



Corporate Office Perspectives

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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!

This The one word to describe the San Francisco Bay Area commercial real estate market, encompassing office, multifamily and investments is "unbelievable"! Major office and apartment buildings are trading at record prices, office leasing is still robust although we have a lot of supply coming on-stream in San Francisco, and the big tech companies continue to expand already enormous office footprints. Facebook is in for yet another campus, and Google appears to be amassing enough land in downtown San Jose to build an 8-million-square-foot office campus which might accommodate upwards of 48,000 employees. Downtown Oakland is building two new office buildings, while rental rates in Concord and Pleasanton have finally hit \$36/rsf fully serviced. San Francisco office rents average at \$75/rsf, Oakland - at \$60/rsf, and downtown Walnut Creek - at \$48/rsf. The traffic is a mess, but folks love all the job opportunities even if they have to fight the commute to get to their jobs ...

Using workplace design and amenities to attract and retain employee talent and greatly reduce turnover: "Engaged employees can boost a company's bottom line by up to 20 percent." "Disengaged employees experience 30 to 50 percent more turnover." "The workplace can engage employees by acting as a communication tool that aids in celebrating individual or team contributions, broadcasting organizational goals or objectives, and providing spaces for effective collaboration. Involving employees in the design or retrofit of a workplace also provides a wonderful opportunity for engagement." ([HOK, Top 10 Trends Influencing Workplace Design, 2017](#))

Many law firms across the country have reduced their footprint by 15 to 20 percent, especially in pricey office markets. Firms devote around 7 percent of revenue to rent ... as a result, some attorneys have been kissing their corner offices goodbye, moving into smaller individual office spaces, bunking up with other attorneys or setting up desks in an open floor plan. Many support staff are moving off site ... several larger law firms have shifted administrative and support staff to cheaper real estate in the middle of the country. ([SF Business Times, January 19, 2017](#))

Google just announced its plans to build a new downtown San Jose office campus of between 6 and 8 million square feet. WOW! Google officially stated bringing anywhere from 15,000 to 20,000 employees to this campus, but at a "tech" ratio of 6/1000 density, this project could accommodate as many as 48,000 employees.

Think of the economic benefits to restaurants (yes, Google will probably have a zillion free gourmet restaurants on campus), shops, etc. for these six-figure-earning workers. ([Bay Area News Group, June 12, 2017](#))

Between The San Francisco Shipyard development and the new Candlestick development, there will be 12,000 new homes, up to 5 million square feet of new office and R&D space, 1 million square feet of new retail, 350 acres of open space and parks, 30,000 new jobs and 27,000 new residents. Good thing our freeway system is 50 years old and already at capacity ... ([SF Business Times, June 23, 2017](#))

Millennials, aged 19 to 35, are transforming our workplace: 1) Strict office hours will no longer exist to improve work-life balance, commuting, and employee satisfaction. 2) Traditional office space designs will become extinct – elimination of cubicles, divided departments, allowing for different, flexible work environment. 3) Email within the company will be replaced by other internal communication tools. ([Inc.com, November 7, 2016](#))

Please let me know what the actual number is, but a leading commercial office broker in San Jose told me Google now has 159 different office buildings in Silicon Valley!

Ouch! According to Paragon Real Estate Group, as of May 2017, San Francisco's median home price reached a new record of \$1.5 million, up from \$1 million just four years ago. This is six times the median U.S. home price of \$245,000. And if you think buying a condo will save you a lot, forget it – condo median prices are now \$1.2 million! ([SF Business Times, June 6, 2017](#))

Deals and Rumors: In Downtown **Oakland**, Arup leased 16,000 sf at 1330 Broadway, WeWork took 75,000 sf at 1111 Broadway, Solar Mosaic is inking 30,000 sf at 300 Lakeside Drive, Zendesk is rumored to be close to leasing 70,000 sf and Delta Dental – 100,000 sf. In **Dublin**, TriNet may be expanding to 50,000 sf and in **San Bruno**, YouTube is considering a 400,000 sf expansion of its campus. **San Francisco** continues its robust leasing, with Spaces taking 35,000 sf at 1160 Battery St., Medium leased 17,000 sf at 799 Market St., U.S. Bank is leasing 15,000 sf at One California St., WeWork is leasing 52,000 sf at 655 Montgomery St., and also rumored to be eyeing 100,000 sf at Salesforce Tower, Facebook may be considering 70,000 sf or more at 110 8th St or 181 Fremont, Google is rumored to be looking at 166,000 sf at Rincon Center, and Salesforce might be expanding by 200,000 sf at Salesforce Tower.

The Fourth Industrial Revolution: Self-driving trucks will create change in warehouse distribution design, aerial drones may be a partial solution to technology and distribution (BuiltWorlds has created a city in China where loading docks are on roofs to accommodate drones), not all distribution centers can be automated, and robotics is increasing productivity that move dynamic racks to employees for item picking. ([Site Selection, March 2017](#))

During the past decade California has built an average of 80,000 homes annually, but to keep pace with demand, it should have built 180,000 homes per year. This

represents a shortfall of more than 1 million homes. The average price of a home in California is \$440,000. It is worse in the Bay Area, averaging around \$927,500, ranging from \$560,000 in Contra Costa County to \$1.204 million in San Francisco. No wonder a recent Bay Area Council poll showed that 40% of Bay Area residents are considering moving elsewhere! ([Bay Area News Group, May 17, 2017](#))

Hybrid wind-solar allows turbines and panels to share a converter, which transforms electrical direct-current voltage for use on the grid. The solar farm will produce peak energy in summer when it's needed while the wind turbines will perform the same duty in winter ... "GE is working on adding a storage product to add to the hybrid that would create all of the elements needed for a microgrid. Wind energy captured at night—when wind blows the strongest—could be stored and placed on the grid the next day." ([Business Facilities, May 10, 2017](#))

On June 23, 2017 *San Francisco Business Times* reported that from 2005 to 2015, time lost to traffic congestion shot up 84% in the Bay Area, and then a few pages later reported 6,273 housing units currently under construction in San Francisco, 9,415 more units approved (at 2.26 residents per unit, this translates to 35,455 more residents), and for new office space, 10.42 million square feet are currently under construction which might accommodate 52,132 employees, with another 10.804 million square feet approved, which could accommodate an additional 54,020 workers. Even if we mandate every new resident has to work in San Francisco and take public transit (which, of course, is impossible), it leaves us with 70,000 new commuters. Great ...

"Coblentz, Patch, Duffy & Bass relocated 160 employees from its 75,000-square-foot office space in the one of the most expensive office spaces in the city — the Ferry Building — to a 47,000 square foot space on One Montgomery St. It purposefully designed its new space to buck tradition and encourage employees to talk. The new space has 135-square-foot offices for attorneys and incorporates modern design elements, such as white marble, edgy lighting fixtures and modern art." ([SF Business Times, January 19, 2017](#))

East Contra Costa warehouse rents are: for big space \$0.43/sf net, free-standing medium size goes for \$0.85/sf nnn, and in-line smaller spaces cost \$1.00/sf nnn.

The San Francisco Bay Area apartment market has slowed significantly in 2017, according to Rich Martini, our multifamily investment guru. Transaction volume in San Francisco is down 23% during the past year, 41% in Santa Clara and 25% in the East Bay. The list of reasons for this slowdown include the rise in interest rates, the flattening of apartment rents, the timing of where we are in the current market cycle, and, finally, the uncertainty coming from Washington, D.C. and the potential impact on future new tax policies, including capital gains. Apartment occupancy levels across the board are still at 96 to 97 percent depending on the submarket.

IBM is making telecommuters come back to the office, "IBM, one of the technology-sector giants that pioneered the concept of allowing its employees to work from home, is pulling the plug on its remote-working policy in an effort to create a more-collaborative environment for its approximately 380,000 workers

around the world.” ... I wonder what attrition this will cause ... ([Bay Area News Group, May 18, 2017](#))

Energy rebates – how to find out what is available – check out [Buildings, March 30, 2017](#) as well as www.energystar.gov/rebate-finder and www.energy.gov/savings/search. Please email me at jeff.weil@colliers.com if you find other great sites!

The first title of the article which I found in recent [SF Business Times, June 9, 2017](#) was, “Rising costs and congestion crowding out job growth here” but then, in the same paper, I spotted [another article](#), “Amazon eyes huge lease in Market Street skyscraper” (200,000 square feet). And on the same day [SF Registry](#) sent out the article titled “Facebook In Talks to take space at 181 Fremont in San Francisco” (432,000 square feet). So, go figure ...

According to the [SF Business Times, June 15, 2017](#), “Nationwide, more than 3,000 retail stores have closed already this year, and Credit Suisse is forecasting more than 8,640 store closures in 2017.”

The San Francisco Bay Area, unfortunately, leads the U.S. with its number of hot housing markets. The Vallejo-Fairfield market is number one in the country, San Francisco – Oakland – Hayward are number two, Boston is number three, Sacramento is number four, Kennewick, WA is number five, Colorado Springs is number six, Columbus, OH is number seven, San Jose is number nine, Santa Rosa is number 17 and Modesto is number 20 ([Bay Area News Group, June 29, 2017](#)). For another national view on this, MarketWatch, June 24, 2017 reported Colorado Springs is number one, Charleston, SC is number two, Raleigh, NC is number three, Tampa is number four, and, basically, no California cities listed whatsoever. Zillow says Nashville is the hottest housing market, followed by Seattle, Provo, UT, Orlando, Salt Lake City, and Portland.

The co-working companies must expect a sizeable percentage of users not to show up at the same time or there would be waiting lines for elevators and restrooms. The SF Business Times reported that Spaces leased 35,000 square feet to accommodate 350 desks, which translates to 10/1000 ratio and 100 square feet per person. WeWork just leased 75,000 square feet to accommodate 1,000 people, or a ratio of 13.5 workers per 1,000 square feet, or 75 square feet per person. What happens if they do decide to all show up at the same time?

Gentrification is happening all over, from major new apartment complexes planned for San Francisco’s Tenderloin district, the area around Oakland Tech High School which has made this school a place to be, West Oakland which is totally transforming, and Richmond and Vallejo are now undergoing a surge of middle-class buyers seeking houses under \$400,000 not too far from San Francisco. Where will all the less fortunate who are being pushed out live?

What a summer my two kids are having! Jordan, who turned 20 in May and is a junior at Cal Poly in San Luis Obispo, spent most of his summer studying international business in Barcelona, Spain. He is renting an apartment with four roommates a short transit ride from campus. On weekends he is exploring the city and surrounding towns, and having experiences he will cherish a lifetime.

Madison turns 15 later this month and after spending a month at a camp in Santa Rosa, and she is a junior camp counselor in training in Walnut Creek. Oh, to be young again! Their recent photos can be found [here](#).

Life truly has its ups and downs. I spent a fabulous weekend in Glen Ellen, where Jack London built his 30,000-square-foot Wolf House only to have it burn down just weeks before he moved in. Beautiful wine country and an amazing time, then came home, waited four hours for a fireworks display in Moraga and the fireworks never cleared the tree line, so the entire show was a fiasco. Small examples of life's daily ups and downs, but the great constant in life is that with the right attitude, you get through the downs, knowing there are so many wonderful ups waiting just ahead. I hope your summer is fabulous and full of "ups", and please, call me for anything needed in the commercial real estate arena!

Sincerely,



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