



Corporate Office Perspectives

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San Francisco currently has an office vacancy of 6.5%, 2 million feet for sublease, and 5 million square feet of tenants looking for space. The office vacancy in San Mateo County is 6.8%. In the East Bay, the vacancy rate ranges from 7.5% in Oakland to 11% along the I-680 Corridor and the Tri-Valley region. Fairly healthy and balanced market indicators, still some amounts of tenant concessions, but all in all, available office space in most sub-regions for whatever tenants are seeking. A 10,000-square-foot office user, over a five-year lease term, will pay approximately \$3.6 million to be in San Francisco, \$2.4 million to be in Downtown Oakland or Downtown Walnut Creek, or \$1.2 million to be in Walnut Creek Shadelands.

There is a new office workplace trend, going from "owned" space, where an employee has a designated office or workstation, to "shared" where different workspace venues are utilized by different people at different tunes. According to *Facility Executive*, "Companies might focus on making the facility a destination and a place that people want to be. A recent global study by Mars Drinks across six countries found that 90% of people believe that this kind of place—vibrant, thriving, and alive with potential—was critically important. In addition, the survey demonstrated that 67-80% of people believe that workplace beverages are critical to successful engagement, collaboration, well-being, and productivity." "Make it a destination. Design experts report that work cafés are the number one area where customers are investing. They are using the work café as a draw for both staff and guests." Provide a maximum opportunity of choices for work environments, from individual workstations, two-person phone rooms, four-person conference rooms, larger conference rooms, open seating, couches, café lounges and other workspace alternatives.

According to Colliers International multifamily sales experts, there are 4,700 apartment units scheduled for completion in San Francisco between now and the end of 2016. Walnut Creek apartment rent growth, which was at 1 ½% per year is now at 4 ½%, Concord is down from 8 ½% to 4%. So, the rent increase frenzy may be over ...

According to Bob Kincheloe of the Colliers mortgage department, fixed-rate loans on decent commercial properties have dropped 1/2 to 3/4 % since Brexit due to the U.S. attracting more capital from all over the world. One example is a 10-year 3.75% non-recourse fixed with low leverage.

U.S. office market factoids: As of Q2 2016, the overall office vacancy rate in the U.S. is 12.5%; 76% of U.S. markets had positive absorption; downtown Class A rents average at \$46.47/rsf, up 7% since Q2 2015; suburban Class A rents average at \$29.14/rsf, up 5% from Q2 2015. For the complete Colliers report, [click here](#).

Shades of Orwell 1984? Office IQ is a cloud-based server that when placed onto height adjustable workstations monitors how long an employee sits, stands or is away from the desk. "Moreover, the program can signal a worker to stand up if he or she has been sitting for a long while." Great, Big Brother is telling you when to sit or stand at your desk! ([The Registry, Q3 2016](#))

Google grabbing gobs of office space ... 612,000 square feet of Class A office space in two 10-story towers, the 15.5 acre Moffett Gateway project in Sunnyvale, and then Google purchased 150,000 square feet in San Bruno for \$58 mil ... ([The Registry, July 22, 2016](#)), ([The Registry, July 27, 2016](#))

According to the National Real Estate Investor, from June 2015 to June 2016 commercial real estate price changes were as follows: Office: 3.2%; Apartment: 6.6%; Retail: 6.5%; Industrial: 13.4%; Hotel: -2.3%

ABAG did a projection (Projections 2013) of "employment, population, household and housing growth from 2010 through 2040. ABAG projected that the Bay Area will add 1.3 million jobs, 2.4 million people, 783,000 households and 823,000 housing units during those 30 years." Well, we added 600,000 new jobs between 2010 and 2015 without adding commensurate housing ... so much for projections! ([The Registry, Q3 2016](#))

Deals and Rumors: Starting in **Pleasanton**, Ellie Mae expanded by 160,000 sf at Rosewood Commons. Employee Benefit Systems took 18,000 sf at Saratoga Center. In **San Ramon**, Rodan + Fields leased 150,000 sf at 2600 Camino Ramon. Canadian Solar signed for 19,000 sf at 3000 Oak Rd. in **Walnut Creek**. In **Concord**, Anova leased 21,000 sf at 1140 Galaxy Way. The Federal Drug Administration signed for 66,000 sf at 1201 Harbor Bay in **Alameda**. The Port Workspaces leased 60,000 sf at Kaiser Center in **Oakland**. Aduro Biotech Inc. signed a 111,000 sflab deal at 740 Heinz Ave. and UCSF Health and John Muir Health leased 96,000 sf at 3100 San Pablo Ave. for a long-term joint venture in **Berkeley**. Down the Peninsula in **Palo Alto**, Visa may be taking 62,000 sf and fast-growing Cloudera beat out several other tenants to lease up Jay Paul Co's 225,000-square-foot building at 395 Page Mill Rd. In **Sunnyvale**, Google leased 612,000 sf at Moffett Gateway. In **San Francisco**, NerdWallet is looking at 200,000 sf, possibly at 181 Fremont St.; Facebook is rumored to be seeking 200,000 sf in the city, Amazon's Twitch leased 185,000 sf at 350 Bush St., Kinsey & Co took 53,000 sf at 555 California St., Splunk leased 180,000 sf at 270 Brannan St., and Quip took 13,000 sf at 731 Market St.

An emerging office park amenity is rooftop gardens, in some cases several acres in size, with trees, basketball courts, “a resort-inspired setting with fire pits, a full kitchen and bocce ball courts.” Views of the distant mountain ranges, outdoor meeting areas and adjacency to the fitness center can also add to its allure. I know this is a concept best suited to temperate climates like the Bay Area, and an office rooftop garden in the summertime in Phoenix or the wintertime in Boise might not be quite as successful ... ([The Registry, September 1, 2016](#))

A recent [SF Business Times](#) article titled “At Double Robotics, robots fill niche for businesses with remote workers” talks about the ‘Double’, a robot that looks like an iPad attached to an extendable pole on wheels. This gives an actual physical presence for telecommuters – and no parking hassles or standing in line for the restroom ...

Contra Costa office sublease availabilities have increased more than 30% during the last 60 days. Prior to June 1, 2016, there were 48 sublease vacancies totaling 275,194 square feet available, but, as of today, there are 64 availabilities totaling 359,481 square feet. To keep this in perspective, this only represents less than 2% of the market. A blip or a trend?

Virtual Reality for the office ... “One of Microsoft’s ambitions for the HoloLens is to replace all the various screens in a typical office with wearable devices. The company’s demos envision workers moving virtual screens around or clicking to be teleported to a 3-D conference room with a dozen coworkers who live in different cities. I found virtual screens and virtual media within a virtual reality surprisingly natural and practical. At Magic Leap, the development team will soon abandon desktop screens altogether in favor of virtual displays. Meron Gribetz, founder of Meta, says that its new Meta 2 mixed-reality glasses will replace monitors in his company of 100 employees within a year. It’s no great leap to imagine such glasses also replacing the small screens we all keep in our pockets. In other words, this is a technology that can simultaneously upend desktop PCs, laptops, and phones.” I wonder what this might do to office space density if you don’t need a desk or even a flat screen ... ([Wired, May 2016](#))

According to a recent JLL report, “East Bay office market tops the world for rent growth”, shooting up 35.4% year over year. Rental rates might be higher in San Francisco, but it was the percentage rental growth that put this sub-region on top. ([SF Business Times, August 11, 2016](#))

Our commercial mortgage specialist, Bob Kincheloe, mentioned recently that as banks are getting increased pressure from regulators to ease back on commercial real estate loans, one way to decrease demand is raise interest rates by a full percentage point ...

According to our company’s retail leasing experts, vacancies created from the closure of Sports Authority, in most cases, have recorded multiple offers from competing retailers to get these 30,000 to 40,000 square foot retail locations.

Similarly, the upcoming Macy's 100 store closures is seen as a potential real estate play with plenty of replacement tenancies vying for these often-prime locations.

I always look forward to the Business Facilities annual rankings of states by various economic indicators. While California may never be at the top of "Best Business Climate" or "Lowest Cost of Business," California did rank number one in biotechnology leaders, top manufacturing state, solar power, STEM jobs leaders, and venture capital. ([Business Facilities, August 3, 2016](#))

While the East Bay office market remains fairly healthy with the I-680 Corridor vacancy rate at 11.5%, Tri-Valley at 11.1%, and the Oakland region at 7.5%, there have been a number of "quiet" shutdowns during the past 60 days. Companies ranging in size from 5,000 rsf to 30,000 rsf deciding to totally close operations during the end of 2016 or beginning of 2017, totaling almost to 200,000 rsf. Those office availabilities will become part of the vacancy statistics in the near future.

Is Twitter's new 183,000-square-foot San Francisco HQ office sublease just a blip in the market or a sign that frothy times may soon be a thing of the past? If another tech firm grabs up this immediately available space, complete with workstations for 400+ employees, then office landlords (and especially Twitter) can breathe a sigh of relief, but if the space is still available in 60 days or more ... ([SF Business Times, August 8, 2016](#))

In San Francisco, dog-friendly office buildings are abounding, with some complexes having literally dozens or hundreds of dogs come to work with their owners daily. However, out in the suburbs this is a much less common phenomena. Recently I was in an I-680 midrise and was surprised to see multiple dogs in a number of office suites. In speaking with the property manager, they had no accidents, required no extra security deposits, mostly partners own the dogs and take them out to an adjacent open space when necessary, and everything is basically 'don't ask, don't tell'.

It has been a wonderful summer, with my father Arthur turning 91 in early September, my daughter Madison turning 14 in August and enjoying all the summer camp activities and my 19-year-old son Jordan living with me throughout the summer and then heading to his sophomore year at Cal Poly in San Luis Obispo. I was very impressed with his discipline, working commercial and residential remodeling full time 8+ hours a day, then consistently going to the gym each evening before hanging out with his buddies. Their recent photos can be seen [here](#).

Don't worry, I won't get caught up in politics in this newsletter - it is messy enough as it is ... but I listen to both right- and left-wing talk shows to try to get a touch of balance, and the right-wing touts repeatedly that there are 93 million Americans out of work, which is true, but they don't tell you this figure includes everyone over the age of 16, including high school and college students, stay-at-home moms and dads, disabled people and anyone who is retired. The actual figure according to a number of economists is closer to 21 million unemployed. On the other hand, the left wingers point to the 4.9%

“official” unemployment rate as economy success, but when you account for part-timers who would rather work full time, or folks working jobs below their skill level, or “discouraged” people who just gave up, the figure may be closer to 9.7%. What’s it all mean? If you compare being in Detroit or Baltimore and out of work to having a programmer job at Google or Facebook in the Bay Area – night vs. day ...

With interest rates so low, those retirees living on bond interest may be in dire straits while those savvy real estate investors who have had minuscule variable rate mortgages are sitting high on the hog. Most auto drivers relish the low cost of gas, but if you work for Chevron or have long-term energy stocks – ouch! Every year, government of all levels pass hundreds more bills and regulations which many say smother us and others say protect us ... These past four months we’ve seen some of the worst forecast fires and flooding ever, but, like most disasters, we pick ourselves up and rebuild. We are now in fall, leaves are changing color, the weather is getting colder and the ski season is just around the corner. Two words I like to remember, especially in more challenging times, are love and hope. Love your family and your friends, and, if you believe, love your Higher Power and never give up hope. I will be back with you in December!

Sincerely,



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