



Corporate Office Perspectives

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The office market 'Big Picture': I am in a group of 70 office tenant representation brokers, and our members are based in New York, Chicago, Atlanta, Los Angeles, Seattle, Houston, Vancouver, Dallas etc. Overall, the national trends are a sluggish hiring environment, where both large and small firms are reluctant to take on new permanent employees. Mobile devices like the iPad, cloud storage and tech-savvy younger workers are lowering the amount of office space needed to get their jobs done. Class B tenants are taking advantage of inexpensive Class A office spaces and even in areas where office leasing is less than robust, Class A office building owners have begun to raise their rents. Tenant improvements are still costly, and landlords seem to be more cautious in the financial scrutiny of new tenancies, especially when the TIs exceed the normal offered allowance. Markets can vary dramatically by submarket such as in San Francisco where \$60/rsf per annum rents have ignited new construction and yet only 30 miles away in Concord and Walnut Creek, foreclosed office buildings are still hitting the auction block. Corporate America continues searching for more methods of outsourcing and downsizing, and with few exceptions (tech, social media) there are no major engines of hiring growth to soak up the still massive amounts of office space overhang. In summary, the office market is not so great, but hey, it could be a lot worse ...

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Tech office design has spread to other industries ... and one San Francisco law firm with 200 attorneys just got rid of all designated attorney offices entirely. That firm's prime view space is now devoted to public meeting areas for attorney collaboration. Fixed offices have been replaced by war rooms where employees can locate for weeks or months working on a specific case, and employees are increasingly logging into the work computer from whatever monitor or phone they happen to be near. The law firm, Best & Krieger, is also into substantial savings on costly real estate, with per attorney square footages going from 700 sf down to 500 sf. In other industries, new technologies and different ways of doing business are illustrated by, for example, at Chevron where most employees spend their days communicating with teams around the world instead of co-workers sitting down the hall from them. Tax advisory services firm KPMG recently redesigned all its offices towards supporting mobility and cutting offices that were rarely used. Employees who work mostly at client offices gave up their private offices, *San Francisco Business Times* (8/17/12).

As baby boomers retire, the generation Y or Millennials who grew up with technology are causing employers to re-evaluate workplace strategies, resulting in office space reduction, but increased workplace flexibility, remote workforce, different work environments, team rooms, lounges, wired common areas and workforce mobility support by the employer.

The new Menlo Park Facebook office campus will have its own Main Street, with handpicked retail stores offering fresh sushi, straight-razor shaves, free gourmet food at places like Lightening Bolt's Smoke House serving barbecued ribs and chicken, Big Tony's pizzeria with New York style slices, and lots more food establishments, a bike repair shop, health clinic and more. Food carts will be dispatched around the campus so employees won't have far to go.

According to the *San Francisco Business Times*, various commercial brokerage houses have reported office rents in San Francisco increasing between 2009 and 2012 at 59 percent, the second-highest rent growth in the U.S. after Mountain View which increased 83 percent. San Francisco won the "fastest short-term rent growth in the world" contest with a 23 percent increase from June 2011 to June 2012 ... as a tenant rep broker I am not sure this is quite a good thing ...

Overseas health care off-shoring is increasing in India and the Philippines, with clinical services, pre-service nursing and other health care functions. WellPoint has eliminated hundreds of jobs in the U.S. during the past 18 months as it moved jobs overseas. "Outsourcing jobs to places such as the Philippines can save U.S. health care firms 30 percent in labor cost, according to experts" ... hmm, want to know a great way to cut Federal spending by 30 percent? *Contra Costa Times* (7/29/2012).

Dilbertville in transformation ... instead of a row of cubicles, there are table surfaces that can fit along the length of a wall with computer monitors that are attached to a metal railing, allowing workers to sit or stand and move their monitors as needed. These can accommodate 10 to 12 workers. There are also collaborative cubicles and these days, color schemes include bright colors, getting away from the beige, grey and browns of the past. Costs can be substantially lower, and the two trends are putting more workers in less space, and increasing collaboration while doing so, *San Francisco Times* (8/17/2012).

Deals and Rumors: In **Concord**, long-anticipated Fresenius Medical Care lease for 152,000 sf plus 30,000 sf construction project was signed at 4040 Nelson; JFK University leased 11,000 sf at 2702 Clayton Road and Adoption Center took 10,000 sf at 2300 Clayton. In **Walnut Creek**, US Communities relocated to 15,000 sf at 2999 Oak Road, Pacific Coast Bankers took 14,000 sf at Growers Square; and FM Global is close to a 30,000 sf relocation to 1333 N. California Blvd. In **Pleasanton**, Golden State Overnight might be leasing 15,000 square feet at 7901 Stoneridge; ServiceMax signed for 17,000 sf at Hacienda West; and WorkDay is reportedly in negotiation to acquire the entire 1.2 million sf Rosewood office complex (brings back memories of my biggest deal to date, representing AT&T on its 1.2 million sf deal there back in 1983) ... In **Fremont**, Seagate bought the 412,000 sf facility formerly occupied by Solyndra on Kato Road; and in **Oakland**, Pandora Media just expanded by 25,000 sf at 2100 Franklin St. In **Sunnyvale**, the big deals include LinkedIn inking 560,000 sf at 555 N. Mathilda and Apple signing for more than 1 million sf of expansion office space in 11 different buildings. In **San Francisco**, Box took 20,000 sf at 100 First St.; Appirio leased 25,000 sf at the Phelan Building; Lithium 51,000 sf at 225 Bush St.; Regus signed two leases, one for 14,000 sf at Golden Commons and a 16,000 sf lease at 201 Mission St.; Square is reportedly looking at 1455 Market St. for 250,000 sf; Dolby purchased the 354,000 sf office building at 1275 Market St. for its headquarters; The University of California San Francisco will break ground this December on a new 251,000 sf office building in Mission Bay; New Relic signed for 55,000 sf at 188 Spear St.; Pinterest leased 60,000 sf at 808 St.; and Yelp Inc. leased 98,000 sf at 140 New Montgomery. Whew!

Co-working shops in San Francisco allow thousands of office users a place to rent desk space or an office on a short-term basis, with common kitchen/café areas, conference rooms, internet services, and copiers and scanners. Prices range from \$39 for a drop-in office, to \$1,200/month or more for a reserved office. Many host social gatherings, classes and professional development programs to help members network and become more successful.

The California economy is now predicted to stay in its slump until the middle of 2013, with 10 percent unemployment remaining until then. “Two of California’s three major urban centers, the South Bay and the San Francisco-San Mateo-Marin region in recent months have posted the fastest rate of annual employment growth in the country. East Bay job growth remains relatively feeble, however.” The weak East Bay office market hasn’t stopped landlords from raising rents regardless ... *San Ramon Valley Times* (9/21/2012).

The new 251,000-square-foot University of San Francisco office building at Mission Bay will feature shared workspaces and no traditional offices. There will be plenty of ‘focus rooms’ where staff can retreat for confidential phone calls or quiet time to write a report, with a ratio of one focus room for every four work stations,” *SF Business Times* (7/27/2012).

In Pleasanton, Bryan Wassom just invented a “bike desk,” which is a desk-modified recumbent bike where you can pedal away, burning up calories while you do your reports and business calls ... called the *ActivOffice Exercise Desk*, no danger of texting while riding and getting whacked by cars ... I would imagine the next phase of development will allow the worker to harness the energy generated and feed it back to the grid, *MercuryNews.com* (July 10, 2012).

The new Apple campus will have bus coach shuttle service to and from multiple locations around the Bay Area, coach shuttle service to public transit stations for Caltrain, Altamont Commuter Express and Valley Transportation Authority. Apple’s website will match carpool and bike route matching services. There will be a \$100/month transit subsidy per employee and a \$20/month bike subsidy for bicycle commuters who don’t use local transit. Bike racks, pumps, lockers and showers will be available at the campus and there will be a bicycle sharing program.

Looking back to leasing activity in the Colliers Q1 2000 report, “The North Contra Costa submarket with a vacancy rate of 4.9 percent ... from late February to early March the market was hit with a rent spike, with asking rental rates increasing 21 percent ... The Shadelands (Walnut Creek) kept on pace with the other two Walnut Creek markets, posting a vacancy rate of 2.1 percent.” Today the vacancy rate in Shadelands is 21 percent, but heck, it is only a decimal point differential ...

Energy management systems designed for smaller building sizes and high energy intensity uses such as medical offices and restaurants for small building owners - check out the free Siemens EcoView mobile app available in Apple iTunes ...

21st Century office Design – More-with-less Philosophy prevailing ... Office Space in Europe already averages 100 square feet and “CoreNet Global’s data predict 40 percent of North American companies will be running on similar space requirements by 2017 ... Companies are using less workspace, but they are making it more inviting, open, progressive and collaborative. Boyd Zocab, past chairman of BOMA, stated, “We’ve heard about groups as low as 40 square feet (per employee). That’s not because everyone is in small cubes. It’s because the tenant didn’t feel the need to have a space for every employee.” The CoreNet Report revealed that 70 percent of employees regard the office as the best place to interact with colleagues – but that’s not slowing the trend towards brick and mortar taking a backseat to a growing mobile workforce,” *Better Buildings* (July/August 2012). “Younger generation workers like the ability to work in teams, have greater freedom, mobility, and work flexibility,” Keith Penske of E-Business strategies states, “Cloud computing is about to be replaced by ‘always networked’ personal devices with near-infinite memory – collaboration in the pocket, and one day soon, wearable technology.” A recent report by Cisco found that 40 percent of college students and young employees said they would accept a lower-paying job that had more flexibility with regard to device choice and mobility than a higher-paying job with less flexibility,” *Real Estate Forum* (July/August 2012). At a recent Symposium sponsored by BOMA and BUILDINGS titled “Real estate 2020: The Shape of Things to Come,” research showed that office workers typically report that they are more productive working from home, and that this trend combined with the high operating costs of traditional office space will continue to shrink the average square footage devoted to each office worker. CoreNet Global research suggests that “corporate office space could shrink by as much as 40 percent by 2020.” *Buildings* (August 2012).

When contemplating installing a solar panel array on your roof, make sure to evaluate the condition of your roof first as if

the roof needs replacing in the next 5 to 10 years, you may want to do this prior to installation of the solar panel system. If the roof needs to be replaced after the solar system has been installed, you will have the additional cost of removal and reinstallation. (Bill Sutton with Wohlsen Construction and Mike Newman of Haller Enterprises in the *Harrisburg Commercial Real Estate Review*)

In August, my 15-year-old-son Jordan and I went with our Boy Scout troop on a nine-day canoeing adventure in the Canadian wilderness of Northern Tier and Crownlands. We had an amazing time! We went days with no other human encounters, camping on remote islands and spectacular scenery. Jordan is a high school sophomore and loving it. Madison, my 10-year-old daughter, is a pistol on her soccer team, The Rattlers, and really enjoys fifth grade. Their recent photos can be seen [here](#).

It is at this point in my newsletter that I offer a few choice words of reflection. In a few weeks on October 11 (my birthday), I begin my 37th year representing office tenants and selling commercial property. My childhood friends who work in government and corporate careers have begun to retire with cushy pension and retirement benefits. Most of my fellow office brokers either enjoy the business too much to want to quit (like me), or have seen the past five years of our economy force them to continue working well beyond where they once thought were the “golden” years (like me as well ...). Expensive children’s education, divorce, or misguided investments have kept others in the game past their intended time. I’m sure this has affected many other professions as well. Corporate America needs us more than ever and I doubt the office leasing brokerage career will ever go the way of the VCR repair industry ... or could it? Call me and I guarantee you the best commercial real estate service on the planet!

Sincerely,



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