



Corporate Office Perspectives

October 1, 2011

Issue: 189

I wish this economy would get back on track so this OfficeTimes newsletter could be more upbeat – I know that even though office users today can get absolutely incredible lease renewal, relocation and owner/user purchase deals, almost legally stealing space, most wouldn't mind paying higher prices in a robust economy where their sales and net profits made what they were paying for office space comparatively insignificant. Today you can get a 30-year house loan (if you qualify, of course) fixed for less than 4.4 percent, and when I flash back to my first home purchase in 1978 where my purchase contract financing contingencies stated "interest rate not to exceed 18 percent" – what a bargain loans are today. Other than a few select professions like software programmers, it is a field day for companies looking to hire new employees, which is the flip side of a 9 to 12 percent unemployment rate. Overall, we don't have gas, water, power, food or other shortages, and remember the even-odd gas days of way back when? So many silver linings in this down economy, and yet most of us would trade them all for a robust (not frenzied or bubble) booming economic marketplace – even with higher office rents!

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The new trend in office design – cubicle free, emphasis on enhancing worker productivity, and making interior design a measureable driver of return on investment. "Driven by a recovering economy, advances in mobile computing and a looming sea change in the U.S. workforce, technology companies and companies across corporate America are rethinking office interiors" ... George Salah, Google's director of real estate and workplace services, says his company is looking out years in advance. "The kids that are in high school today are the ones we are going to be accommodating in five years. We need to anticipate that. They are becoming increasingly mobile. They want to be able to work wherever they are – at lunch, during a meeting or at a desk." *TheRegistrystf.com* (March 2011)

Optimal utilization through structuring workspace around how work is done ... "corporate real estate is a valuable asset, typically second only to payroll in expense. But if you're not fully utilizing that asset, you're essentially losing money. There's a lot of wasted real estate usage," explains John Anderson, president and CEO of PeopleCube. "If you walk into a building, typically 40 to 50 percent of the real estate is not being used on a given day. I'm talking about conference rooms, cubicles, offices, etc. If I've got 40 to 50 percent of my building not being used, I'm spending a lot of money on energy that I don't need." (This was a direct magazine quote, but I think "rent" would be a better word than "energy".) "Promises that technology will allow

people to work anytime, anywhere are coming true, freeing knowledge workers from the need to come to the office to get their work done,” says Dean Strombom, principal with Gensler. “Look around most workspaces today and you’ll see lots of empty desks. It’s not that there isn’t someone assigned to the desk, it’s just that they are only physically there about 30 to 40 percent of the time.” “The nature of employees’ work and company culture is not always conducive for a completely open office environment,” says Coy Davidson, senior vice president in Colliers International’s Houston office. “In some cases where a higher proportion of private workspaces is preferred, collaboration is promoted by providing more common open lounge and conference areas for use by employees and teams.” Providing collaborative space can also be done by adding small tables with chairs near clusters of desks, a couple of chairs with a whiteboard in the corner, or even allocating space in the lunchroom. *Buildings* (July 2011)

The foreboding overhang of underwater residential mortgages has a very major impact on job growth ... According to the *San Francisco Chronicle* (8/23/11), “Homeowners are more than 30 days past due on mortgage payments for 4.4 million properties in the United States, and 2.2 million more properties are in foreclosure, representing \$1.27 trillion of unpaid principal, estimates Lender Processing Services Inc.” Combine that factoid with what was published on the front page of the *LA Times* (8/14/11), “Many businesses aren’t hiring because they’re worried about the economy – which can’t improve unless businesses hire” ... and remember, the majority of job growth doesn’t come from the major top 2,000 corporations, but comes from the hundreds of thousands of mom and pop businesses like your local CPA, deli and insurance agents’ offices, and the owners of these small businesses lost a lot of their equity just like the rest of us when the value of their homes plummeted ... “Small businesses – those with fewer than 500 employees – account for half of the nation’s jobs and are typically quicker to hire after recessions because they can’t make do with less. But they’re becoming more adept at developing efficiencies that enable them to hold off on hiring. Technology has made it possible for CEO’s to do without secretaries and grocery stores to hire fewer checkout clerks ...” and this is part of the answer why job growth is so absent, *LA Times* (8/14/11). Banks might be sitting on tons of cash, but they still like to loan to those who don’t need a loan, not necessarily to those who want to expand their businesses ... According to CoreLogic Inc., in the U.S. 10.88 million homes (22.5 percent) are underwater plus another 2.42 million had less than 5 percent equity for a total of 27.5 percent negative or near-negative equity mortgaged homes. In Nevada 60 percent of homeowners are underwater, Arizona 49 percent, Florida 45 percent, and California 30 percent. And retailers wonder why more folks aren’t out spending money? Give me a break!

Net-Zero here we come, and we aren’t talking about calories or caffeine ... California is requiring that all new homes built in 2020 be net-zero energy structures, and by 2030 the same rules will apply to new office buildings. Net-zero energy is most commonly defined as a structure that produces as much energy on-site as it consumes. *Theregistrysf.com* (September 2011)

Green buildings provide better returns ... in a study just completed by researchers at UC Berkeley and Maastricht University in the Netherlands using data from 25,000 commercial buildings on the CoStar listing site, the authors determined that buildings with Energy Star ratings or LEED certification had rents averaging 3 percent higher than comparable office buildings in the same market. In 2007 green buildings averaged 7.5 percent higher, and in 2009 only 5.1 percent higher (hmmm, is there a trend developing here?) ... the authors also noted that green buildings might be newer and larger than competitors and thus obtain higher rents. The study is called “The Economics of Green Building” and also concluded that between 2004 and 2009, green buildings sold for about 13 percent more than comparable properties. This was published in the September 2011 Realtor magazine ... of course, to put things in perspective, the green building purchased at the height of the market in 2006 or 2007 may have lost half or more of its value regardless of green ... and that is a lot of lost green! *RealtorMag.REALTOR.org* (September 2011)

Deals and Rumors: For once, let's start in **Fremont**, where Nitinol Devices leased 52,000 sf of R&D space at 255 Fourier Ave.; NovaSolar Technologies leased 65,000 sf of R&D/flex space at 48664 Milmont Dr. and Infinitech took 12,000 sf at 840-950 Auburn Court. Across the Bay in **Redwood City**, Wildfire Interactive leased 34,000 sf at 1600 Seaport Blvd.; Axway, Inc. took down 22,000 sf at 2600 Bridge Parkway; iControl leased 16,000 sf at 555 Twin Dolphin Dr. and Kasowitz, Benson, Torres & Friedman leased 13,000 sf at 333 Twin Dolphin Dr. Farther north in **San Mateo**, Actuate Corp. might be doing an 80,000 sf deal. In **San Francisco**, Dropbox leased 87,000 sf at 185 Berry St.; Pfizer will be taking 11,000 sf at Mission Bay; Kiva.org signed for 17,000 sf at 875 Howard St.; Alliant Insurance renewed and expanded to 22,000 sf at 100 Pine St.; Trucker Huss leased 20,000 sf at One Embarcadero Center; Affiliated Engineers signed for 14,000 sf at 123 Mission St.; Working Equity leased 11,000 sf at 353 Sacramento St.; Game Theory signed for 11,000 sf at 114 Sansome St.; Autodesk expanded by 36,000 sf to 150,000 sf at One Market Plaza; The University of San Francisco may be purchasing the 100,000 sf 101 Howard St. building; DHC signed for 15,000 sf at 555 Montgomery St.; J.P. Morgan Chase leased 25,000 sf at 600 Harrison St.; Tipping Point Community leased 10,000 sf at 220 Montgomery St.; Aecom is taking 54,000 sf at 300 California St.; Pivotal Labs signed for 33,000 sf at 875 Howard St. and Weebly may be leasing 11,000 sf at Jackson Square. Up in Marin, Ultragenyx Pharmaceutical leased 20,000 sf at 60 Leveroni Ct. in **Novato**, and in the same town, Marin Medical Practice Concepts signed for 13,000 sf at 100 Wood Hollow Dr. The big news in **Oakland**, was Sungevity's new 68,000 sf lease at 55 Harrison St. Over the hills in **Pleasanton**, Omron Network Products took 17,000 sf at 5700 Stoneridge Dr.; Benesys Inc. leased 11,000 sf at 7180 Koll Center Parkway and S & J Stadtler Inc. took 14,000 sf at 5950 Stoneridge Dr. In **Dublin**, Epicor Software leased 72,000 sf at 4120 Dublin Blvd. and Taleo just expanded to 109,000 sf at 4140 Dublin Blvd. In **San Ramon**, Toll Brothers is relocating to 10,000 sf at Legacy Canyon Place and farther north in **Walnut Creek**, Burr, Pilger, Mayer leased 20,000 sf at 2001 N. Main St. I helped Valent on their long-term 28,000 sf lease extension at 1600 Riviera Dr. and Dreyers sublet 38,000 sf at 2121 N. California Blvd. In **Concord**, Cool Systems leased 18,000 sf at 1800 Sutter and PG&E is rumored to be looking at 150,000 sf in the former BofA Tech Center next to the Concord BART Station. In **Emeryville**, Barsoom Pictures, Inc. leased 16,000 sf at 1250 53rd St. and Santen Pharmaceuticals leased 48,000 sf at 2100 Powell St. Lastly, the University of California is considering its **Richmond** Field Station for the new 2 million sf lab facility.

In a recent International Facility Management Association (IFMA) report, the average worker gets personal work space of 75 to 95 square feet, managers get 120 square feet and between 2007 and 2010, there has been a 5 percent increase in unoccupied work space ...

Oh to be wanted! "Competition for cloud computing engineers, security experts and mobile developers as well as sales professionals in the technology industry has gotten so fierce in the past six months that companies are going to great lengths to woo prospective employees. They're throwing lavish parties, handing out free food at conferences, doling out \$50,000 signing bonuses, and offering free perks such as free haircuts and medical care at the office. One company encourages employees to refer job candidates by rewarding the employee with a luxury trip to Las Vegas." *San Francisco Chronicle* (8/3/11)

FASB 13 update – The Financial Accounting Standards Board and International Accounting Standards Board continue to debate a new proposed model for lease accounting standards. Changes made in February which seemed to simplify and as Steve Harding, CFO of Transwestern stated, "remove complexity and subjectivity" appear to have gone by the wayside. The effective date is 2014, or 2015 and most tenant reps across the country report little or no impact of these pending FASB 13 rules on major corporate leases being signed today.

Rent office space by the minute? A new startup called LiquidSpace lets its mobile application users locate a spare desk or conference room on short notice to rent as little as for a 15 minute slot, or as long as a day. LiquidSpace estimates there are 110 million mobile workers in the U.S., including those based in offices, at home, at Starbucks, and with no base at all. If you want more info on this just go to <http://liquidspace.com>. *theregistrysf.com* (July/August 2011)

Common Commute Reduction Strategies ... **Public transit passes**, free or discounted issued by the employer, or even full-price if part of a pre-tax cafeteria plan to save employees money. **Parking cashout**, where employees can choose between a company-paid parking space, or a cash incentive to give up the space. **Carpool/Vanpools**, formal or informal. **Transportation management associations** in partnership with other tenants in the building and with other buildings in the neighborhood. **Telecommuting**. *Buildings* (July 2011)

The new Salesforce.com 2 million square foot office campus planned for San Francisco will be LEED Platinum, with rooftop solar panels, rainwater collection and storage, reuse of "greywater" for landscape irrigation, possibly wind turbines in towers, functional windows and piped water that has been chilled underground. They are also planning substantially more bicycle parking than the guidelines suggest, and although I didn't see this in the report, most likely lots of charging stations for all the new electric cars their workforce may be driving ...

Benching becoming a new benchmark? There are reports out that we may be at the forefront of another workplace revolution in how office space is designed. Companies are still trying to squeeze more productivity and utility from their employees. Nokia Inc.'s goals, according to an article in *TheRegistrySF.com* (Sept. 2011), is 100 percent shared space ... no private offices whatsoever. Enter "benching," which has nothing to do with sitting on the sidelines watching your teammates play basketball, but is defined as work surfaces that run parallel to one another with a central technology infrastructure that provides easy access to power and data connectivity. Benching might be one long work surface, or individual surfaces that are adjacent. The high workstation panels of the 1970s and 1980s are being replaced by lower height panels, and also, by benching ...

Jobless recovery? In *theregistrysf.com* (July/August 2011) "One statistic noted by our esteemed Final Offer interviewee this month, John Challenger of the global outplacement firm Challenger, Gray & Christmas, is that the nation's GDP is roughly the same as it was in 2007, \$13.5 trillion, yet this is achieved with seven million fewer workers. That is staggering on several levels. Practically, it means we were not efficiently utilizing our resources before the recession, and we hadn't even realized it. It illustrates how much greater technology's influence and power can be. But it also means that the current arrangement is unsustainable." This does not include the millions of jobs offshored which aren't coming back, and iPhones and iPads enable folks to get more done faster with less staff assistance. This, contrary to Mr. Challenger's "unsustainable" comment above, may be a continuing trend ...

Parking rates around the United States ... in a number of suburbs, office building parking is free and plentiful, and while folks here in downtown Walnut Creek, California might moan and groan about paying \$60 to \$75 a month just to keep their car in the building garage, what about midtown Manhattan where the median monthly parking rate is now \$541? The national average cost for monthly parking is \$155, and other areas like Reno at \$45/month and Phoenix at \$50/month are truly a comparative bargain. Of course, you might be stuck in London paying \$1,084 a month ... and no, you can't camp out in your car ...

The authors of the book Corporate Agility, www.corporateagilitybook.com, predict that workers will spend 30 percent of their time in a variety of “third places” (small facilities that business people can use for everything from meetings to copying), 40 percent of their time in their corporate facility, and 30 percent in home offices. As more employees get iPads and tablet PCs employees will increasingly be working from home or other satellite locations. Paula Edwards of Herman Miller, Inc. states, “What’s happening as a result of all the mobility is that 47 percent of individual workstations are unoccupied at any given time at our West Michigan facilities, and if you want to see her terrific article: www.hermanmiller.com/MarketFacingTech/hmc/research_summaries/pdfs/wp_Alternative_Work_Styles.pdf.

Jordan, my 14-year-old son, somehow grew during the past few months and is now at least two inches taller than me. He just started high school and loves it. He is currently playing indoor lacrosse until the high school lacrosse season starts in spring. Madison, who turned nine at the end of August, is in competitive soccer and loves it. Her two favorite positions are forward and goalkeeper. Recent photos of Madison and Jordan can be seen at www.officetimes.com/2011/Oct2011/JMOct11.htm.

I was blessed as one of the Assistant Scoutmasters of a large Boy Scout Troop, to be able to help out on a 50-mile high Sierra backpacking trip in Yosemite as well as a 400-mile bike trek down Highway 1 to Disneyland. My son, Jordan, who is working on his Eagle, was of course my reason for sacrificing vacation time and enduring endless training and adult class weekends, but oh so worth it. Hiking up Clouds Rest at a 10,000 foot elevation, trampling through high altitude snow, viewing the incredible Yosemite waterfalls, and then a week later biking down Big Sur with the coastline just to the right of us, sheer drops to jagged rocks and crashing waves hundreds of feet below. These are some things even a Great Recession can’t take away, and what an amazingly beautiful state we live in. There are so many awesome destinations that can be had at reasonable or even nominal cost, and what a great way to cleanse the mind of office vacancy rates, unemployment figures and the residential home value dilemma – and it brought to mind the age old Serenity Prayer – God grant me the serenity to accept the things I cannot change; courage to change the things I can; and the wisdom to know the difference ...

Your commercial real estate business is extremely important to me so please keep sending it and I will continue providing 150% service!!

Sincerely,



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COLLIERS
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Newsletter
October 2011