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The Millennials are coming on strong, and they want flexibility, freedom and fun; mobile devices rule, texting may be preferred to a phone call, collaboration, work hard, play hard, and who cares about having a workstation let alone a private office. Yet, office space is here to stay, in one form or another, as the most successful tech giants attest in the continued takedowns of hundreds and hundreds of thousands of square feet of new office space.

According to the Building Owners and Managers Association (BOMA), there is 10.5 billion square feet of office space in BOMA's U.S. markets, with annual operating costs of \$89.1 billion and using a benchmark of 190 square feet per office worker, 46.9 million office jobs, roughly one third of all U.S. workers. ([Buildings, September 2016](#))

Tech tenants are driving U.S. office absorption. They dominate leasing activity in 50,000 sf and larger office leases. Tens of millions of feet occupied by the major players such as Facebook, Google and Amazon are owned, not leased. For more details on this, the complete report is [here](#).

The Stegmeier Consulting Group [2015 open office study](#) reported that 21% of respondents had no concerns about the open offices, 21% identified some form of audio distraction or noise concern, 21% identified privacy or uninvited interruptions, and 11% commented they were concerned about all of the above. Other comments included "Lack of storage space near workspace," "Lack of accommodations for certain functions that require privacy," and "Clutter and maintaining a professional appearance in the area."

On average, during a five-year lease term, a 10,000-square-foot office user would pay \$3.6 million for rent in San Francisco (\$72/rsf), \$2.4 million in Downtown Walnut Creek (\$48/rsf), and only \$1.2 million in Walnut Creek Shadelands (\$24/rsf).

It started with the huge announcement last week by Tesla with its 4.6 million square foot Fremont, California expansion. This will be huge, with a tremendous rippling effect of huge amounts of leasing by vendors and subcontractors. Tesla Motors just announced its plans to build 4.6 million square feet of new space for its factory in Fremont, add 3,000 workers, and

eventually produce 500,000 cars a year! ([Silicon Valley Business Journal, October 7, 2016](#)) Now LeEco, a Chinese technology company, wants to beat out Apple, Google and Samsung by becoming a market leader in smart phones, big screen TVs among other things, even an electric car. They just spent \$250 million to buy a 50-acre Santa Clara site and plans to build a 3 million square foot office complex to accommodate 12,000 new employees. Wow! ([East Bay Times, October 20, 2016](#))

How many employees does the combined workforce of Google, Apple, Facebook, and Salesforce have in the Bay Area? 100,000? 200,000? Facebook received final approval for the 58-acre development in Menlo Park for a 962,400-square-foot office complex. Along with this, it will be a 200-room hotel and employee amenities one expects at a high-tech campus. ([The Registry, September 27, 2016](#))

Mandatory solar panels required for commercial buildings? Santa Monica now mandates new or remodeling projects where 50% of the exterior wall is removed to have solar panels with a minimum total wattage at least twice the square footage of the building. ([Buildings, September 16, 2016](#))

The Stegmeier Consulting Group published its [The State of the Open Office Research Study](#) in 2015. Here are a few highlights: Almost all respondents indicated their organizations' most recently completed/next expected office transformation features some level of open plan design. Many organizations are not hesitant to move their senior leaders out of private offices into open space. The open work environment is being adopted worldwide.

Prior to May 1, 2016, the I-680 Corridor from San Ramon to Martinez had 32 office sublease vacancies totaling 171,730 square feet. Since then, 291,334 square feet of new subleases have come on the market, a 170% increase. Currently there are 67 office sublease vacancies totaling 445,144 square feet in this one sub-market segment.

**Deals and Rumors: San Francisco** continues its explosive office leasing surge, with Adobe signing 207,000 sf at 100 Hooper St., where The University of California, San Francisco, is rumored to be taking 400,000 sf; Amazon / Twitch leased 185,000 sf at 350 Bush St.; WeWork took 78,000 sf at 2 Embarcadero Center; BNY Mellon took 60,000 sf at 50 Fremont St.; iRhythm signed for 61,000 sf at 650 Townsend St.; OpenAI leased 38,000 sf at 3180 18th St.; NerdWallet sublet the 120,000 sf Twitter space at 355 Market St., and AstraZeneca inked 163,000 sf at The Cove At Oyster Point. In South San Francisco, Merck might be taking 291,000 sf of office/R&D space at East Grand Ave. at Forbes Blvd. In **Brisbane**, Myovant leased 20,000 sf at 2000 Sierra Point Parkway. OpenText took 108,000 sf at 2950 S. Delaware St. in **San Mateo**. Rocket Fuel is downsizing from 141,000 sf to 35,000 sf at 2000 Seaport Blvd. in **Redwood City**. Qualys, Inc. will take 75,000 sf at Metro Center in **Foster City**. In **Mountain View**, Mayfield Mall purchased the 520,000 sf it has been occupying as office space. In **Oakland**, Captricity leased 21,000 sf at 1999 Harrison St., and Habit Food leased 21,000 sf at 985 3rd St. In **San Ramon**, GE Software leased 100,000 sf at 2600 Camino Ramon in Bishop Ranch.

Google recently paid \$225.4 million for a 750,000 sf office complex in Mountain View where it has been leasing space since 2013. ([Silicon Valley Business Journal, September 26, 2016](#))

In a recent CBRE report published in *The Registry*, 1.6 million square feet of sublease space in San Francisco was sublet, more than any prior year, there is still 2 million feet of available office sublease space, and 4.8 million feet of tenant demand.

According to [WalletHub's report](#) "2016's Best Places to Raise a Family in California", Livermore came in # 20, Danville # 12, Dublin # 10, Pleasanton # 4, and San Ramon at # 3. Not bad, East Bay!

The open office trend may have peaked? "After years of building open offices, companies start to pull back due to worker complaints." Workers complain about too much noise, difficulty in concentration, and a 2014 Swedish study found that open-plan workers were twice as likely to take a sick day versus workers in non-open plans. More companies are adding sound-proof quiet rooms to allow employees privacy space as a result. ([SF Business Journal, October 3, 2016](#))

[Santa Clara County, California](#), has a terrific annual report, County of Santa Clara Office of the County Assessor Media Release, July 1, 2016, and it stated the fourth year of significant property value growth of 7.97% to \$419 billion, an increase of \$31 billion. At a 1.2% tax rate this would translate into \$372 million in additional property tax revenues. Please spend this on fixing the roads, paying down the huge pension deficit, and needed long-term capital infrastructure projects as this gravy train won't last forever!

The Stegmeier Consulting Group did an open office research study in 2015. Organizations were asked about what their future workspace plans, and the unassigned workspace sector currently is at 10.4% and is predicted to double to 20.8%, assigned cubicle spaces will go down from 21.9% to 16.7%, and private offices will decrease from 41.2% to 31.3%. As for the executives, 75.5% currently have an assigned private office and this will decrease to 65.9%. ([The State of The Open Office Research Study](#))

New East Bay office developments with 100,000 square feet of office space in planning process for Downton Oakland at 1261 Harrison St., and a 750,000-square-foot five-building campus planed at the San Leandro BART station, with 130,000 sf of spec office space about to commence construction. Meanwhile, along the I-680 and Tri-Valley regions we still have lots of existing space, like 250,000 sf in Concord that Wells Fargo will shortly be vacating, 600,000 sf at Bishop Ranch, 400,000 that SAP will be giving up in Dublin, and 400,000 sf in Pleasanton. ([SF Business Times, October 18, 2016](#))

According to the National Real Estate Investor October 2016, "the most in-demand markets, including Menlo Park in San Francisco and the Palo Alto sub-market, now have rents averaging more than \$100 per sq. ft." ([National Real Estate Investor, September 16, 2016](#))

“Looking at the Commercial Property Price Indices, which somehow continues to rise even though many industry experts believe we are near the end of this market cycle,” and goes on to compare our low interest rates rather than expectations of healthy rent growth, forgetting the basics that got the commercial real estate market in trouble the last time in the mid-2000’s. (*National Real Estate Investor, October 2016*)

Oh for a door! “Silicon Valley workplace perks are famous – the sleep pod, free food and a tech shuttle with bathrooms” (and Wi-Fi!) , but the private office and even the cubicle has gone the way of the pay phone – employees crammed on benches, elbow to elbow, staring at laptops on long shared tables, and wearing headsets that are providing an illusion of privacy. “They complain that the noise and other distractions that come with a bullpen-style office means they are less productive. Introverts say the open office is driving them crazy.” But tech employees see more collaboration with workers constantly bumping into each other ... the office door has a stigma ... there’s a greater demand for huddle rooms, and these do come with doors and privacy. Oh for a door! (*Bay Area News Group, October 24, 2016*)

“New ULI (Urban Land Institute) program will help commercial building tenants cut energy consumption and lower energy costs.” Tenant spaces typically account for half of a building’s energy consumption. The program was used with the Empire State Building and, as a result, tenants experienced energy savings of 30% to 50%, with payback on their investment in 3 to 5 years and an annual return rate of 25%. (*Urban Land Institute, October 26, 2016*)

Jordan has been keeping his head down in study in his second year at Cal Poly, although his fraternity AEP functions keep him from being a total bookworm. He’s taking bio classes. Madison’s soccer team, Diablos, just finished their end-of-season championship game, which they won in double-overtime and a penalty kick shoot-out. Lacrosse is just around the corner. Their photos can be seen [here](#).

With the upcoming Trump presidency, there are those who are elated, others – depressed, and yet, there is another group that is scared. We survived World War II, the Cold War, and if one has a strong belief in America and our core values, as hard as it might seem to some today, we will all get through this in a surprisingly positive way. This is a test of our democracy, and as no president has ever had a 100% approval rating, there will always be significant numbers of dissatisfied citizens, no matter who is in power.

Interest rates will surely rise, as will the Federal deficit, tax rates will fall, but most of us will continue to hunker down, day in and day out, watching our kids (and those fortunate, their parents) grow older. I recently attended a Children of the Holocaust Survivor conference with my sister and 91-year-old father who was fortunate to have escaped the Nazis on a Kindertransport, where his mother put him on a ship, alone, sent to America to stay in foster homes. Many in his (and my) family perished, and many of the conference attendees were child survivors of concentration camps, losing their brothers, sisters, parents, and yet, the overwhelming message was one of resilience. Most came to America without anything, went to school, became doctors,

teachers, and psychologists, and raised their families as best they could without having parental role models to guide them. Many in the conference of 600, were second and third generation as most of the original survivors have passed away. There were workshops for the younger generations to teach not just the Holocaust, but Darfur, Rwanda, Cambodia, and other genocides at middle and high schools, so that those barbaric acts are never forgotten.

I wish you the best of holiday seasons and safe travels wherever you may be headed!

Sincerely,



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