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Same old, same old, the San Francisco office market is still on fire, but maybe slightly diminished in intensity, subleases are up, unicorns far and few between, huge takedowns of space are not as common an occurrence, but still leasing velocity to sustain annual rents is in the \$70 to 90 per square foot range. Tenant improvement costs are astronomical, with \$60 to 80 per square foot TI budgets not uncommon. The Peninsula, Oakland and Santa Clara are still firing on all 12 cylinders (no, I don't yet own a Tesla or it would be zero cylinders) while the Tri-Valley and I-680 Corridor remain steady. Few tech expansions, few Transbay relocations in spite of all the hype, and downsizing from Chevron, SAP and others have kept the market flush with available office space.

Bloomberg News reported that during 2015 California created 483,000 jobs, more than Florida and Texas combined, with an employment growth rate triple the 19 countries that make up the Eurozone. California leads the nation in agriculture, foresting and manufacturing totaling \$255.6 billion. California tech revenues of \$732 billion represent 53% of all U.S. tech revenues.

An estimated 95% of technology CEOs intend to increase their head counts in the next three years, 2% plan to slash staffing and 3% expect to keep their workforce at current levels, KPMG reported ... "Yet at the same time that hiring is on the table, some workers will leave technology companies, replaced by increased automation." ([Silicon Beat, July 12, 2016](#))

Four of the world's 10 largest companies are based in California. "California had a 3.29 percent growth rate last year, more than five times that of No. 3 Japan, almost twice No. 4 Germany, about half again as much as No. 5 U.K., almost three times No. 6 France and a third more than No. 1 U.S. Last year, California created 483,000 new jobs." ([Bloomberg, June 6, 2016](#))

Concord Class A office space goes for \$27 to 30/rsf, per annum, Pleasanton Class A at \$31/rsf, Downtown Walnut Creek at \$48/rsf, and the bargain region of the Bay Area, Walnut Creek Shadelands is at \$20 to 24/rsf, all rates are full service, parking included (3 to 4/1000 ratio) and tenant improvements. Prognosis for 2017? No change ...

According to the [San Francisco Business Times, June 24, 2016](#), San Francisco currently has 11,012 new residential units under construction with most at market rate for rent.

With both residential and commercial buildings, transitioning to be net power generators versus power users, our power grid needs to be “modernized to accommodate two-way energy transactions”. Backup generators and energy storage systems are getting more and more efficient and will help during peak-load periods. ([Buildings, May 27, 2016](#))

I find it hard to believe, but in a recent study by NerdWallet of 475 U.S. cities with a population of 65,000 or more, with rankings based on high levels of median household income, median home values, percentage of homes without mortgages and average credit scores, Palo Alto ranked number one (this I can believe) with a median income of \$151,370, median home values of \$2.5 million and 34% have no mortgage. San Ramon was second, Pleasanton - third, and 15 of the 20 wealthiest large cities in the nation are in California, which I find hard to believe ... ([The Orange County Register, May 23, 2016](#))

Drones and commercial real estate - there are many applications using drones, including marketing, virtual tours, getting amazing still shots, cataloguing large properties, roof inspections, solar panel bids, appraisals, property inspections after disasters, construction projects, and for the new 36 to 60 foot clear height warehouses, interior inspections. Broker open houses of vacant properties might feature drone race competitions, but the way some industrial brokers drive ... ([Realtor, May 2016](#))

Deals and Rumors: Zeltiq signed for 110,000 sf at 4410 Rosewood in **Pleasanton**, where Delta Dental is rumored to be looking for 50,000 to 100,000 sf (as well as Concord or remaining in SF), Applied Underwriters signed for 19,000 sf at 3001 Bishop Drive in **San Ramon**. In **Oakland**, Captricity subleased 21,000 sf at 1999 Harrison St., KTG Y took 20,000 sf at 1814 Franklin St. In **Alameda**, RGB Spectrum leased 36,000 sf at 950 Marina Village and Ascendance Biotechnology took 22,000 sf at 1010 Atlantic Ave. In **San Francisco**, Paul Hastings LP leased 40,000 sf at 101 California St., WeWork is out for 60,000 to 70,000 sf, rumored to be looking at Three Embarcadero, Twitch might be out for 150,000 to 200,000 sf, NerdWallet for 100,000 to 150,000 sf and Cisco for 50,000 to 100,000 sf. Uber Technologies leased 140,000 sf at 900 Arastradero Rd. in **Palo Alto**.

Virtual Reality - some industry experts are predicting this will turn into a huge multi-billion industry and totally change the way we not only game, but shop, watch TV, and the new emerging sub-industry, work in or out of the office. “MURE VR is exploiting the potential of the VR outside of gaming, to develop an amazing fully immersive office space where the whole world around you is available virtually on desktop.” I have said this in a previous blog, but maybe one day instead of workstations we will have rows of employees seated with their VR headsets on, being many times more productive than when they were stuck behind a desk ... ([Virtual Reality Reporter, July 2016](#))

Forwarded to me by Mike Brown of Walnut Creek's Brown, Gee & Wenger, "Ten Reasons Your Lawyer Should Review Your Commercial Lease Agreement" by Gina Bongiovi, 1) Leases are landlord-favored - they're written by the Landlord, 2) Accuracy, 3) Common area maintenance fees. For the complete article, please click [here](#).

Out of 75 major U.S. metropolitan areas, the top five metros for 2015: San Francisco, Seattle, San Jose, Louisville, and San Diego. ([Business Wire, July 6, 2016](#))

The new Apple Cupertino 2.6 million square foot, \$5 billion dollar headquarters sits on 176 acres, will house 14,000 employees and be net-zero carbon emission. 80% of the site will consist of green space and 75% of the year there will be no need for HVAC due to specialized climate control and natural ventilation. ([The Blue Book Network, June 8, 2016](#))

Plug and play office sublease space in Oakland has increased, but so has demand and few spaces seen to stay unleased. For the first time in years there is actually sub-landlord/landlord profit sharing when sublease rents are higher than the underlying contract rents.

Tracy industrial leasing is hot! Amazon just inked a 1 million square foot lease at the Prologis International Park Commerce project. Redline signed for 1.2 million sf, FedEx for 650,000 sf and 400,000 sf to Smucker's. There is 3 million feet leased and 16 million feet left to go ... ([The Registry, June 1, 2016](#))

According to Forbes, if California were a country, its \$2.3 trillion economy would be the eighth biggest in the world, with almost \$6 billion in venture capital invested in California companies over the past three years, five times the total of any other state.

Downtown Oakland, Class A office rents, which were \$38/rsf a year ago are now \$51/rsf, a 34% increase. ([SF Business Times, May 23, 2016](#))

Thank goodness for Workday! The tech expansion in the Tri Valley and I-680 regions has been less than explosive these past 15 years, other than GE Software (from 2,000 sf to 400,000 sf) and Workday, which is in the process of acquiring two more office buildings from Safeway, totaling in 325,000 sf. This is in addition to the 565,000 sf Stoneridge Corporate Plaza it purchased three years ago, the 300,000 sf it currently leases at Stoneridge Mall Road, and the 410,000 sf it plans to build adjacent to BART, which will give it a 1.6 million square foot office campus able to accommodate 6,200 employees. If you are looking for a great company to work for, Workday may be hiring! ([The Registry, May 20, 2016](#))

Another terrific summer for my kids. Madison has been having a blast at various teen day camps, either with a sports theme (basketball, soccer) or a park theme (one day Six Flags, next day Waterworld, then Great America ... you get the picture!) In between we have had great days at the County Fair,

hiking, bowling, camping and just kickin' back. Jordan is back home for his summer break and he seems to be enjoying his dad's cooking (what, Balinese steak and curried honey mustard chicken again?) Their recent photos can be seen [here](#).

In a number of U.S. regions the economy is still struggling, especially in those areas affected by the price of oil and gas. Other areas are experiencing an influx of tech companies and employees seeking a much lower cost of living than that of the pricey San Francisco Bay Area. Mortgage rates are still near record lows, and when I purchased my first home way back, my sales contract was contingent on my finding a fixed-rate 30-year loan for under 18%! While we are still fighting domestic and overseas terrorism, we are not engaged in any major wars like in the Vietnam days when I grew up, with daily body counts (and footage) of both VC and our young men. Everyone I know who wants to work has a job, the stock market (at least at the time I am writing this) is at an all-time high, most folks working today have no idea what even or odd gas days mean ... and yet there still feels an overwhelming angst in the U.S. I am not sure why ... Touch someone else with your heart and kind words daily, take care of yourself so you have the strength to care for others, and enjoy this incredible summer!

Sincerely,



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