



Corporate Office Perspectives

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I recently gave a speech predicting where our commercial real estate market was headed and near the end of the presentation, I announced when the office market would turn around. The caveat, of course, is that certain submarkets will recover sooner and others later. Don't expect a rebound like the dotcom boom because we have a lot of mitigating factors that won't go away – we've sent millions of back-office jobs overseas and those jobs aren't coming back. We've eliminated layers of middle-management through technology, Blackberry, iPhone and software systems, and those layers are gone for good. We have the government at all levels and types which, in part, due to pension funding entitlements and job security, is upside down with layoff estimates in the 500,000 range. We are also lacking job growth engines, most homeowners still lack equity and so on but ... (drum roll please) February 22, 2012, the office market officially turns around. It will still take time to absorb all of our vacant space. At last now you have the official date. (Yeah, and call me February 23, 2012 and let me know if I was wrong...) Advice I gave lenders in the audience – keep doing work-outs, delay and pray, and do just about anything other than taking back the property which gets you in the chain of title, may expose you to code and life-safety upgrades, puts you in the property management business, opens your exposure to putting more money into the property for TI's on which you may never see a return and then at some point you still have to dispose of the property. Office building owners: Make whatever lease deals you can today, both short as well as long-term as our recovery will not be robust and is still down the road.

The cool factor ... Deloitte, the Big Four CPA firm, is downsizing from 285,000 square feet to 166,000 square feet of office space in San Francisco, and totally changing their work environment in the process. Instead of private offices, the new workspace will be about collaborative spaces, face-time, cafes and enclaves with the latest video-conferencing ... as the Managing Partner Mark Edmunds said in a *SF Business Times* interview published August 27, 2010, "The cool factor will be very high. We are reducing personal space, no doubt, but increasing cool collaborating space so we can do greater things for our clients. That is really the point of all of this because trust matters more than anything, and when you connect with each other, you team better, you trust each other more and do better things for your clients."

Recently published in the *National Real Estate Journal* (June/July 2010) issue was a chart showing the growth of troubled CMBS loans ... these are the large bundled commercial real estate loans which were made back in 2006 and 2007, packaged and then sold off to investors ... "The outstanding balance on commercial real estate loans in special servicing

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continues to mushroom, reaching \$81.3 billion in May 2010 as a growing number of borrowers encounter cash-flow problems.” Remember, it can be hard for lenders to justify new loans when the existing problem loan base is growing ... Our commercial real estate debt crisis may be with us for some time to come ... “Based on the amount of CMBS and bank debt still outstanding, there will be significant risks in the commercial markets for at least another three years. The bulk of the bank debt will not mature until 2013, and the current CMBS debt will not pass through the system until 2017. It is likely that financial markets as a whole will struggle through at least the end of that period.” *The Registry SF* (September 2010)

Teleconferencing Facilities: As technology and bandwidth become more and more evolved, teleconferencing will become more critical to a company and as prices drop, appeal to even the medium and smaller firms. Key aspects to keep in mind include the room location to minimize noise, light and glare – staying away from the windowline is generally preferred. Rectangular rooms accommodate the peanut gallery (support staff) but may require multiple cameras and undermine effective eye contact, while square rooms promote eye contact but may not readily accommodate the peanut gallery. As a rule-of-thumb, a 400-square foot room is sufficient to accommodate eight active participants and a peanut gallery. Figure on a video display of 50 inches for standard and 60 inches for flat screen plasma. Walls and floor slabs should be designed to include the room acoustically. Avoid locating fan-powered VAV boxes above or below the teleconferencing room. Diffused fluorescent lighting is ideal, preferably at an angle. *Buildings Magazine*

The list of Top 25 Commercial Real Estate Brokerage Companies was just published by *National Real Estate Investor*, and here are the top 15 ... #1 CB Richard Ellis #2 Colliers International #3 Cushman & Wakefield #4 Jones Lang LaSalle #5 Studley #6 NAI Global #7 Newmark Knight Frank #8 GVA Worldwide #9 The CORE Network #10 TCN Worldwide #11 CORFAC International #12 ONCOR International 13. Cassidy Turley #14 Grubb & Ellis #15 Marcus & Millichap

Start-ups going after commercial building efficiencies... “If it is longer than a two-year payback, it is hard to justify for many people,” says CEO Harry Sim, Cypress Envirosystems. Cypress provides technologies to retrofit legacy HVAC, steam and mechanical systems using wireless digital controls. The systems can be installed in 20 minutes without ripping up walls or ceilings. Agilewaves Inc. in Menlo Park has web-based software that monitors electric, gas and water use while automatically calculating a carbon footprint. Sunnyvale’s Serious Materials Inc. promotes windows that reflect heat but let in light, and is upgrading more than 6,500 windows for the Empire State Building. Redwood Systems in Fremont sells lighting efficiency through a central control for light-emitting diode systems. *The Registry SF* (September 2010)

Fifteen Trends That Will Reshape The Office, by Rick Newman (published online March 22, 2010).

1. The decline of the cubicle. Cubicle sales peaked in 2000 when they accounted for nearly 37 percent of all office furniture sales. This has fallen to 26 percent. Corporations now prefer more open spaces that foster collaboration.
2. More gathering spaces. Informal meetings, workers plop down with laptop or iPod.
3. Work lounges – but work gets done here.
4. The demise of foosball – Play games at home on your own time.
5. Less space, work flexibility is the status symbol, not the big office.
6. Wormhole – A workstation dedicated to online video-conferencing, with a connection to other key offices around the world.
7. Electronic Whiteboard – Communicates with the laptop by Bluetooth – Trend towards collaborative tools that benefit everyone in the room, not just a few.
8. Standing-room meeting table.
9. Work benches – Long tables with roving plugs for laptops, no legs or obstructions underneath, flexible and able to accommodate more or fewer workers.
10. Walkstation – Walk on a treadmill while answering email on a computer set up

ergonomically so you can reach it without tripping – At some companies workers rotate for 15 or 30 minute sessions and these are becoming popular for home. 11. The Shared Office – Like office hoteling but more fixed time schedules for telecommuters or road warriors. 12. The Switch Office – Doubles as a small meeting or conference room. 13. More Glass – Openness and approachability. 14. The Dinner Booth – Use hallways or other open areas with booths like you see in restaurants – Colleagues can grab a cup of coffee, sit down for an informal meeting. 15. The Empty Office – The ultimate status symbol, you have an office but you don't have to go there.

Deals and Rumors: Starting in **Fremont**, Solaria Corp. leased 44,000 sf of R&D space at 6200 Paseo Padre Pkway.; Biogenix inked 40,000 sf at 49026 Milmont Dr.; Santur Corp. leased 34,000 sf of R&D space at 40919 Encyclopedia Circle and Brush Wellman took 35,000 sf of R&D space at 44036 Grimmer Blvd. Slightly north in **Hayward**, Beeline Group leased 62,000 sf at 30955 Huntwood Ave. Jumping eastward, I was involved in Fireside Bank's partial lease termination to allow Patelco to sign for 56,000 sf at 5050 Hopyard Road in **Pleasanton**, and Xradia is relocating from Concord to 38,000 sf at 4385 Hopyard Rd. In **Livermore**, Tri-Valley Learning Corp. is in contract to buy 15 office/flex buildings totaling 100,000 sf and 13 undeveloped acres at N. Canyons Business Park. In **San Ramon**, I represented Clearwire in their new regional offices of 10,000 sf at 6111 Bollinger Canyon Road; California Insurance just signed for 11,000 sf at 3000 Executive Parkway. Up in **Walnut Creek**, Mechanics Bank purchased 65,000 sf of office space at 1111 Civic Drive to consolidate operations; Paradigm is relocating from Concord to 35,000 sf at Treat Towers where MetLife just signed a 20,000 sf lease. In **Concord**, I represented Biocare Medical for a 14,000 sf lab expansion. Out in **Antioch**, Kaiser Permanente purchased a 40,000 sf office building at 3454 Hillcrest Drive. In **Oakland**, Advanced Physical Medicare & Rehab bought a 20,000 sf building at 380 W. MacArthur Blvd. and Turner Construction leased 14,000 sf at 1111 Broadway. Across the Bay, AOL sublet 225,000 sf from Google at 395 Page Mill Rd. in **Palo Alto** and in **San Carlos**, MarkLogic Corp. expanded by 18,000 sf at 999 Skyway Rd.; NIKU leased 51,000 sf and Pano Logic 34,000 sf, both leases at 2000 Seaport Blvd. Cardiovascular Simulation took 34,000 sf at 1700 Seaport Blvd. and Arstatis leased 60,000 sf at Woodside Technology Center in **Redwood City**. Equinix leased 79,000 sf and MyRAQA took 10,000 sf, both deals at 1 Lagoon Drive in **Foster City**. In **San Francisco**, DLA Piper leased 28,000 sf at 153 Townsend St.; IGT took 46,000 sf at 405 Howard St.; Shook, Hardy & Rosen leased 37,000 sf One Montgomery Tower; Salesforce.com took 71,000 sf at 123 Mission St.; Cypress Insurance sublet 46,000 sf at 525 Market St.; Carr Workplaces leased 22,000 sf at 4 Embarcadero Center and Academy of Art College took 20,000 sf at 631 Howard St. Office subleases at 22 Fourth St. included Men's Warehouse for 15,000 sf; Touch For America for 16,000 sf, Power Reviews for 16,000 sf, and Demand Force and ZoomSystems sublet a total of 36,000 sf in this same building. Jackson Jenkins Renstrom leased 21,000 sf at 55 Francisco St.; Zynga leased 270,000 sf at the Townsend Center at Townsend and Eighth Streets; Twitter for 250,000 sf; Dolby Labs is rumored to be looking at 291,000 sf at the Terry Francois building. United Business Media leased 37,000 sf at 303 2nd St.; Euro RSCG San Francisco signed a 16,000 sf lease at 1355 Sansome St. and the U.S. National Park Service leased 53,000 sf at 333 Bush St.

Funky cool space in higher demand than high-rise Class A space ... a recent article in the *SF Business Times* about all the tech office tenants focusing on South of Market creative space buildings versus more traditional Class A high-rise, with rents in some cases are higher in the Class B brick and timber renovated spaces than in the Class A downtown buildings ... cool tech is in ...

"In the capital markets, lengthy deleveraging and banks' accumulation of distressed assets make a stable recovery unlikely, author John Murray, commercial real estate portfolio manager at PIMCO, and his co-authors conclude. "Many commercial real estate assets likely will not return to 2007 prices until the end of this decade" the report warns. *National Real Estate Investor* (June/July 2010)

A Truly Green Office Broker

♦ LEED Certified ♦ Drives a Prius or Tesla on client tours ♦ Only uses a Nalgene water bottle and is willing to share ♦ Wears clothes made out of recycled materials ♦ Never prints out lease drafts to review but does this online ♦ Carries an organ-donor card that certifies all parts of his/her body are to be reused by others in case of death ♦ For client tours of office space, loans each client a pre-loaded iPad which has all the building floor plans, amenities and aerials already loaded in for their viewing during the tour. By the time the client returns to their office all this information has been emailed to them or is available through the broker's website portal – no dead trees from stacks of brochures and tour packages ♦ Points out buildings with Segway parking stalls and electrical charging stations for cars. Please send other creative Green Office Broker ideas to jweil@colliersparrish.com

As reported in *Buildings Magazine*, “Nearly 75 percent of executives surveyed recently by Deloitte expect interest rates to rise in 2010, with almost 50 percent expecting rates to increase by 50 basis points or more. More than half of the executives think cap rates and discount rates will increase. ‘The commercial real estate market continues to be adversely affected by one of the deepest recessions in decades,’ said E. J. Huntley, principal at Deloitte. ‘Increased unemployment has resulted in less demand for office space, reduced rents, and an overall decline in commercial property values.’”

Another tool for telecommuters who miss the water cooler gossip ... Salesforce.com has a new application called Chatter which allows workers to follow each other, their customers and deals “in the manner they would on Twitter.” They are able to keep up with their colleagues from around the company, no matter where they are located, and e-mail traffic at Salesforce.com has fallen 40 percent since their employees started using Chatter. If you are already a customer you get it at no additional charge and otherwise it is \$15 a month ... so you can be as connected as someone in the office even though you might be in your pajamas working from home ...

Over on the San Francisco Peninsula, in the city of Brisbane at 8000 Marina Blvd. the 200,000 square foot Class A office building sold in 2005 for \$53.8 million, or \$280 a square foot, and then in 2007 sold again for \$71 million, at \$365 a square foot. The property just went back to the lender, and recently sold for \$30 million, or \$155 a square foot ... oh, the value of timing!

Office tenants currently going through lease renewals may wonder why their square footage might be increased in their lease renewal ... they look around at the space and it doesn't look like it grew at all. No signs of construction pushing out any of the walls or windows so there really hasn't been any physical increase, just a change in the way BOMA (Building Owners Managers Association) calculates how an office space is measured. Why, they ask me, is it always an upward change that is disadvantageous to the tenant? I tell them BOMA is the office building landlords' association and if the tenants want to start their own organization and then redefine how buildings and space get measured, downward of course, they would still have to get buy-in from the landlords ... just like my 8-year-old daughter is always telling me when her older brother gets something she can't have ... It's Not Fair! Yup, it's not ...

ENERGY STAR-certified buildings study ... As reported in *Buildings* (July 2010), “A joint study released last year by real estate faculty members at Indiana University and the University of Arizona found that ENERGY STAR-certified buildings had higher market values (13.5 percent) and higher net incomes per square foot (5.9 percent).

“If you want to get financing done today for commercial real estate you need the right property, the right market, the best tenants, and an experienced borrower or sponsor” ... and great properties may experience lenders bidding for their business ... however, if you have a partially leased commercial property in perhaps not the best location with maybe not the best credit tenants with lease rollovers on the horizon ... this may mean either expensive financing or none at all ... *Realtor.org* (August 2010)

Get ready for possible cost increases for commercial real estate due to International Code Council changes for 2012 ... such as mandatory automatic fire sprinklers and irrigation systems for roof gardens and vegetated roofs that qualify for green building credits (kinda like a special tax for Prius owners as a disincentive for helping the environment ...), installation of additional fire service elevators in newly constructed buildings (the *Buildings* July 2010 article didn't mention the size threshold); retrofit of fire extinguishers in buildings with automatic sprinklers ... and more ...

Cabling removal ... just in case you have always wondered what a ballpark cost would be to remove cabling from a traditional 30,000 sf office space, according to one local vendor about \$2,000 to \$5,000 total ... now you can sleep at night!

Offshoring used to be the domain of the large corporations who sent their back-office jobs to India, the Philippines and elsewhere ... now even smaller companies are taking advantage of both full-time as well as part-time employees being hired offshore. Thanks to technological advances in the speed of the Internet and tools that are available no matter how large or small your company may be, whatever job function can be done effectively, securely and cost-efficiently at substantial savings may be headed permanently to lower-cost regions ...

Supersize me ... the Westside Pavilion in Los Angeles is 739,822 square feet, pretty big for a retail center ... but compare that with the South China Shopping Mall at 7,100,000 square feet in size! *Wired* (August 2010)

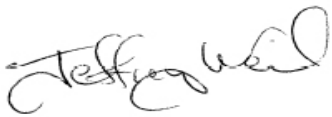
If you want to see a really neat study on comparative costs for international business locations which examines 122 cities in North America, Asia, Pacific, Europe and Latin America, please check out www.competitivealternatives.com

Last weekend I completed a 155 mile two-day bike ride, Waves-to-Wine, which raises funds for MS (Multiple Sclerosis). The ride started at Mission Bay in San Francisco, went up Highway One and then inland through Sonoma's vineyards. At times the scenery was breathtaking, and if any of you would like to join me (and 2,000 other riders) next year please let me know. They are still accepting donations and/or if you'd like to learn more about this event please go to http://main.nationalmssociety.org/site/TR?px=7075340&pg=personal&fr_id=13803&s_tafid=174929

Jordan attended two Boy Scout camps during summer and was honored last month, advancing to the rank of Life. He just turned 13, has earned 30 merit badges, and is now working on his Eagle rank. Still playing soccer, Jordan just began lacrosse to join his many friends playing this fast-paced sport. Madison has her dad managing her soccer team and continues to amaze us with her goal saves as goalkeeper and her three goals in just a 10-minute period. As an 8-year old, her vocabulary and communication skills keep evolving and there are many times when we wonder, where did she ever learn that? ... Photos of their recent adventures can be seen at <http://www.officetimes.com/2010/Oct2010/JMOct10.htm>

Like most of you I have a tendency to over-commit – managing a girls soccer team, driving my son to lacrosse practice, being active in his Boy Scout troop as one of the Assistant Scoutmasters, working hard for my clients, staying on top of the office market, networking with other top office brokers through SIOR and other formal and informal organizations, getting to the gym as much as possible to swim and lift weights, outdoor sports with friends and family, and also making sure there is sufficient downtime. I was in Strategic Coach for 12 years and one of their many great concepts was The Gap Theory, which is to not “fall into the gap” which is getting 80 percent of your goals accomplished versus 100 percent. My “bucket list” grows longer each year, but that is ok, and while you and I may not be the perfect father, mother or brother, sister, son, daughter etc. we should feel very proud of ourselves for who we are and what we’ve done. There is no other attitude possible and any other direction is detrimental all the way around. We make mistakes, life goes on, and God gives us more opportunities to make all new mistakes – that is just the way life is ... Have a great pre-Fall season, please call me if you have any commercial needs or questions regarding any product type anywhere in the U.S. and 51 countries we serve, and God bless!

Sincerely,



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