



# Corporate Office Perspectives

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A few weeks ago, I gave a Forecast 2017 presentation at Scott's Walnut Creek restaurant. Bottom line is we are in a great shape for the most part, with the San Francisco office market still robust. Annual full-service rents range is from \$75 to \$110/square foot, and tech sublease space gets snatched up by other tech firms. Oakland, with a Class A vacancy rate of only 1.6%, basically has no available space and has rents in the \$50 to 60 /square foot range. The Tri-Valley and I-680 corridor has tons of available office space, but so far there is little interest from tech or other industries. Walnut Creek alone, between the Pleasant Hill BART, Shadelands and Downtown, has more than 1 million square feet of vacant office space with full-service rates ranging from less than \$20 to \$54 per square foot per annum. Our one Bay Area downside is the severe housing imbalance, where we have added 531,000 jobs, but only a fraction of this in new housing units. In some cities, just the permits and fees can cost \$100,000 or more per unit, and it can take years to get approvals. The suburbs don't want 60-story high-density housing next to public transportation, so our housing imbalance is here to stay. Retail is strong, and the Internet and brick and mortar reinforce each other towards the ultimate purchase. Stores will have to get even more tech-smart as consumers tap the wealth of buying knowledge on their smart phones. Lots of store and bank branches closures are ahead; more than 1,000 for 2017 and 2018 alone between Macy's, Wells Fargo, The Limited, Kmart, and others. Each and every one of these will be snapped up by other retailers, gyms, medical offices and new emerging businesses. Hmmmm, with the upcoming billion-dollar marijuana industry about to come to California, maybe former Wells Fargo bank branches with their heavy vaults and security systems might be what the doctor ordered for this cash-based business?

How much office space do robots need? According to a recent article published in the *SF Business Times*, "Two-thirds of executives believe that technology will soon create greater value for the companies than actual employees ... Workers may be made "largely irrelevant," due to robotics, automation and artificial intelligence, according to 44 percent of executives questioned." Let's put this in office space efficiency and density calculations. We won't need the same number of conference rooms, minimal lunchrooms (robots don't eat), forget about bathrooms, but lots and lots of plugs ...

65,000 jobs and almost 40,000 new residents were added to San Francisco, San Mateo and Santa Clara in just the past 12 months. We are getting further and further behind in our housing supply. During the past nine years, we added 69,500 housing units, but during this same time period, we added 344,000 more people! ([Silicon Valley Business Journal, November 4, 2016](#))

Small businesses comprise more than 99% of all employer firms, employ half the workforce and account for more than 60% of net new private sector jobs, according to the U.S. Small Business Administration. The 2010 U.S. Census showed 27.8 million small businesses, those with less than 500 employees versus 18,500 firms with 500 employees or more. ([SIOR Report, winter 2016](#))

Higher housing costs might cause a job growth slowdown in 2017, according to Beacon Economics. “Beacon said the San Francisco area rental market ‘appears to be approaching the end of frenzied growth.’ The firm expects multifamily permitting activity will fall by 18 to 24 percent in 2017, as compared to 2016, as ‘demand for apartments in the region’s pricier submarkets continues to cool.’” ([SF Business Times, December 5, 2016](#)) In my opinion, a frenzied market is usually unhealthy, so this is an overly good thing.

According to a recent HOK study, the worldwide value of co-working centers is now \$21 billion, it takes two to three years to break even, only 25% are profitable, and customer loyalty to a preferred center has dropped from 81% to 67% since 2013. The current average user is 37 years old, and a majority of millennials envision themselves living in suburban areas rather than urban centers in current years. The growth rate in co-working spaces is expected to increase by 21% during the next five years. ([The Registry, November 30, 2016](#))

According to CBRE, there are 75 large blocks of contiguous office space in San Francisco of more than 30,000 square feet, totaling 6 to 8 million square feet. Rental rates range from \$60/rsf per annum in older buildings all the way to \$100/rsf or more in new office buildings under construction. Out here in Concord, Pleasanton and San Ramon, you can get Class A, full-service space with free exercise and conference facilities, and free parking for \$30/rsf. ([The Registry, November 30, 2016](#))

“Businesses also have incentives to prioritize workplace flexibility through the use of co-working spaces, because it has been demonstrated to reduce real estate costs, increase productivity, reduce absenteeism and attract the best talent ... Employees who never work remotely are the least likely to utilize coworking centers while the highest engagement levels are from those users who work remotely less than 20 percent of the time.” ([The Registry, November 30, 2016](#))

According to the [Urban Land Institute](#), “Investors are increasingly jittery about uncertainties in the market. Although a near-term recession is not being widely forecast, institutions appear to be preparing for eventual cyclical weakness.” Industrial properties are safer, apartments are relatively safe in an economic downturn, the office sector is more risky and could perform poorly during a downturn, and hotels might be volatile and may have already hit their peak.

In regards to manufacturing jobs in the San Francisco Bay Area, “With growth in manufacturing across the Bay Area now outpacing both the nation and California as a whole, the region’s four largest cities collectively sustain approximately 108,500 jobs across 3,200 manufacturing companies”. ([Businesswire.com, November 17, 2016](#))

What an apartment luxury! A “spacious” 180-square-foot micro apartment, no parking included, for \$1,575 a month, and not in San Francisco, but in Oakland! There are many places around the U.S. where for that rent you would get a 800 to 1,500-square-foot two- or three-bedroom apartment (but high-paying jobs maybe not be found like here, in the Bay Area). ([SF Business Times, December 9, 2016](#))

According to a National [Colliers’ third quarter office market report](#), “While the rate of occupancy gains is slowing as many businesses increasingly focus on efficiency, the U.S. office vacancy rate has a strong chance of matching or dipping below the prior cycle low by early 2017.” Other tidbits, Class A asking rents averaged \$46.54/rsf per annum (\$3.88/rsf per month) in central business districts and \$28.91/rsf (\$2.41/rsf) in the suburbs. The national vacancy rate is 12.4%.

The same organization that certifies LEED green buildings also administers certification under the WELL Building Standard, a performance-focused system for measuring, certifying and monitoring features of the built environment that impact human health and well-being, including air, water, nourishment, light, fitness, comfort, and mind. It rates, for example, office buildings’ air and water quality, accessibility to healthy food, proximity of work spaces to natural light, optimal light conditions, access to multiple fitness opportunities, correct and comfortable working conditions to minimize stress and distraction, and incorporation of elements of the natural world into the built environment and creation of spaces that quiet the mind and reduce long-term stress. For more information, go to [www.delos.com](#).

Changing socio-economic population shift in the San Francisco Bay Area – San Francisco, Oakland, and Hayward combined have a population of 1.42 million with 80,000 people left between 2014 and 2015, but 100,000 folks replaced them. “In San Francisco, the city’s mean income leapt from \$119,000 a year to more than \$134,000. The number of households pulling in \$200,000 climbed 4.5 percent.” This trend to a better educated, higher earning population may continue into the future ... ([SF Business Times, December 7, 2016](#))

According to a recent [Urban Land Institute report](#), “Emerging Trends in Real Estate 2017,” the median home price in the United States is \$243,425, with homes in Memphis averaging at \$156,000, Oklahoma City at \$144,000 and then, of course, we have New York at \$1.347 million, San Francisco at \$1.275 million and San Jose at \$1.089 million.

Send the jobs elsewhere, our Bay Area traffic and housing infrastructure can’t handle any more growth ... Credit Karma just announced it is expanding in Charlotte, N.C., where a software engineer only costs \$94,000 – \$99,000/

year as compared to \$145,000 in Silicon Valley. Office rents are less than half, and housing is comparatively ridiculously cheap. Houzz, which is also based in San Francisco, is expanding in Tempe, Ariz. for the same reasons. ([SF Business Times, December 13, 2016](#))

There has been so much money made in commercial real estate in the Bay Area during the past three years that it is staggering. Literally, we're talking here about billions of dollars in profits. One investor just announced that during 2016 alone, its portfolio increased in value by more than \$100 million dollars. Another investor purchased a San Francisco office building in 2014 for \$170 million and sold it last month for \$350 million, and this story has repeated itself hundreds of times throughout Santa Clara, Peninsula, San Francisco, and the East Bay. Yet, at the same time, those who drive through Oakland, see the hundreds of homeless encamped under freeway overpasses, or in Contra Costa and elsewhere along canal fences and under bridges. The food banks are having near record years, the same as the stock market, but for opposite reasons. There are no easy answers and we hope that in this new administration, somehow and some way, life will be better for all.

Jordan, my 19-year-old son, and Madison, my 14-and-a-half-year-old daughter, went with their mother to Cuba for eleven days over the winter holidays and had a wonderful time. Jordan also had an amazing Tahoe ski adventure, catching fresh snow between storms. This past week Madison began lacrosse practice with her new team, Scrappers, and it looks to be a very exciting season. The photos of their adventures can be seen [here](#).

This is my 41st year in commercial real estate, Colliers International has 554 offices in 66 countries, so, please feel free to call me with any questions, concerns and, even better, real estate requirements. Thank you!

Sincerely,



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