. took 340,000 sf at 690 E. Middlefield Road; NeuroPace leased 53,000 sf at 455 Bernardo Ave.; Nokia Siemens Network expanded to 28,000 sf at 380 N. Bernardo and Alcatel-Lucent USA took 32,000 sf at 805 E. Middlefield Rd. Down in **Menlo Park**, Membrane Technology inked 62,000 sf at 39630 Eureka Drive. In **San Francisco**, France Telecom Research & Development took 27,000 sf at 60 Spear St.; Rambus leased 26,000 sf at 425 Market St.; Clyde & Co. Signed for 30,000 sf at 701 Second St.; Macy's online division is rumored to be out looking for 250,000 sf of office space; Idle Games snagged 33,000 sf at 875 Howard St.; Practice Fusion leased 46,000 sf at 420 Taylor St.; Granicus, Inc. took 15,000 sf and ABM Industries 31,000 sf, both at 600 Harrison St.; Kontagent sublet 16,000 sf at 201 Mission St.; JMP Securities expanded from 40,000 sf to 65,000 sf at 600 Washington St.; Pac-12 is rumored to be looking at 100,000 sf at 370 Third St.; Pillsbury Winthrop Shaw Pittman will be relocating to 108,000 sf at Four Embarcadero Center; LinkedIn is rumored to be leasing 60,000 sf at One Montgomery Tower; Pocket Gems leased 39,000 sf at 220 Montgomery St. and RP Corporations took 32,000 sf at 1 Market St. In **Berkeley**, Sensys Networks leased 20,000 sf at 1608 Fourth St.; The City of Berkeley inked 23,000 sf at 2118 Milvia St. and The Regents of the University of California signed for 30,000 sf at 2150 Shattuck Ave. where UC Berkeley leased 21,000 sf in the same building. In **Emeryville**, Children's Hospital and Research Center leased 19,000 sf at 6455 Christie Ave; TubeMogul expanded to 15,000 sf and Barsoom Pictures leased 16,000 sf, both at 1250 53rd St. Down in **Newark**, MTR leased 62,000 sf of R&D space at 39630 Eureka Drive and in **Hayward**, TheMIGroup took 11,000 sf at 25821 Industrial Blvd. In **Emeryville**, Art.com leased 48,000 sf of office space at 2100 Powell St. Over the hills in **Dublin**, Fluor expanded to 72,000 sf at 4140 Dublin Blvd. and Palo Alto Medical Foundation expanded to 66,000 sf on Dublin Blvd. In **Pleasanton**, Ericsson expanded to 66,000 sf at 6140/6160 Stoneridge Mall Rd. In **San Ramon**, General Electric inked a 150,000 sf office lease.

A number of cities are mandating that building owners report their energy usage, including San Francisco, New York, Seattle and Washington DC ... the disclosure typically includes reporting the past years' utility cost, being rated based on projected energy usage, and being rating based on actual performance ... energy efficiency proponents want more transparency, while office building owners may object to these mandatory reporting requirements which can create budgetary pressures to go green when there might not be the green to do so ... *Buildings Magazine* (October 2011)

Collaboration over isolation ... according to a recent study by Johnson Controls, by 2020 collaborative workspaces will dominate over private offices ... "office workers anticipate spending more time working in team spaces that incorporate collaborative technologies, interactive digital screens, touch surfaces, and global live streaming will become the norm, according to over 1,700 respondents in seven countries." *Buildings Magazine* (October 2011) ... basically there is a huge growth in virtual and office teaming, while at the same time employees are decreasing the time spent at their desks ... companies understanding this shift in dynamics can free up underutilized office facilities and lower the cost of doing business ...

California State ranking in July/August 2011 Business Facilities magazine ... #3 in Installed Wind Power Capacity, #1 in Installed Solar Power Capacity, #1 in Biotechnology Strength, #5 in Alternative Energy, #4 in Best Transportation Infrastructure, and for Medical Devices Industry Leaders out of the top 10 cities, California had three spots: #1 Los Angeles, #6 San Jose and #7 San Francisco/Oakland ... For clean tech, again three of the top ten spots with #3 San Jose, #4 San Francisco and #9 Pasadena ... if you want to see the entire report, go to www.businessfacilities.com/special-report/2011-state-rankings-report *Business Facilities* (July/August 2011)

LEED certification for office buildings ... 101 California St., San Francisco, a 48-story, 1.25 million square foot Class A office building in the heart of the financial district just received 94 points out of a possible 100 points, beating out 7,306 buildings worldwide which have won LEED certification under the existing building program. Here is what they did: restroom fixtures were replaced, landscaping revamped to monitor water usage, all cleaning products are now green-seal certified, cleaning equipment stresses reuse vs. disposable, all vacuums use HEPA filters, bike parking was expanded, electric car chargers were installed in the front of the parking garage, they hired a loading dock sorter who opens and analyzes the trash bags and then sorts for recycling (yummm), they replaced standard light bulbs with LED lighting ... and no, they don't recycle their leasing agents ... *SF Business Times* (October 7-13, 2011)

Energy use by major corporate office and data centers continue to decrease as new forms of energy reduction and energy harvesting are discovered. HP has designed their new servers with new processors that take up less space and consume only a tenth of the electricity needed to power conventional servers, offering huge savings potential to companies expanding their data centers. The new solar power system Facebook plans to use for its new Menlo Park headquarters will combine solar cells, mirrors, and fluid-filled tubes behind the solar cells. Curved troughs of mirrors will concentrate sunlight on the cells, while motors will keep the troughs pointed at the sun as it arcs across the sky. This is being installed by Cogenra Solar, a Mountain View startup, and the payback on initial investment is estimated at less than five years. *Bay Area News Group* (November 2, 2011)

Electric charging stations for cars at office buildings ... we are starting to see a variety of office building responses to the rapidly increasing fleet of 100 percent electric cars, including special signs for electric car parking near the front of the building, but without any outlets to charge the car. I have also seen electric car owners seek out the sometimes-rare and hard to find 110 volt outlet in the office building garage, and as one Nissan Leaf owner told me, if he can't charge his car during the day he has no way to get home with his 50 mile range ... what is the cost, ballpark, for this use of juice? I saw one quote, based on a national average electricity price, of \$3 per day to charge a Leaf ... how will this be fairly allocated to a multi-tenanted office building ... not a problem with one or two cars, but one day there may be hundreds needing daily charges at larger office buildings ...

The New Workplace - Contract employment, hiring for the task and project, not necessarily for life. Collaborative, idea-sharing, synergistic environments that foster teaming, innovation, creativity ... which does not work well if everyone is in their own private offices ... less entitlement/reward based space assignments-getting the big private office may not be a perk like it was ... working anywhere, any place, mobile and nimble ... global teams supported by technology, teleconferencing, Skype, teaming with associates in India, Europe, Asia ... generational challenges, new workers are iPad, iPhone and text-savvy, older generations may still have issues trying to email docs - iPad vs. fax machine ... *SF Business Times* (October 28, 2011)

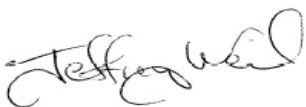
Facebook's new headquarters in Menlo Park has the overhead heating and cooling ductwork exposed, with power and data cables hanging from the ceiling to the individual work spaces. Facebook employees work side by side at long, undivided tables and there aren't offices or cubicles to impede collaboration. Floor-to-ceiling blackboards allow employees to self-express themselves, and as one architect commented, "It's architecture as a management tool." *Bay Area News Group* (November 1, 2011)

This portion of my newsletter is often the hardest to write. Dealing with industry trends, transactions and factoids is so much easier than attempting to impart a philosophical thought or two, especially with the overriding objective to have a positive, upbeat message. How the priest, pastor or rabbi must be gifted to deal with this on a weekly basis! As we approach the Season of New Year Resolutions I'm reminded of those I have made in the past, only to neglect and forget while they fell by the wayside. However, the power of the pen will make this year different, and perhaps the reader will reflect and follow suit in their own mode and method. I resolve that no matter how I feel or what has happened or is happening around me, that at least once each day I will be a positive influence on a fellow human being. We are only in control of and responsible for our own thoughts and actions but just think if we each made our own personal positive-impacting resolution ... have a safe, wonderful holiday season, and if I can be of any positive assistance in your commercial real estate needs please don't hesitate to contact me ... and if you want to post your own New Year resolution feel free to do so on my blog! www.blog.officetimes.com

Jordan, our 14-year-old young man, is a freshman at Monte Vista High and to my amazement totally loves high school. I've met most of his teachers and can see why this school's reputation is so high, with passionate instructors in their 25th year of teaching. He has gone to most of the Friday night football games, a tradition I'm sure is shared by high school students in every corner of the U.S. He has been playing indoor lacrosse with his Sniper team and practices weekdays for high school lacrosse. As Assistant Senior Patrol Leader for his 92-member Boy Scout troop, Jordan is getting lots of public speaking and leadership experience. Madison, our 9-year-old daughter, just finished a great soccer season and for the first time played at the competitive level. As a parent I'm not sure who was worn out more: Madison from three days a week practice plus two to four games every weekend, or the parent for getting her to and from. Some of the tournaments were hours away, but the time Madison kicked a penalty shot from almost mid-field and it soared over everyone's head right into the goal made it all worthwhile. You can see their latest adventures at www.officetimes.com/2011/Dec2011/JMDec11.htm

Have a safe and wonderful holiday season!

Sincerely,



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