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APRIL 1, 2017

ISSUE: 221

If you know someone who would like to receive this newsletter, please send their email address to jeff.weil@colliers.com, and enter "Subscribe E-News" in the subject line. Kindly tell us the name, company, address and e-mail address of the new recipient. Thanks!

Like many of you, I do not know a single person looking for a job. My friends, who get downsized or merged out of positions, seem to bounce right back into another great employment opportunity. Here in the Bay Area, one big complaint is how long the commute can be. For many of my friends living in the East Bay suburbs, if they are in tech or e-commerce or high finance, this might require driving to Santa Clara or BARTing to San Francisco. Some of my office leasing broker associates are jealous of our counterparts in San Francisco and Silicon Valley, with millions of square feet of new office construction, start-ups taking down 50,000 or even 100,000 square feet at a time, and relocations left and right. Out along the I-680 and Tri-Valley, with no new construction, the pace is much slower. San Francisco absorbs more office space in a month than we do in an entire year. Eventually, perhaps, the millennials will mature, want more affordable housing ("affordable" is relative), great public schools, and move their companies out here to the suburbs where office rents are 50 to 75% less expensive than San Francisco. Until then we will continue to putter along ...

How the Bay Area office market is doing depends upon who you ask and what subsector of the market is in question. San Francisco is still on fire, mega-deals are on the verge of signings, even a 760,000 sf single-tenant office lease is rumored on the horizon. However, San Francisco has 3 million square feet of office space under construction and 8 million feet in the pipeline. Their sublease market has doubled, but the listing brokers are still most optimistic. Downtown Oakland, with a 1.6% vacancy factor and \$60/sf rents, just announced Blue Shield signing for 200,000 sf in a new office development. The I-680 corridor and Tri-Valley has Class A full-service office rents at both ends, Concord and Pleasanton – at \$33/rsf per year, turnkey, free parking, conference and exercise facilities, and other benefits. In Walnut Creek it is a tale of two cities, but the same city, with Downtown Walnut Creek at \$45 to \$54/rsf per annum plus \$85/stall parking. And yet, less than 3 miles away in Walnut Creek Shadelands, with a 25% vacancy, full-service turnkey office space at less than \$22/rsf per year (and 4/1000 free parking). Go figure ...

A report from real estate website [Apartment List](http://ApartmentList) has ranked 510 U.S. cities by family friendliness, and Pleasanton was the top-performing Bay Area city. The report considers four factors: safety based on FBI crime data, housing

affordability based on median gross rent and household incomes in census data, education quality based on high school graduation rates and the percentage of residents under 18. San Ramon was found to have the country's best high school graduation rates out of the cities surveyed. It also had the sixth-highest number of residents below 18. But the city ranked lower on housing affordability, making it ranked 41st overall.

According to a just-released report by our San Francisco Colliers office, the current office vacancy rate is 6.6%. Total leasing activity for 2016 was 5.7 million square feet, with five leases of more than 100,000 square feet in the last quarter alone. San Francisco has had a record 26 consecutive quarters of positive net absorption. For the complete report, please [click here](#).

Apartment rents throughout the Bay Area may have flattened due to new inventory reaching the market, although Oakland is still seeing a 4% increase, down from the previous 15% rent growth experienced a year ago.

San Francisco Bay Area job growth, one of the highest levels in the U.S., is down, growing by 2.7% in 2016 as compared with 3.8% in 2015. "We definitely are seeing more sluggish job growth in the Bay Area, the state and nationally," said Scott Anderson, chief economist with San Francisco-based Bank of the West. "The Bay Area will continue to outperform the nation in 2017." ([The Mercury News, January 20, 2017](#))

Mark Triska, SIOR and an industrial specialist out of our Colliers Pleasanton office, publishes a quarterly update on the Tri-Valley commercial real estate market. He just reported that for 2016, the industrial market leased a positive 1,847,981 square feet of net absorption, and soon there may be close to 1 million feet of speculative industrial development in Livermore.

Apple might vacate 1 million square feet of leased space when it moves into its new spaceship headquarters facility. LinkedIn may have 450,000 sf of excess space available.

The ginormous new multi-billion dollar industry coming to California in 2018 will need lots of secure real estate locations. Yup, marijuana is coming to town, and with federal banking laws prohibiting banks from accepting cash deposits from "illegal" businesses (at least according to federal laws), there can be lots of cash laying around. And very recently, Wells Fargo announced that it is closing 400 branches in 2018, meaning, there will be available supplies of nice heavy vaults to store cash and buds, high security, and great retail locations. Hmmmm ... this bud's for you!

There are several downtown Walnut Creek law firms now looking in the much-less-expensive Shadelands region. Downtown Class A office rents, including parking, on average, are \$4/rsf, while Walnut Creek Shadelands Class B space can be less than a half of this amount. A 10,000-square-foot firm can save more than \$1.2 million during a five-year lease term going to Shadelands.

The Big Picture U.S. office market – most metro areas showed positive absorption in fourth quarter 2016, but overall net absorption is down, and the U.S. office-using employment growth is expected to fall from 2.4% in 2016 to 1.4% in 2017. The San Francisco Bay Area remains the tightest of the top 10 markets with a 5.6% vacancy rate. ([Colliers, Knowledge Leader, February 8, 2017](#))

The Colliers Santa Clara 2017 commercial real estate forecast reported that office tenants filled 8 million square feet of space last year and are expected to complete 13.5 million square feet of new office leases this year. Sublease space has doubled to 2.6 million square feet. ([Bay Area News Group, February 7, 2017](#))

Deals and Rumors: Easter Seals is rumored to be signing for 60,000 sf in **Pleasanton** as well as 50,000 sf in the **Pleasant Hill / Concord** region, and Philips may be choosing between Rosewood in Pleasanton or Bishop Ranch in **San Ramon** for 50,000 sf. Arcadis is out looking for 10,000 sf in **Concord**. In **Oakland**, Blue Shield reportedly inked a 200,000 sf LOI to kick off 601 City Center, bringing 1,200 jobs over from San Francisco, and the University of California may be taking 100,000 sf at 1100 Broadway. Stanford Health Care signed a 90,000 sf lease in **Emeryville**, possibly at 5800 Hollis St. Down in **Redwood City**, Goodwin Procter LLP leased 100,000 sf at 601 Marshall, and Chan Zuckerberg Initiative leased 102,000 sf at 2075 Broadway. In **Menlo Park**, Refuge Biotechnologies took 17,000 sf at 1505 Adams Drive, and AccuraGen expanded to 10,000 sf at 1505 O'Brien. In **Brisbane**, CSSF Health leased 40,000 sf at 800 Marina Blvd. and Myovant took 20,000 sf at Sierra Point Towers. In **San Mateo**, OpenText leased 108,000 sf at 2950 S. Delaware St. In **South San Francisco**, Achaogen took 47,000 sf at 7000 Shoreline Court, and Merok took a whopping 294,000 sf at 213 East Grand Ave. San Francisco continued to be hot, with Accenture rumored to be leasing 100,000 sf in Salesforce Tower; Slack Technologies leased 230,000 sf at 500 Howard St.; WeWork inked 60,000 sf at 650 California St.; Kilroy Realty rumored to be close to a single 740,000 sf tenant at their Exchange project in Mission Bay; Blend Labs, Inc. leased 47,000 sf at 500 Pine St.; Thumbtack took 78,000 sf at 1355 Market St., and Adobe Systems inked 207,000 sf at 100 Hooper St. Whew!

According to the latest KPMG 2017 Real Estate Industry Outlook Survey just released, both the Bay Area and Silicon Valley have room for new development for the foreseeable future. San Francisco is especially primed for foreign investment. "A growing U.S. economy, coupled with healthy real estate fundamentals and strong access to financing and capital, make real estate leaders optimistic about a continued 'boom' in the U.S. market," Greg Williams, national sector leader of building, construction and real estate at KPMG, said in a press release Tuesday. ([Silicon Valley Business Journal, February 1, 2017](#))

According to a quote in [Site Selection](#) on January 2017, "In 2015, Amazon sold \$55.6 billion worth of retail goods nationwide, and operated 75 million sq. ft. of distribution space employing 111,000 workers — 15 percent more jobs than in 2014."

“Google is on track to reach 100% renewable energy for all of its global operations this year, including offices and data centers. The company is purchasing 2.6 GW of wind and solar energy from 20 renewable energy projects, enough to account for all of the electricity its operations consume.”
(Buildings, January 24, 2017)

What can cause a dramatic spike in office lease operating expense passthroughs? If the building was recently sold at a significantly higher price than it had been assessed at, this is one area where operating expenses can shoot up. If the prior owner or building management cut corners, or delayed maintenance and the new owner or manager spent considerably more, operating expenses can go up. Going from non-union to union workers can cause a spike. Major remodeling of common areas is also another possible culprit. If you have questions about this, call your office leasing expert who represented you and ask for an explanation.

“A study from Harvard University and SUNY Upstate Medical University found that those working in high-performing buildings with green certifications perform better than those who do not. Occupants in these buildings had a 26.4% higher cognitive function score, 30% fewer sick building symptoms and a 6.4% higher rating of sleep quality.” ... Hopefully, the sleep quality was done at home and not in the office ... *(Buildings, December 29, 2016)*

In case you didn't know about the impact and importance of American small business, “multi-national names drive the U.S. economy, small businesses cannot be dismissed. These companies comprise over 99 percent of all employer firms, employ nearly half of the workforce, and account for more than 60 percent of net new private-sector jobs, according to the U.S. Small Business Administration (SBA) ... Statistics from the 2010 U.S. Census showed 27.8 million small businesses (defined by the SBA as an independent business with fewer than 500 employees) versus 18,500 firms with 500 employees or more.” *(SIOR, Winter 2016)*

National job reports are very positive, but here in the Bay Area, according to *Bay Area News Group* reporter George Avalos on March 3, 2017, “Santa Clara County lost 3,500 jobs while the Alameda County-Contra Costa County area lost 900 jobs in January compared to December, according to seasonally adjusted figures from the Employment Development Department, released Friday. The San Francisco-San Mateo region managed a paltry gain of 400 jobs. “Silicon Valley’s job engine has downshifted in recent months,” said Scott Anderson, chief economist with San Francisco-based Bank of the West. “That’s a trend we are starting to see across the Bay Area and in California as a whole.” The Bay Area overall lost 6,800 jobs in January, breaking a string of 66 consecutive months of job gains in the nine-county region. Those job losses were the worst since August 2009, when the region — mired at that time in the Great Recession — shed 9,000 jobs.”

Walking on your office floor may one day convert your footsteps to usable electricity! “The greenest flooring may soon be at FMs’ feet – literally. An inexpensive, simple method to convert steps into usable electricity is making waves at the University of Wisconsin-Madison via wood pulp.

Already a common flooring component, wood pulp contains tiny cellulose nanofibers. When these fibers are chemically treated, they produce an electrical charge whenever they come into contact with their untreated counterparts. Embedding the nanofibers in flooring materials allows them to produce enough electricity to power lights or charge batteries, and the low cost of wood pulp means that the cost of energy-generating flooring could be on par with conventional materials when the production method is commercialized." ([Buildings, January 24, 2017](#))

Who knows what can happen to our energy sector in California? Will the federal rebates for solar panels go away, and will the largest coal mine of the 1800-s in California, Black Diamond Mines in Antioch, be reopened, so we can get back into the coal business? Just joking ... or, maybe, not.

A few months ago Ken Rosen, one of the Bay Area's leading economists, stated, "Given that the Bay Area economy operates on a global level, Rosen cautioned that lower immigration rates and tariffs as high as 45-percent on Chinese imports and 35-percent on goods, such as electronics and automobiles, produced by American companies on foreign soil, will put the region at a disadvantage." ([The Registry, January 18, 2017](#)) Then in early February Wells Fargo's Senior Economist Mark Vitner said, "the Bay Area economy might be getting so hot that the region's tight labor market and ever-higher cost of living could take a toll on economic growth." Fremont Bank CEO Andy Mastorakis said that "real estate investors and developers are growing more cautious." ([SF Business Times, February 2, 2017](#))

Organizations changing to more open office layouts do so for a number of reasons, including the ability to get more employees into less space, resulting in significant economic savings. "However, the reason for change is not always financial. Organizations are looking for ways to attract and retain talent, especially the next generation of employees who have been conditioned for collaboration through a college experience that increasingly has students studying in non-traditional work environments and being immersed in group projects. Business leaders are beginning to understand the competitive advantage created by offering a compelling workplace experience." ([Facility Executive, February 10, 2017](#))

Some of the key drawbacks to open office environments include audible distractions, lack of audible privacy and uninvited interruptions. The trend is here to stay, "Moving forward, mid-level managers are expected to be 50% less likely to have an assigned private office. Something unthinkable even a few years ago is becoming a reality—senior leaders and executives giving up private offices; over 42% of organizations expect to place senior leaders in some form of a non-traditional workspace." ([Facility Executive, February 10, 2017](#))

Jordan, a sophomore at Cal Poly San Luis Obispo is a member of the AEP Fraternity and spends a lot of weekend time studying in the campus library (or so he tells his dad). By the time you read this, he and I will have skied Squaw Valley as well as Alpine Meadows. Madison, who turns 15 this summer, is preparing for high school next year, and this week is in Washington D.C. with her 8th grade class. Their recent photos can be seen [here](#).

Five years of drought, then a year of flooding. The stock market crashes to start the Great Recession, than goes up 2,000 points in just a few months. In nearby Lafayette, Calif., there is a hillside adjacent to the highway with 5,000 wooden crosses and Stars of David for the troops we lost in Iraq and Afghanistan, and fortunately, these days are over ... or are they? The California public school system has one of the lowest ranking in the country, our housing prices are crazy high, traffic is ridiculous, yet people still flock here for the great jobs, climate, culture and nature beauty. Few of us only experience constant positive and totally great occurrences, as most of us have setbacks, defeat, loss of loved ones and other tragedies. Yet, life goes on, and now spring approaches, birds are building their nests and flowers are beginning to bloom (sure, not in snow county!).

Have a wonderful spring, please continue to call me for all your commercial real estate needs (554 offices in 68 countries), and thanks for reading this!

Sincerely,



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