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I've heard various reports forecasting up to 25 percent of all office buildings and shopping centers around the United States involuntarily changing ownership during the next three years, either through foreclosure or other legal processes. This is roughly the percentage of the Class A and Class B office inventory that went under during the early 1990's and the younger brokers who weren't in the business 15 to 20 years ago have a hard time comprehending the magnitude of this. The banker proclaims – commercial real estate loans – no interest for three years!!! – and then later explains that their particular bank has no interest in making any commercial real estate loans for the next three years unless it is at a 60 to 65 percent loan to value based on actual rental rates, is leased to credit tenants for at least the length of the loan, and is personally guaranteed with the owners' substantial personal assets on the line. Another forecast I heard last week is that an estimated 1,000 to 1,500 banks are expected to go out of business during the next three years, primarily local and regional institutions that the Feds won't bail out and mostly due to commercial loan defaults creating a fatal drain on the banks already-precarious resources. Silver lining department – solvent banks are tracking competitor branch locations they have desired for years, and the more prudent or flat-out lucky banks who survive this upcoming turmoil will be picking up all these new customers. Another silver lining – I'm already working with select owner-user office building buyers seeking bargains, which to date have not come to market in most regions. Cap rates in 2006 may have been in the 5 to 6 percent range and now 9 to 10 percent cap rates appear to be the norm. With commercial real estate financing almost non-existent, the anticipated 2010/2011 bargains may be all-cash or creative-financing (i.e. seller) and at prices half of what we saw in 2006 and 2007. Profitability will be sustainable at similar bargain rental rates. So yet another silver lining is for office tenants now and during the next few years signing at lease rates half or one-third of what new office construction might have to charge.

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Three generations of office space workers, each with different workplace expectations, according to an article in Monday's *San Francisco Chronicle* (September 21, 2009). The Boomers will want an individual work space (I guess there are only three generations but what happened to the pre-Boomers who used to want their own spacious private office … have they all retired?) Then there are the Gen X-ers who don't require as much space, but still value a personal station, and now there are the "millennials," who are unattached to personal space, are comfortable working from home, from Starbucks, and just need wireless connectivity to get their job done … they view offices and high-walled cubicles as "dead" zones … and with the current economy there are even tech companies who got rid of space after layoffs and have their employees share desks … "people are less likely to complain about the changes … because they're happy they still have a job" … yeah, right …

One of the best commercial real estate blogs out there is **http://blog.officetimes.com/** with daily short updates on the current commercial real estate market, key announcements and pertinent insight – check it out, add your own comments and please pass this site on to your associates!

The Institute of Real Estate Management (IREM) and CCIM just released a document identifying recent funding from the Fed which might be available to help the commercial buildings sector … including $46.3 billion for energy-efficient grant programs, $5 billion for Weatherization Assistance Program, $300 million for Energy Efficient Appliance Rebate program, $4.5 billion for Electricity Delivery and Energy Reliability, $200 million for cleaning up leaking underground storage tanks, and $44.5 billion to convert GSA facilities to high performance green buildings … where is the Cash For Commercial Property Clunker Program, you know, the one where you get to demolish your old obsolete office building or shopping center and the Feds send you a huge check? …

"'The commercial real estate industry is going to be the next shoe to drop,' said John Burns, president of John Burns Real Estate Consulting – 'Banks have $300 billion in commercial real estate construction loans and more than a trillion in commercial real estate income property loans. They are going to lose at least $200 billion on that. The banks that specialize in commercial real estate and have a lot on their balance sheets may not survive,' Burns said. The regional banks are far more exposed than the national banks with commercial real estate loans representing as much as 80 percent of the loans on some small bank balance sheets, he said," *California Real Estate Journal* (September 8, 2009).

To see the Webinar, 30 Ways to Save on Your Office Expenses Without Relocating, go to **www.officetimes.com** then scroll down to **Hot New Topics** and click on Webinar.

San Francisco Bay Area technology strength poised for recovery opportunities. "It is encouraging that the major tech companies learning from the lessons of the 2001 tech bubble have managed to get through the current recession reasonably well. They have aggressively managed costs by eliminating employees, closing facilities, outsourcing production and as a result are strategically positioned to prosper as the economy recovers. What is striking is that they have saved billions in cash to take advantage of the investment opportunities emerging from the recovering economy. The cash reserves are impressive – Cisco ($26.7 billion), Apple ($25.6 billion), Google ($15.9 billion), and HP ($10.3 billion) …" *San Ramon Valley Times* (August 23, 2009).

According to the *California Real Estate Journal* (August 31, 2009), the prices of commercial properties only fell one percent for June but are 26.9 percent below year-ago levels. Regionally, San Francisco had the lowest price index of the four major office markets and fell 20 percent in the past year. But to put another spin on this, we are seeing office buildings selling at $200/sf when in

2006 they were selling for $500/sf, and the replacement cost is still in the $500/sf range so those who can buy cheap enough and hang on may make killer profits when all the dust finally settles …

Deals and Rumors: Starting out in **Oakland**, Bechtel National leased 24,000 sf at 1111 Broadway; Arcadian Management Services leased 11,000 sf at 500 12th Street; and Pandora Media took 15,000 sf at 2101 Webster St. Down in **Fremont**, Arista corp. leased 36,000 sf at 40675 Encyclopedia Circle. In **Emeryville**, Cision US Inc. signed for 15,000 sf at 5980 Horton St. and Lawrence Berkeley National Labs is out looking for 93,000 sf of existing lab space, 78,000 sf of new lab space and 15,000 sf for fuel testing, preferably within the Berkeley/Emeryville marketplace. In **Concord**, I represented Biocare Medical for 10,000 sf at 4020 Pike Lane and Hub International may be taking 12,000 sf at Concord Centre. In **Walnut Creek**, ERM will be relocating to 17,000 sf at Treat Towers. In **Pleasanton**, Kleinfelder relocated to 15,000 sf at 4670 Willow Road. Across the hills and Bay, RightNow Technology leased 13,000 sf at 999 Baker Way in **San Mateo**, and in **South San Francisco**, You Technologies Brand Services took 10,000 sf at 701 Gateway Blvd. In **San Francisco**, Wilson, Sonsini Goodrich and Rosati leased 42,000 sf at Spear Tower; SF Examiner sublet 17,000 sf at 71 Stevenson St.; Krieg Keller Reilly Sloan LLP took 14,000 sf at 555 Montgomery St.; Zynga is rumored to be close to a new lease at 500 Terry Francois Blvd. in Mission Bay for 137,000 sf; and at 555 Mission St., A.T. Kearney leased 10,000 sf; Silicon Valley Bank took 30,000 sf; and RCM signed for 30,000 sf.

A new law which will start to go into effect in 2010 in California will require owners to provide 12 months worth of comparable energy-use information to prospective buyers or full-building tenants as well as financiers. There will be a three-year phase-in period, starting with the largest buildings in 2010. For more information, visit **www.energy.ca.gov/ab1103**, *Business Journal* (9/7/09).

Those big black birds up in the sky circling around and around are actually commercial real estate vulture funds – a number of those have been recently formed, raising tens of millions from private wealthy individual investors while the larger funds have raised hundreds of millions from both private and institutional sources. Most are specialized, focusing on one niche or another, such as California retail properties that are distressed, or medical office or industrial properties. Property acquisition can be through direct purchase, or distressed debt purchase with the intention of potentially foreclosing. Some acquisitions are one-offs, while others involve portfolios which can include "dogs" along with the sought-after gems. The current amount of distressed property hitting the market is just a trickle, but most agree the commercial property tsunami may hit by early 2010, *California Real Estate Journal* (September 8, 2009).

Will the recent downturn in corporate office leasing due to the Great Recession be just a phase or might it be a change in the way Corporate America does business? In *CFO Magazine* (September 2009), 400 senior finance leaders were polled and 88 percent said they believe that once the recession ends, U.S. companies will operate in a new environment, versus returning to business as usual. In regard to the size and composition of the workforce, 49 percent will be approached differently due to lessons learned during this recession, including CFO's citing cost-cutting as one item to be retained once demand picks up. Another is hiring more workers in countries with less-generous labor laws when volume comes back … "places where you can get out with 60 to 90 days' severance." We shall see if this actually occurs and if so what the long-term effects on the U.S. office market might be …

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Much of the office sublease space currently available in most U.S. submarkets may not be sublet … in San Francisco there is almost 2.5 million feet of office sublease space available but on a monthly basis little of this has been absorbed. In the East Bay, the I-680 Corridor, combined with the Tri-Valley region, has a total of about 600,000 sf of available office sublease. On top of these figures are a number of fairly large blocks of office space that are currently under lease but either totally vacant or almost totally vacant, and not on the sublease market. I know of several 50 to 100,000 sf office spaces where at most there are 20 employees, the company is paying the rent every month, and while they are considering putting the space on the sublease market, each month's delay reduces the remaining term and the salvage value. To differentiate one of my 10,000 sf office sublease listings, directly across from the Walnut Creek Bart Station, six-year remaining term, $1.90/rsf full-service rental rate with street signage and in mint condition, and to spice it up for the brokerage community on top of the sublease commissions, my client is also willing to give the broker a brand new Honda Fit automobile … in reality few of these car promotions end up with the broker taking the car as they almost always go for the $, and with subleases, if you are priced 25 to 50 percent below market rents, commissions need to be competitive to make the playing field level …

Walnut Creek Shadelands, located three miles to the east of the I-680/24 interchange, has always been a sleepy office rental rate bargain submarket of the East Bay. With almost two million square feet of non-owner user office and medical space and major 100,000+ sf corporate occupants such as Kaiser Permanente, Travelers Insurance, Vodafone and Bay Area News Group as occupants, the next 12 months may get interesting with CVS finally putting their 51,000 sf office sublease on the market, Systron planning to vacate 45,000 sf at the end of this year and Bank of the West vacating 42,000 sf in 2010. For a submarket where less than 23,000 square feet has leased in total during the past 12 months with almost all leases less than 1,500 square feet a piece, those may be tough spots to fill.

There are 1,286 blocks of available Class A and B office space in the San Francisco market, and 63 of those blocks (4.9 percent) have been introduced to the market in the last 30 days … The San Francisco office market is dominated by availabilities under 5,000 square feet. The average size of a Class A building availability is 8,105 square feet. The average size of a Class B building availability is 6,836 square feet. Of the total available contiguous blocks of space (87.6 percent) less than 10,000 square feet in Class A buildings are located in the Financial District. Of the total available contiguous blocks of space (66.9 percent) less than 10,000 square feet in Class B buildings are located in the Financial District. For the full report summary and the best info link on San Francisco office space please click here: **http://www.officetimes.com/Market%20Reports/SanFranDirectAvailabilitiesUpdates.pdf**

North American office market updates as of the end of the Second Quarter, 2009 show continues business contraction: "While the economy is showing signs of stabilizing, the outlook for the office market is not encouraging with little chance of new hiring until well into 2010." The U.S. national office vacancy moved up to 15.47 percent, almost a full percentage point increase in just the past quarter. Asking rental rates dropped five percent for Downtown Class A and one percent for Suburban Class A versus First Quarter 2009. For an extensive detailed listing city by city please go to **www.officetimes.com/marketreports** and click on 2Q09 Colliers International North America Highlights.

Here's one economist I really and truly hope is totally wrong! Doug Duncan, vice president and chief economist at Fannie Mae, "believes it could take up to 10 years for a substantial upturn to become evident in the real estate market," *California Real Estate Journal* (June 8, 2009).

A large percentage of commercial real estate sales these days are ALL CASH versus bank loans … I just received a title company report listing all the apartment, office building and shopping center sales for the past 30 days throughout Northern California, and with a total of 29 sales there were 17 ALL CASH and 12 financed … just a few years ago this report just for one county versus all the Northern California counties would have been pages long … and now eight counties combined including San Francisco and Santa Clara fill up only three pages of sales, but the good news is there are three pages of commercial real estate sales!

I've had more client property management complaints during the past few weeks than I typically encounter in an entire year. These calls come to me after the client gets frustrated after being unable to resolve multiple issues during a period of usually months, and the problems can include maintenance issues such as buckets sitting in the common hallway for months at a time collecting leaking condensation from rooftop HVAC units, insect infestations in quality office space, ceiling tiles collapsing on the client's desk due to water damage and a host of other issues. Most problems appear fixable, and I'm not sure if the low rents, combined with higher vacancies have put pressure on ownership to keep building management costs so low as it is counter-productive. Those of you reading this that have experienced sub-standard property management know the long-term bad feelings it can cause and I've seen tenants relocate regardless of economics due to a single but highly memorable property management incident that may have taken place years earlier.

My son Jordan, who turned 12 last May, had a recent growth spurt and is only half-a-head shorter than his dad. What is great as well are the maturity spurts that seem more frequent, although one has to continually remind oneself that he's still a boy, and my parenting skills cannot be put on the backburner, even for a moment. Being in the Boy Scouts is making a huge impact on his ability to stay organized, plan ahead and become a leader. It is really something to see some of these 11 and 12 year olds who just nine months ago appeared shy and tentative now stand up in front of more than 100 Scouts and parents, take charge, make announcements and run meetings. While we adults always seem to agonize over which event we have to miss when faced with multiple conflicts, Jordan is beginning to sort out his priorities and has little hesitation in picking Scouts over soccer one week and soccer over Scouts the week after. Madison, our seven-year-old daughter, is a real gem. She loves to read books three to four years ahead of her age group, is learning her multiplication tables, and can spend hours self-recording on video (thank goodness for reusable memory flash card technology) dancing her own jazz step routines and just as enthusiastically tearing it up with her girls soccer team Wild Ponies. To see Jordan and Madison's latest adventures go to **http://www.officetimes.com/2009/Oct09/JMoct09.htm.**

Seasons change, and birthdays and holidays seem to appear at a much quicker pace the older we get. My son recently went camping on a Boy Scout archery merit badge trip, without a tent, and a surprise rain storm soaked Jordan and his buddies. While you and I might have been upset if we had been the soakee, Jordan and his buddies turned it into a positive experience and when I asked him if he was going to bring a tent the next time he told me, "Nope, this was way too much fun!" For many caught in the commercial real estate downpour, this might not be a realistic attitude, but I'm now reflecting on how I can similarly turn my attitude and definition of "workplace joy" totally around – if we're stuck in this lengthy commercial real estate thunderstorm, what can I learn from my children that would allow me, in spite of the soaking, to also truly enjoy the rain?

Please call me if I can assist in any way in your commercial real estate needs. If it isn't my personal specialty, I can always hook you up with the best person for the job, just about anywhere in the world and any type of commercial real estate thanks to 33 years of professional networking!

Sincerely,

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