



Is this the quiet before the storm or a slice of office market tranquility? The past few months have been relatively calm, with few large Bay Area office transactions to report. However, office rental rates in a number of sub-regions continue to rise even without significant vacancy rate decreases. Existing office product seems to be sold to investors and owner-users, not based on the capitalization rate or today's investment return, but instead on tomorrow's new office replacement cost and future, higher rental rate projections. Both landlords and tenants still feel they are in the driver's seat, but the landlords seem to be slowly gaining control of the steering wheel ...

“Opulence is out and frugality is in at San Francisco law offices. As law firms look for ways to cut costs, many are doing so when they move into new office space in the city. Some firms, for example, pack more lawyers into less space. Others are willing to give up the stunning views offered by top floors for more pedestrian vistas lower down. Still others adopt uniform office sizes for partners and associates alike.” *San Francisco Business Times* (8/10/06)

“User Demand Is On The Rise In Many of the Nation's Top Markets, And In Some Cases, So Are Rental Rates. Seven of the 22 major markets tracked by Rreef Research are forecast to see vacancy declines of 200 basis points or more this year, including Atlanta, San Francisco and Seattle ... Relying on the consensus U.S. economic forecast of continued annual GDP growth in the 3 percent to 3.75 percent range for this year and next, Newmark Knight Frank anticipates that office employment nationwide will increase by about 600,000 each year, translating into as much as 125 million sf of space absorption. If such a scenario plays out as projected, the national office vacancy rate could approach 10 percent by the middle of next year, at which time rents might begin to increase more rapidly.” *Real Estate Forum* (July 2006)

Shrinking Workstations: “Research conducted by Allsteel, Inc. reveals that only 16 percent of workers are occupying spaces measuring 10 x 10 feet or larger; 8 x 8 feet and 6 x 8 feet are the most common workstation sizes ... Estimates in the 2005 article ‘Global Workplace Trends: A North American and European Comparison’ indicates that floorspace allocation of individual/collaborative space

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is 80/20; this ratio will rise to 60/40 over the next five years.” With flat screens and smaller personal computers, computers no longer dictate the configuration of workstations, and work surface depth has decreased. After all: when workspaces don’t work, employees can’t work, either.” *Buildings* (August 2006)

The 2005 top 12 U.S. tech region’s venture capital investment: Silicon Valley (\$7.9 billion); Boston (\$2.1 billion); Portland (\$1.8 billion); Seattle (\$1 billion); Washington (\$967 million); Southwest N.J./Pa. (\$732 million); Denver (\$594 million); Austin (\$438 million); San Diego (\$409 million); New York (\$229 million); Chicago (\$227 million); Research Triangle, N.C. (\$136 million) *San Francisco Chronicle* (9/1/06)

The *San Francisco Business Times* (7/21/06) quoted construction consultant Alice Nguyen of Davis Langdon as saying demand for contractors, materials and labor will continue to outstrip supply, driving cost up another 10 to 15 percent in the next 12 months. Construction costs have jumped 33 percent during the past three years.

Deals & Rumors: Let’s start with **Alameda**, for a change ... Bioneer leased 22,000 sf and Voxify 24,000 sf, both leases at Marina Village, and Donsuemor Inc. took 30,000 sf at Harbor Bay Business Park. Just across the estuary in **Oakland**, Kaiser Permanente leased 29,000 sf at the Ordway Building, 25,000 sf at the Kaiser Center and 23,000 sf at 2101 Webster St., and Union Bank of California leased 15,000 sf at 505 14th Street. In **Martinez**, Whirley Parsons leased 17,000 sf at 777 Arnold Drive. In **Walnut Creek**, Wells Fargo leased 12,000 sf at 2033 N. Main St., and Liebewitz, Cowdon took 12,000 sf at 100 Pringle. Down in **Pleasanton**, MegaPath signed up for 30,000 sf at 5667 Gibraltar. Over the hill in **Fremont**, NetVersant Northern California leased 30,000 sf at 47811 Warm Springs Blvd., and across the Bay, Kabira took 20,000 sf at 1850 Gateway Dr. in **San Mateo**. Further North on the Peninsula, Philips Healthcare Informatics inked 52,000 sf at 4100 E. Third Ave. in **Foster City**, and in **Brisbane**, CoTherix leased 28,000 sf at 2000 Sierra Point Parkway. In **South San Francisco**, Catalyst Biosciences leased 33,000 sf 260 Littlefield St., Hitachi Software signed for 10,000 sf at Gateway Commons, and Genentech announced a 2.5 million square foot office/lab expansion to house 16,000 more employees; also in South San Francisco. In **San Francisco**, Twin Capital Mortgage leased 17,000 sf at 650 Townsend St.; Renaissance Technologies will be moving to 11,000 sf at Piers 3 & 5; National Association of Securities Dealers leased 20,000 sf at One Montgomery Tower; Perkins Cole committed for 20,000 sf at Four Embarcadero Center; GSA signed for 32,000 sf at 160 Spear St.; FibroGen may be taking 239,000 sf at 409 Illinois St. in Mission Bay; Riverbed Technologies may have a LOI at 199 Fremont St. for 63,000 sf, and at the same building Starmine is also rumored with an LOI for 20,000 sf; MD Beauty expanded from 55,000 sf to 80,000 sf at 71 Stevenson St.; Sunset Scavenger leased 20,000 sf and UCSF expanded from 15,000 sf to 43,000 sf, both happening at 150 Executive Park; BEA Systems, Inc. leased 110,000 sf at 475 Sansome St.; Perpetual Entertainment expanded from 11,000 sf to 22,000 sf at 149 New Montgomery St.; Check Point Software Technologies leased 25,000 sf at 650 Townsend; and last but not least, the city and county of San Francisco leased 132,000 sf, also at 650 Townsend.

“Generation Y” (those born after 1980), the younger workforce known for wearing flip-flops and listening to iPods at the office, has been transforming the culture of corporate America. But they are also changing the physical work space. Businesses are now providing “personal” rooms, more open areas and break lounges with full kitchen amenities. The corner office with windows is no longer just for executives. Instead, it’s now a cubicle for any employee – traditional offices have been moved to the inside of the floor, sans city view. There are “touch-down” workstations for drop-in workers, large gathering areas, and full-size kitchens and dining areas that serve as break rooms ... They are working with colors, plants and light to create an environment that feels airy and more open even though more people are working in smaller spaces ... Cubicle space is smaller and divider walls are shorter. But younger workers – Gen Y (those born after 1980) and Gen X (those born 1965-1979) – also want multipurpose rooms and diverse functional spaces. Gen X and Gen Y are social. They really want to be part of a working community. “The bar has been set,” says Allison Johnson, a 24-year audit practices staff member at Deloitte & Touche in Dallas. “The way the floors have been designed, it’s very modern. It definitely appeals to our age. Why leave when it’s a fun, very enjoyable workplace?” *Dallas News* (9/6/06)

Adobe Systems became the first company to receive a platinum award from the nonprofit U.S. Green Building Council. That makes Adobe’s San Jose headquarters the greenest corporate building on record in the United States. Even more impressive is that Adobe earned the honor by retrofitting its existing office towers (about 1 million square feet); most of the 151 buildings that have received the council’s gold rating are new structures. By installing everything from motion detectors to waterless urinals, Adobe has reduced its electricity use by 35 percent and its gas consumption by 41 percent since 2001, at the same time that its headcount has swelled 80 percent. To date, the company has invested about \$1.1 million in 45 energy-efficient projects, yielding nearly \$1 million in annual savings, including about \$350,000 in energy rebates. *Business 2.0* (September 2006)

If you or your organization is interested in sustainability, building green and LEED please check out www.buildings.com/usgbc as well as <http://www.usgbc.org/DisplayPage.aspx?CategoryID=19> ... and for those of you that have always wondered what LEED stands for: Leadership in Energy and Enhancement Design.

“San Francisco is running out of room downtown. Office vacancy rates have fallen from 20 percent in 2002 to below 12 percent today. It’s not just that we’re out of rentable office space, it’s that we’re out of land for new office buildings. There are just three more entitled office projects in the entire downtown. While there are more sites that could be developed as office buildings, we’re starting to approach the end of sites that are zoned to allow this ... Over the next 25 years, the Bay Area is projected to add 1.5 million jobs. Where will they go?” *San Francisco Business Times* (7/14/06). “San Francisco’s first speculative office building since the dot-com era” plans to begin construction by the end of 2006 on a six-story 300,000 sf office building ready for January 2008 occupancy. It is on the water in Mission Bay, and will feature floor-to-ceiling windows with views of the bay and South Common Park, private balconies, ground floor retail and 50,000 square-foot floor plates.

U.S. parking costs: Midtown Manhattan is \$574/month for a parking space, downtown Manhattan \$500/month, \$420/month for Boston, \$335/month in San Francisco, \$332/month in Chicago, and in Memphis parking is \$20/month where for the price of a New York spot, you can probably rent an entire house ... Three of the five least expensive parking districts in the U.S. are in California: Walnut Creek (\$35 a month), Bakersfield (\$40) and Fresno (\$50), *San Francisco Business Times* (8/11/06)

It seems every October newsletter I mention the anniversary of when I first entered commercial real estate, so on October 11, my birthday, I begin my 30th year of this great career. The *East Bay Business Times* has honored me as a finalist as their “Broker of the Year” which will be announced on October 12. Thanks to all of you who have helped make this a wondrous profession!

The U.S. General Services Administration has 8,920 government buildings with 342 million square feet of space.

“Preparing for a Pandemic,” *Buildings* (July 2006). “According to the World Health Organization and the U.S. government, the spread of avian flu – with its staggering 50-percent mortality rate – could inflict prolonged personnel shortages. During a pandemic, you could lose access to your administrators, cleaning staff, security staff, inspectors, sales force, and even executive leadership.” More on this at www.officetimes.com

Cabling update: While the National Electrical Code (NEC) and National Fire Protection Association (NFPA) 2002 and 2005 updates requiring abandoned copper and fiber cable be removed from concealed spaces may not have the effect of law, “the majority of jurisdictions in the United States adopt NEC and NFPA standards into local building and fire codes; these codes are then enforced by the authority having jurisdiction ... Before leasing to a new tenant, survey your building and remove unused cable. New tenants cannot be expected to address existing cable issues.” *Buildings* (July 2006)

Those of you who have had kids know how hectic life can be, especially when they get involved in sports and extracurricular activities. Jordan is in a U-10 competitive soccer league and some weekends has as many as four soccer games. He is in his fourth year of Cub Scouts and just to fill up the two hours of weekly free time after doing his homework, religious school and hand chimes, decided to take clarinet lessons, practicing almost daily. (Yes, he still has plenty of free time to be a kid!) As I write this, Jordan is getting ready for the championship game of a two-day soccer tournament, including several neighboring cities, and off I go to help out, probably in mid-sentence. Madison, 4, wants to be just as involved but fortunately isn't. She has learned several card games, which is a riot as her hands are too small to hold the cards. So she spreads them on the floor in front of her and admonishes everyone not to look at her cards. P.S.: Jordan's team did win the tournament and oh how excited his team was! Go to www.officetimes.com/JMOct2006.htm to see Jordan and Madison's webpage!

Spring now turning to fall, and advertisements for skis and winter coats instead of beach gear. Last weekend I purchased my Dilbert 2007 desk calendar – each year seems to go by quicker than the previous one ... Enjoy what good weather still awaits, and we'll be back to you in December!

Sincerely,

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