



# Corporate Office Perspectives

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This Corporate Office Perspectives issue marks the 36th year of my writing and publishing this, every other month without fail. There have been times where life events tried to get in the way, like the birth of my son, raising two kids, getting married and divorced, but I enjoy sharing these thoughts with you so much that I just keep on going. Thank you so much for reading and passing this on to your friends!

A recent office design conference in San Francisco called "Culture. Workplace. Design" featured a panel of real estate directors from notable tech giants like Lyft, Dropbox, Airbnb and Square, with an introductory session by Art Gensler, the world's leading design guru. Mr. Gensler thought that we may have gone too far in open plan and the trend might be headed slightly back to more privacy and workspace balance. He also commented that people are social animals and most will not do all their work from home.

Tech and other corporations are spending huge sums of money on office tenant improvements to create a distinct company identity. "Offering plenty of amenities remains important, the Gensler report added, but integrating social and cultural elements "is now the No. 1 factor in the office as a recruitment and retention tool." Ok, invest \$80 to 150/sf in office TI's and design layout specific to your company culture - what happens at the end of the lease? Will this give the landlord negotiation leverage in your lease renewal or you relocate and vacate this very expensive space custom-designed, which might not necessarily be viable for the next tenancy? ... (*The Registry*)

The cost of employee amenities at some of our tech companies can be as much as \$25,000 a year per employee, with free shuttle service, free dinners, open bar on Friday afternoons, paid-event sponsorship, free onsite bike repairs, doctor visits, onsite massage, free snack stands, gourmet coffee barristers and other employee enticements. However, some firms are beginning to cut back on these perks with a new 'Culture of Frugality' as IPO funding has dried up. (*SF Gate, May 7, 2016*)

"Over 265,000 people commute into San Francisco to work and about 103,000 San Francisco residents work outside the city." The San Francisco/Oakland region is number two in public transit after New York City. (*Apartment Owners Association of California, March 1, 2016*)

Google keeps expanding in the San Francisco Bay Area, with its 407,000 sf life science lease in South San Francisco a few weeks ago and more recently purchasing 600,000 sf of office buildings in Sunnyvale from NetApp for \$250 million. The average price of a home in Alabama is \$137,900 while the median price in Sunnyvale is 10 times more at \$1,366,400. ([The Registry, March 16, 2016](#))

Jenny Haeg, Custom Spaces, said workspace needs to inspire and enhance productivity. "What tools do we need to build into space to allow connection, flexibility and productivity? You can't just have open office space."

A common mistake in corporate office subleasing is when the sub-landlord does not track rental increases or operating expense pass-throughs that might be owed from the subtenant. Many companies are not set up for handling sublease administration, checking the sublease agreement to see if and when these monies are due, and then invoicing and following up to make sure there are timely payments. I've even seen subtenants not pay sublease rent for nine months while waiting for a monthly rent invoice which the sub-landlord had no idea they were expected to send.

A different corporate expansion model – most firms consolidate into one or two larger office buildings, but Palantir Technologies, a software company that mines confidential data for NSA, CIA and the FBI occupies at least 19 different buildings in downtown Palo Alto, totaling 250,000 square feet or more. Does that mean 19 lunchrooms, copier centers and security setups as well? And with average downtown Palo Alto office rents at more than \$100/rsf per annum, it ain't cheap. ([East Bay Times, April 30, 2016](#))

"The 179D tax deduction for energy-efficient facility improvements has been extended until the end of 2016. The deduction expired at the end of 2014, but now applies retroactively and will not expire until Dec. 31, 2016. It allows FMs and tenants in leased buildings to use a one-time tax deduction of up to \$1.80 per square foot to offset the costs of installing high-efficiency interior lighting, building envelopes or HVAC systems. To qualify, the new systems must reduce the facility's total energy and power costs by 50%. Incentives of up to 60 cents per square foot are available for buildings that meet lower thresholds." ([Buildings, January 29, 2016](#))

San Francisco office market less frothy, less frantic and healthier. The crazy tech boom of the past few years has slowed down, most of the 5 million square feet of new space has been preleased and companies relocating to new office facilities will leave behind blocks of vacant space in existing buildings. Part of this has already been backfilled, so even though unicorn funding is down, our brokers on the ground say there is still plenty of office demand and positive tech growth.

According to the [SF Business Times, April 19, 2016](#), timing is everything. 555 12th St. in Oakland was bought in 2013 for \$133 million and is now on the market for \$200 million. Also, 1999 Harrison St., in downtown Oakland, was bought in 2014 for \$135 million and is now for sale at \$200 million.

A few more thoughts from the panelists (Lyft, Dropbox, Airbnb and Square) of the design session I recently attended:

- › Map out what and how employees do their work every step of the way and design the office space to accommodate and enhance.
- › Work from anywhere. Give employees flexibility and chance.
- › Everyone has the same size desk, a choice of standup table, coach and desk.
- › Be aware of light and noise levels, what technically is needed for the space to succeed. Pure design is not enough; need to inspire beyond the ordinary.

If you plan on new carpet and paint for an office lease renewal, don't forget to budget \$2.00 sf for the after-hours cost to move furniture and workstations in and out to accommodate the work. Most landlords do not provide this as part of their carpet/paint tenant improvement package.

**Deals and Rumors:** Starting on the Peninsula, Stella & Dot leased 20,000 sf as did Raptor Pharmaceutical Corp., both leases are at 8000 Marina Blvd in **San Bruno**. Medallia leased 210,000 sf at 400/450 Concar in **San Mateo**. In **South San Francisco**, NGM Biopharmaceuticals leased 113,000 sf at 333 Oyster Point Blvd. Up in San Francisco, PagerDuty signed for 44,000 sf at 600 Townsend St.; Fitbit is rumored to be taking 305,000 sf of sublease space from Charles Schwab; and GSA leased 85,000 sf at 100 Montgomery St. Google is rumored to be looking for over 300,000 sf and Amazon, Twitch, Okta and WeWork are all rumored to each be searching for 100,000 sf.; and Reddit signed a lease at 420 Taylor St. for 50,000 sf. Across the Bay in **Oakland**, AECOM took 103,000 sf at 300 Lakeside Drive and CoreLogic leased 24,000 sf at 555 12th St. In **Walnut Creek**, AAA is moving back from **Emeryville** to 50,000 sf at 1277 Treat Blvd. In **Concord**, Bay Alarm bought the 66,000 sf former Heald College building at 5130 Commercial Circle for its headquarters, vacating 50,000 sf at 60 Berry Drive in **Pacheco**, where BioCare will be backfilling. Also in Concord, Contra Costa County is rumored to be close to signing 24,000 sf at 2400 Bisso Lane, and Wells Fargo will be relocating to 285,000 sf at Swift Plaza next to the Concord Bart Station. In **Pleasanton**, Zeltiq leased 110,000 sf at Rosewood and there is a rumor that Workday may be purchasing the 209,000 sf former Safeway HQ at 5928 Stoneridge Mall Road.

I remember the "olden days" when corporate office space, while reflecting core company values, was designed to cater to its clients. Conference rooms named after major accounts, and the overriding thought of how will our clients perceive us from our office design impression? Not so much anymore. "Companies are not really designing toward their clients and visitors but more toward their employees, which are their biggest expense and best asset", Jenny Haeg, founder and CEO of Custom Spaces, said. (*The Registry*)

Vladimir Bosanac, publisher of one of the best real estate publications and newsletters in America (*The Registry*) stated, "Culture today is gaining prominence with corporate leadership because it is the ultimate differentiator

for a company, and employers know it and use it as currency to attract the best talent. Granted, not all companies have it down quite right, but every corporate HR pitch talks about it. And the most visible aspect of that culture is displayed through the physical space that the company occupies – its offices.”

According to a recent Morgan Stanley report, integrating sustainability in real estate investment and management can reduce building expenses from 3 to 30 percent. The top 10 sustainability drivers: occupancy rate, insurance, rent premium, water expense, waste expense, financing cost, energy expense, maintenance and repair, leasing expense and property value. “Green buildings achieved a persistent rent premium of around 3 percent.” A 1 percent improvement was associated with a 3.4 percent increase in return on equity. ([The Registry, May 5, 2016](#))

It is sometimes more of a disruption to have your office space totally renovated while you are still in place and running your business than it is to pack up and relocate to beautiful fully renovated space designed specifically for your needs. Phasing construction, where a portion of your facilities is done at a time, asks your employees to temporarily work at their homes or the nearest Starbucks for a week or two and the occasional power outage (the contractors are always so apologetic when you lose power for an hour or two). I know because our office is undergoing such a renovation in place right now. Yuck!!!

The president of Boston Properties, Doug Linde, said, “San Francisco’s office market is seeing fewer space needs from larger tenants, which could indicate a slowdown, while Silicon Valley’s activity is growing ... There’s a dearth of huge tenants such as Salesforce.com, Stripe and LinkedIn, who all signed huge leases over the past three years.” ([SF Business Times, May 2, 2016](#))

“At a housing task force convened by San Francisco Mayor Lee, in which SPOFI will participate, developers stated and no one disputed that the cost of building a unit of housing has increased from \$400,000 to \$800,000 in just four years. The planning and approval process alone takes an average of four years, with no guarantee that approvals will be granted and that the homes will actually be built. For developers, the stakes can change at any time if political decisions after the percentage of ‘affordable’ units they, and ultimately the market-rate purchasers, are required to fund.” ([Apartment Owners Association of California, March 1, 2016](#))

Lani Rovzar, Lyft’s chief of staff, commented at a recent conference on the importance of levity, creativity and fun in different workspace areas with heads-down areas, open areas, as well as collaborative white board areas.

The department of energy offers a free web-based calculator that can help you determine your eligibility for the tax deduction. To see whether you qualify for the tax credit and learn more about 179D, visit [energy.gov](#). ([Buildings, January 29, 2016](#))

Thank goodness for the Big Boys like Apple, Facebook and Google to keep the commercial real estate market propped up. Google just completed its

purchase of two buildings in Mountain View, and it now owns the entire Clyde/Maude Ave block. ([The Registry, May 3, 2016](#))

Open office versus cubicle space – it depends on what people want. One person may want different work environments at different times of the day. Allow people to choose. Reduce ownership of space to allow more diversity and more choices.

One high-tech real estate director recently commented that when it outgrew its office facility and ran short of conference rooms, employees were encouraged to take “walking conferences” outside and at their nearby Starbucks. One way to expand the footprint ...

According to [The Registry, March 30, 2016](#), San Francisco office sublease space has gone from 1.1 million feet to 1.7 million square feet during the past 12 months. [Cushman & Wakefield](#) published a chart as to why companies are subleasing. The companies indicated the following: 41% contracting/consolidating, 26% location within San Francisco, 22% location out of San Francisco and 11% misc.

“While economics dictate that it is cheaper to install more panels in less space, this is not in keeping with good roofing or solar design. Panels should be laid out and kept back from walls or equipment that can cause periodic shading. They should not be installed over or adjacent to equipment where hot exhaust air will impact their efficiency. Panels also need to be kept back from high-wind zones, such as the corners and roof perimeter. The NRCA’s Guidelines for Roof-Mounted Photovoltaic System Installations include a number of recommendations that address clearance widths, location of access paths and arrangements for smoke ventilations.” ([Buildings, February 16, 2016](#))

Blaire Kruger, the facilities project manager at Square in San Francisco, commented at a recent conference that if you provide different amenities on different floors, it will encourage collaboration and intermingling. Have the coffee bar on one floor and lunch bar on another, and balance quiet space areas with open space.

My father, Arthur, turns 91 this September. His first career spanning 18 years was teaching German and American History at Bancroft Junior High School, then he spent 20 years selling residential real estate, and now he is in his third career, writing his 23rd book. Type “Arthur Weil poet” in Google to learn more about him. He and I did a road trip down to San Luis Obispo a few months ago to visit my 19-year-old son. Jordan is finishing his freshman year at Cal Poly, San Luis Obispo. It’s a terrific campus and beautiful downtown with great shops and restaurants, but Jordan, like most freshmen, is carless and usually confined to campus, even on weekends. He is very active in his fraternity, AEP, and told me he really misses dad’s barbecues and exotic recipes. Madison is in the 7th grade and is finishing her Scorpion Stinger lacrosse season this upcoming weekend. She really likes school, but still can’t wait for summer vacation to start in a week. Pictures of this as well as Madison’s recent lacrosse and other adventures can be seen [here](#).

It is sometimes so very, very easy to get caught up in the business urgencies, family issues, kids' college or school challenges, the next vacation, house or car repairs (or replacement) as we all rush through life at 100 miles an hour. Yes, most of us from time to time glance out the window and watch the roses, but how many of us ever pull over, get out and smell their fragrance? ... We in America are so amazingly fortunate with our abundance of natural resources, business and personal opportunities, and, like it or not, still one of the best infrastructures around. Yes, our schools could get better funding, our highways and bridges need fixing, and on and on, but there are so many other countries where corruption is a way of life and basic necessities are not always present. I, for one, am so grateful for what we have and for this I say, "Thanks!"

Sincerely,



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