



Corporate Office Perspectives

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We are by nature optimists, us humans, and those of us in commercial real estate even more so, and sales folks and developers are probably at the far end of the optimism scale – how else could we survive the ups, downs and travails that are ingrained in what we do? Take the case of a speculative commercial office developer, who locates the office site, prepares building plans, lines up financing, negotiates with city planning and design review to finally get approvals, bids the construction, and then after what is usually a one to three year process up to this point, finally starts building. Hopefully the office market is still as strong or stronger when the project is done as it was when it was conceived or why build it? But then the cost of gasoline doubles, building materials go up in price 30 percent, some major event like the subprime meltdown causes office rents to go down, not up, and take-out financing becomes scarce – how do these folks have the stamina? Or the office leasing specialist, who might work 1 to 2 years on a major office lease just to see his client make the front page on its way to being downsized, acquired, merged or going into Chapter 7 or 11 ... and yet, we pick ourselves up off the floor, time and time again, because at least in our business, unlike the airline pilot, we get another chance as long as we can stick it out ...

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Up until 2006/2007, the office market was experiencing rental rate increases that in several regions triggered new office construction. Billions of dollars worth of office investments traded hands during 2006 and 2007 in part based upon expectations of continued increasing rental rates, and new construction costs made many of the high sales prices still look like a comparative bargain. In our East Bay region, the ballpark estimates to construct a new Class A office mid-rise (i.e. 3 to 5 stories) including land, financing, soft costs, construction and tenant improvements still comes in between \$400/sf and \$500/sf. Breakeven full-service office rents for these types of construction costs are \$4-\$5/square foot per month (\$48-\$60/sf per year). So rental rates are going down, but at some point, our economy will rebound, vacancy will drop and new office buildings will still cost \$400-\$500/sf or more. We then may have “super-spiked” rental rate increases to bridge the gap between near-term future rental rates and the rates required to support new office construction. Hard to worry about this in the middle of an economic recession, but those tenants willing and able to sign 10+ year leases at today’s soft rents may look like financial geniuses five years from now.

Green leases – a green lease might contain specific language about what tenants can do in their space. If it controls tenant improvements, requirements such as mandating use of recycled materials may increase the TI cost. If the lease includes language specifying that if the landlord spends money on a capital improvement that reduces operating expenses, the tenant may be obligated to pay its prorata share. With green leases, this may include installation of equipment and systems for water recycling, waste removal, energy reduction or a host of other possible items. This is something you might want your legal counsel to check on if one of these days you are green-lease impacted. *California Real Estate Journal* (Sept. 8, 2008) “Many new LEED buildings will need a tenant procurement manual or guidelines to ensure furnishings, fixtures and materials do not sabotage the air quality for other occupants in the building. Some landlords of LEED buildings or who aspire to green a building may require all tenant improvements to be LEED-C1 certified at some level to meet its overall resource reduction targets. One of the leaders in the green lease space, Investa LPT of Australia, has lowered the fear factor in requiring green leases from its tenants by stating that a breach of the environmental covenants in the lease is not a breach of the lease,” *Real Estate Forum* (July 2008).

Big Brother monitors remote workers: “In a budding trend some employment experts say is invasive, companies are stepping up electronic monitoring of home-based independent contractors. Electronic monitoring is built right into freelance transactions at Menlo Park’s oDesk.com, which links 90,000 computer programmers, network administrators, graphic designers, writers and others with about 10,000 clients worldwide. The system takes random snapshots of workers’ computer screens six times an hour, records keystrokes and mouse clicks, and takes optional Webcam photos of freelancers at work. The monitoring itself may speed the growth (of telecommuting) because it tears down one of the biggest obstacles to working at home – employers’ fear that remote workers will slack off. One oDesk buyer, Juliana Carroll, a Manhattan financial-services consultant, says she has saved as much as 25 percent using oDesk freelancers because they turn out more work faster than contractors she has found on her own,” *San Francisco Chronicle* (8/3/08). Wonder if they have similar software to monitor children’s homework...

The Department of Justice is finalizing a long-awaited proposal that would transform guidelines for accessibility (ADA) governing all commercial buildings, including offices and retail spaces, into hard-and-fast rules. The Department of Justice estimates that the changes will cost companies a combined \$23 billion. Businesses are particularly eyeing an “all-or-nothing” provision in which any modification to an old building would trigger the need to update the entire facility to the new standard. “We’re concerned that the rules could retroactively impose massive new costs on companies,” says Mallory Duncan, senior vice president and general counsel for the National Federation of Retailers. “The rules could take effect as early as March 2009,” *CFO* (September 2008). My opinion ... this may be a huge Pandora’s box of major detrimental economic proportions – and at one of the worst economic times in history – buildings which might otherwise be rehabilitated could become teardowns, needed building improvements might be delayed indefinitely so as not to trigger such a draconian consequence – the way these laws are now, while not perfect, seem to be causing significant ADA upgrades in projects undertaken by major corporations while still being sensitive to the hundreds of thousands of “mom & pops” who would be financially devastated by these new rules.

According to JiWire, a wi-fi advertising network, the United States has the most wi-fi hot spots (62,836) in the world, more than double the number of hot spots found in the second-ranked United Kingdom. San Francisco has the most hot spots (824) in the United States, just barely ahead of New York City (818). *Business Facilities* (August 2008)

Deals and Rumors: We'll start with **Concord** for a change, where I helped BioCare Medical expand, leasing 10,000 sf at 4050 Pike Lane, and I also brokered Cerus' lease extension of 35,000 sf at 2550 Stanwell Dr. In **Walnut Creek**, John Muir expanded to 21,000 sf at 1676 N. California Blvd.; Children's Hospital expanded to 30,000 sf at 2401 Shadelands Drive; at 2185 N. California Blvd. Episcopal Homes leased 13,000 sf, and Mechanics Bank expanded to 14,000 sf at 1333 N. California Blvd. In **San Ramon**, I represented Hanson Aggregates West, Inc. in a 20,000 sf office consolidation at 12667 Alcosta Blvd. In **Pleasanton**, I represented Elavon on their 9,000 sf lease extension at 5673 West Las Positas; Waters leased 13,000 sf at 5720 Stoneridge Drive; Workday may be finalizing a 65,000 sf relocation from Walnut Creek to 6230 Stoneridge Mall Road, and Alameda County Department of Child Support Services rented 70,000 sf at 5669 Gibraltar Drive. In **Dublin**, it is reported that Alameda County Fire Department is considering leasing 80,000 sf for office, training and other uses at 6400 Sierra Court. In **Livermore**, GSE Construction plans to build a 14,000 sf office for itself on Greenville Rd. In **Oakland**, Public Health Institute leased 24,000 sf at 555 12th St.; California Endowment subleased 22,000 sf at 1111 Broadway St. and Axa Rosenberg Investment Management is rumored to be considering relocating from Orinda to 100,000 sf at Ellis Partners Jack London Square office project. Veolia ES Technical Solutions leased 19,000 sf of R&D space at 3797 Spinnaker Court in **Fremont**. On the Peninsula, Seven Networks sublet 32,000 sf at Pacific Shores Center in **Redwood City**; Gilead Sciences plans to double its 629,000 sf facility to 1.2 million sf during the next 10 years in **Foster City**, and Reardon just leased 91,000 sf, also in Foster City. Sharpcast took 12,000 sf at 2121 S. El Camino Real, **San Mateo**. In **South San Francisco**, First DataBank leased 35,000 sf at 701 Gateway Blvd. In **San Francisco**, Slide, Inc. took 35,000 sf at 301 Brannan St.; Federated Media took 15,000 sf, WideOrbit 34,000 sf and Serve Path 23,000 sf, all three at 2 Harrison St.; Live Nation Worldwide leased 20,000 sf at 251 Rhode Island St.; Nokia, Inc. grabbed 40,000 sf at 650 Townsend St.; O'Melveny & Myers LLP expanded to 120,000 sf at Two Embarcadero Center; HOK expanded by 17,000 sf at One Bush St.; Symantec took 45,000 sf at 303 Second St.; Hotwire, Inc. signed for 45,000 sf at 655 Montgomery St.; Success Factors leased 17,000 sf at 655 Montgomery St. and the Art Institute of California extended and expanded to 100,000 sf at 10 United Nations Plaza.

Healthy office designs – “Office of the Future” ... As part of a study conducted by the Mayo Clinic; the office of SALO LLC was reengineered to increase employees' physical activity. The firm removed some chairs and traditional desk seating, introduced walking tracks, encouraged staff to hold “walking meetings” as opposed to ordinary sit-downs, replaced traditional phones with mobile sets, and purchased Wii, foosball and other games. One of the most eye-catching innovations was the addition of desks and computers attached to treadmills, allowing employees to perform their jobs while working their cardiovascular systems. “Forty-five SALO employees volunteered for the study, 18 of whom were studied for weight loss and other physiological changes. The latter group lost an average of 8.8 pounds each, 90 percent of which was unhealthy fat” ... “According to the Ceridian LifeWorks 2008 National Study of Employees, employees who are 30 to 60 pounds overweight average an extra \$917 more per year in medical and absenteeism costs. That number swells up to \$2,256 for employees who are 60 to 100 pounds overweight ... Interestingly, given a workplace where the employees are sauntering on treadmills and playing Foosball, one of the study's key findings is that no productivity was lost. In fact, the company reported record revenues in January, the midpoint of the study,” *California Real Estate Journal* (Aug. 18, 2008).

I've heard from a number of sources, including senior investment sales brokers and major title insurance companies that overall commercial real estate investment sales are down 80 percent in 2008 as compared with 2007. Also, commercial real estate financing has become much more difficult during the past 30 days, with some lenders turning the loan spigot off entirely while those still able to loan becoming increasingly more discriminating about the particular property, tenant mix, length of leases, occupancy level, etc ... down payments that in early 2007 might have been 20 to 25 percent are now reportedly 35 to 40 percent of the purchase price.

2008 Business Facilities Rankings Report: **Overall Biotechnology Strength** U.S., #1 Pennsylvania, #2 California, #3 Massachusetts; **Biotech Venture Capital Investments** #1 California (\$20,743,000, which is more than the next eight states totaled.) ... **Drugs And Pharmaceuticals**, California was #1 ... **Medical Devices And Equipment**, California was #1 ... **Research, Testing and Medical Labs**, yup, you guessed right, California was #1, *Business Facilities* (July 2008). To see the entire report please go to www.businessfacilities.com/bf_08_07_cover.php.

“The nation’s greenest building code was unanimously approved by the San Francisco Board of Supervisors. The San Francisco ordinance requires large projects – commercial and residential projects over 25,000 sf or 75 feet in height – to meet the base level of LEED certification starting in 2008. Large commercial projects would have to achieve LEED Silver in 2009, and LEED Gold in 2010,” *GlobeSt.com* (8/1/08).

Green Perks: “Common incentives have included reimbursements toward hybrid cars and inducements to stop driving to work: shuttle buses between cities, carpool assistance, bicycle racks and showers. In addition to car purchase grants, Berkeley’s Clif Bar also offers reward points to those who don’t drive their own cars to work. Yahoo, whose shuttles are equipped with Wi-Fi, hands out free lunches, movie tickets and massages. Some companies, especially those installing solar in their own facilities or selling solar, offer assistance toward home installation. Pre-tax commuter spending plans allows workers per IRS to deduct up to \$115 a month towards public transit costs and \$220 a month for parking at public transit hubs. Employees using ‘park-and-ride’ could cut their taxable gross by \$4,020. And if enough workers signed up, companies could see a significant payroll tax reduction,” *San Francisco Business Times* (August 22, 2008).

Summer came and went, one of the quickest ever. School started August 26th in our district, but Jordan, our 11-year old son, and Madison, who just turned six, had lots of great memories to look back on. Jordan spent a week at Boy Scout Camp Wolfboro, followed by two weeks at Camp Kennolyn in the Santa Cruz mountains. Madison went to several different day camps. Their cousins from Toronto came to visit, and the whirlwind adventures included a day at Safari West (like an African safari, but near Santa Rosa), Muir Woods, Six Flags Discovery Park, Lake Tahoe beaches, rafting down the Truckee River, water slides and go-cart racing in Reno, and a tour of the Jelly Belly Factory on the way home! Both Jordan and Madison have weekly soccer games, Jordan is playing clarinet in his middle school band, Boy Scouts, religious school and an incredible daily amount of homework. Madison is in dance and gymnastics. Pictures of their recent adventures can be seen here www.officetimes.com/2008/Oct08/JMOct08.htm.

It isn't hard to get caught up in all the negative news we've had lately, whether it be Lehman/Merrill Lynch or Hurricane Ike, both destructive forces that devastated tens of thousands of families, homes and livelihoods. Yet it is easy after the fact to look back and say "I told you so," but what good does it do today to condemn no money down teaser loans that in turn were packaged in massive bundles and sold to major investors who are now struggling to survive? Lawmakers will go overboard and enact new laws that go too far which over time will be modified to make more sense. For the rest of us, what can we really count on? The love of our children, the wisdom of our elders, the respect of our community, the patience of our spouse, and yet these all not only have to be earned but re-earned time and time again, and never to be taken for granted – and if we are fortunate to be blessed in this manner, we can get past the headlines' doom and gloom and flourish in spite of all this negativity. After all, what is the alternative?

Have a safe Fall!

Sincerely,

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